

MANAGEMENT RESPONSE TO THE  
REPORT OF THE BLUE RIBBON PANEL ON  
ENVIRONMENT FOR THE  
INTER-AMERICAN DEVELOPMENT BANK

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## ABBREVIATIONS AND ACRONYMS

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| ABD      | Asian Development Bank   |
| BCIE     | Banco Centroamericano de Integración Económica                             |
| BRP      | Blue Ribbon Panel  |
| CAF      | Corporación Andino de Fomento  |
| CASC     | Consejo Asesor de la Sociedad Civil (Civil Society Advisory Council)       |
| CEA      | Country Environmental Analysis   |
| COF      | Country Office   |
| CSR      | Corporate Social Responsibility  |
| EBRD     | European Bank for Reconstruction and Development                           |
| EPSA     | Ex-post Performance and Sustainability Assessments                         |
| FONPLATA | Fondo Financiero para el Desarrollo de la Cuenca del Plata                 |
| GEF      | Global Environment Facility  |
| ICAS     | Institutional Capacity Assessment System                                   |
| IDB      | Inter-American Development Bank  |
| IFC      | International Finance Corporation  |
| ILO      | International Labor Organization   |
| IIRSA    | Initiative for the Integration of Regional Infrastructure in South America |
| ISDS     | Integrated Safeguards Data Sheet   |
| LAC      | Latin America and the Caribbean  |
| MEA      | Multilateral Environmental Agreement                                       |
| MDG      | Millennium Development Goals   |
| MFI      | Multilateral Financial Institution   |
| MTAP     | Medium-Term Action Plan  |
| PCR      | Project Completion Report  |
| PPMR     | Project Performance Monitoring Report                                      |
| PPP      | Plan Puebla Panamá   |
| PRI      | Private Sector Department  |
| RPG      | Regional Public Goods  |
| SEA      | Strategic Environmental Analysis   |
| SSF      | Safeguards Screening Form  |
| UNFCCC   | The United Nations Framework Convention on Climate Change                  |
| WB       | World Bank   |

## INTRODUCTION

In August 2004, President Enrique Iglesias formed the IDB Blue Ribbon Panel on Environment. The Panel, chaired by former U.S. Secretary of the Interior Bruce Babbitt, was asked to provide advice to President Iglesias on how the IDB can best position itself as a positive force and leader in sustainability in the region through its proposed **Environment and Safeguards Compliance Policy**. Specifically the Panel was asked to provide advice on: the draft environment policy; ways in which the Bank can make greater contributions to achieving sustainability in the Region; and priority areas for the Bank to develop capacity and strengths to implement the policy.

The nine-member Panel was comprised of: Bruce Babbitt, former Governor of Arizona and U.S. Secretary of the Interior; José Goldemberg, Environment Secretary for the State of São Paulo and former Chairman of the World Energy Assessment; Stephen Green, HSBC Group Chief Executive; Lynn Holowesko, former Ambassador for the Environment and Chair of the Bahamas Environment, Science and Technology Commission; Yolanda Kakabadse, former Minister of Environment for Ecuador, former IUCN President; Thomas Lovejoy, President, the H. John Heinz III Center for Science, Economics and the Environment; Juan Mayr Maldonado former Minister of the Environment for Colombia; William Reilly, former U.S. EPA Administrator; and Maurice Strong, former Chief Executive Officer of Ontario-Hydro, currently Special Advisor to the Secretary General of the United Nations. The Panel met on two occasions. Their first meeting took place in September 2004, and the second in January 2005. The final report of recommendations was received on February 23rd, 2005.

The following report sets out the IDB's Management response to the Blue Ribbon Panel on Environment Final Report of Recommendations to the Inter-American Development Bank, a document that contained 20 recommendations covering four broad issue areas: Standards and Harmonization; Moving Sustainability Analysis Upstream; Civil Society Engagement; and Capacity, Systems and Resources.

The Panel's recommendations come at a time when the Bank is undertaking a number of initiatives to enhance the value of its work. For example, it is implementing the **Medium-Term Action Plan for Development Effectiveness (MTAP)** which calls for a number of actions consistent with the Panel's recommendations, such as improved capacity in borrowing countries; partnerships with other international financial institutions; the strengthening of country programming; the enhancement of risk management with increased attention to higher risk projects; and support for corporate actions with regards to alignment of incentives, learning, reporting and accountability. Management is also drafting a new **Environment and Safeguards Compliance Policy**, an Indigenous Peoples Policy, and a Compliance Review Policy which will also take into account the recommendations of the Panel. The Bank has also recently updated its information disclosure and procurement policies for project procurement and it is developing an Action Plan to reduce the ecological footprint of its physical facilities.

To facilitate the reading of this report, the text of each Panel recommendation is given in a shaded box in italics first, followed by Management's responses.

**IDB SENIOR MANAGEMENT RESPONSE TO THE BLUE RIBBON PANEL ON  
ENVIRONMENT REPORT OF RECOMMENDATIONS FOR THE  
INTER-AMERICAN DEVELOPMENT BANK**

The Inter-American Development Bank's Management welcomes the Panel's Report and thanks the Panel for their insightful recommendations and assistance to the Bank as it prepares its new Environment and Safeguard Compliance Policy. Management agrees with the majority of the Panel's recommendations.

Consistent with the Bank's mission of poverty reduction and sustainable economic growth, Management's goal is to position the IDB as a leader in pursuing sustainability through its operations and activities and in promoting development that is environmentally and socially sound. The Bank is working to integrate sustainability into all of its lending programs and projects. It also recognizes the importance of a robust and efficient sustainable risk management. Operational teams at headquarters and country offices will be empowered to integrate sustainability opportunities into the design and execution of lending programs and projects and to carry out sustainability risk analysis and management. They will be supported with tools, training, and expertise to ensure consistent alignment between the Bank's sustainability objectives and its operations. To promote sustainability it will require an active partnership between the public and private areas of the Bank group, in program and project design and execution, and the active collaboration among all Bank departments. Sustainability will also be a key strategic objective for each of the operational departments and those central departments that support them.

Management recognizes that to accomplish this and to implement the Panel's recommendations, as well as the forthcoming new policies including the Environment and Safeguards Compliance Policy and the Indigenous Peoples Policy, increases in capacity and resources will be required. We are currently undertaking an internal capacity analysis. Based on the results of this, Management will determine how to meet the Bank's capacity and resource needs so that we can more effectively help our program and project teams and country offices succeed in achieving sustainability objectives. We anticipate that the main part of the process of implementing the recommendations will take place over a three year-time frame. Management undertakes to prepare publicly disclosed progress reports (on an annual basis) and welcomes an independent review, as recommended by the Panel.

The responses below address the four broad issues identified by the Panel, with targeted actions and improved resources. As part of the Bank's ongoing sustainability improvements, these responses will be further evaluated and refined by the Bank and, as necessary, developed into actions. The specific responses to the Panel's recommendations includes actions in the following areas:

## I. STANDARDS AND HARMONIZATION

### 1.1 CONSISTENCY WITH INTERNATIONAL STANDARDS

*“The environmental, social and cultural standards utilized by the IDB should be consistent with and we strongly believe - in advance of - those used by the World Bank and the International Finance Corporation and the Equator Principles”*

*“The proposed Environment and Safeguards Compliance Policy should be appropriately revised to achieve this and to take into account changes envisaged in the new International Finance Corporation standards. The Panel believes that a failure to achieve this will significantly constrain the IDB’s ability to work with other progressive private sector banks”.*

- Management strongly supports efforts among the MFIs to harmonize upwards their respective environmental, social and cultural standards. One of the objectives in developing a new policy is to ensure consistency with international benchmarks such as the World Bank and International Finance Corporation standards, as well as the Equator Principles. Management is making the necessary adjustments to the Draft Policy to ensure the clarity of its intent, in particular with reference to the text on critical ecological areas and trans-boundary issues.
- Given that the scope of the Bank’s draft Environment and Safeguards Compliance Policy is limited to environmental dimensions of sustainability, Management will identify other ways in which to address Panel recommendations falling outside the scope of that particular document, including labor standards and disputed areas. Management supports the principles held up by the International Labor Organization. The Private Sector Department of the IDB applies relevant standards of ILO conventions to its operations. The IDB has been working to support the implementation of the core labor standards through specific assistance to member countries and supports expanding such assistance and developing management principles to guide its operations.
- Management will incorporate international benchmarks<sup>1</sup> related to forestry in the draft Rural Development Policy currently under preparation and, if necessary, will recommend to the Board revisions to the Bank’s Forestry Policy.

### 1.2 INTEGRATION OF BANK POLICIES INTO A COHERENT SUITE OF SAFEGUARDS

*“Environment, indigenous and other relevant policies should be integrated into a coherent suite of safeguards”.*

<sup>1</sup> International benchmarks includes the standards of the World Bank, IFC and Equator Principles.

- Management agrees with the need for a comprehensive suite of safeguards. The draft Environment and Safeguards Compliance Policy makes reference to environmentally relevant provisions of other Bank policies as a reference point for a safeguard framework that includes: the Disclosure of Information Policy (OP-102); the Involuntary Resettlement Policy (OP-710); the Natural and Unexpected Disasters Policy (OP-704); the environmental mandates of the Eighth Replenishment; the Indigenous Peoples Policy (under preparation) and the relevant provisions of existing Bank Sector Policies. These in essence form a set of safeguards for the Bank.

### 1.3 CONVERGENCE OF REGIONAL STANDARDS IN LATIN AMERICA AND CARIBBEAN

*“IDB should use its influence and outreach to support the convergence of environmental and social investment standards amongst sub-regional banks and financial and governmental institutions operating within Latin America and the Caribbean. The ability of the IDB to influence evolving harmonized standards will depend upon the Bank itself setting an example”*

- Management supports the recommendation for the convergence of environmental and social safeguard standards in the region. The Bank works extensively on institutional strengthening projects with member governments directly through programs and projects as well as through a dialogue network of vice ministers of environment of the region. The Bank will continue to work in this area.
- The IDB is signatory to the **Rome Declaration on Harmonization** and the recent **Paris Declaration on Joint Progress Toward Enhanced Aid Effectiveness**, international efforts amongst bilateral organizations and multilateral development banks, to harmonize the operational policies, procedures, and practices of the different institutions with those of partner country systems to improve the effectiveness of development assistance. Specific reference is made to harmonization on issues related to environmental assessment, biodiversity, climate change and water. Also the Bank, in the context of Plan Puebla Panama (PPP), is engaged through technical support and policy dialogue to facilitate convergence of standards.
- Management will invite public and private financial institutions in the region to discuss emerging international standards and opportunities for facilitating a convergence with these standards among financial institutions within the LAC Region. The IDB is working on promoting common sustainability safeguard standards with its financial partner institutions for IIRSA.
- The IDB has provided training on environmental management systems in the past to public and private financial institutions in the region. Management will explore interest in and need for renewing this activity with possible workshops for the purposes of enhancing capacity among the relevant institutions.

#### 1.4 ANNUAL SUSTAINABILITY REPORT

*“Management should commit to reporting publicly on key aspects of sustainability objectives and outcomes based on these standards, in its operations – positive and negative. A “Sustainability Report” should be published and key information integrated into the Annual Report. A timeline for the first report should be set – we would suggest no later than June 2006). Guidelines for the report should be set in advance with key reporting parameters agreed through a process of public consultation and with reference to relevant emerging standards such as the Global Reporting Initiative (GRI)”.*

- The IDB agrees with the growing consensus among MFIs and within the international financial and development communities on the need to report on environmental and social impacts, commitments and performance. As well, the draft Environment and Safeguards Compliance Policy requires reporting on sustainability mainstreaming and safeguard risk management.
- Currently the IDB produces an Annual Environment and Natural Resources Report. It is proposed that this be expanded and, together with other annual Bank reports such as the IDB Poverty Reduction and Equity Enhancing Activities, and the Annual Report on IDB Rural and Agricultural Activities, be merged and transformed into a Sustainability Report, which will also include a report of the ecological footprint and of the physical facilities. It is expected that, first, a Sustainability Review will be issued in June 2006, leading to a full Sustainability Report by 2008.
- For this report, the Bank will adopt a core set of key sustainability indicators, which will be expanded over a period of three years. These indicators will focus on outcomes and reporting consistent with the draft Environment and Safeguards Compliance Policy and the MTAP on Development Effectiveness. The standards established by the GRI may serve as a starting point for the IDB in developing key reporting parameters and indicators. Management will consult with stakeholders with regards to the development of these indicators, as well as the content of this report during its development.

#### 1.5 MONITORING OF INTERNAL ENVIRONMENTAL MANAGEMENT AND PERFORMANCE

*“IDB must ensure appropriate management and monitoring of its own environmental performance with respect to its internal operations. An individual or nominated group should be assigned responsibility to manage the sustainability impacts of its own physical operations. However, the message should remain clear that the impact of IDB lending operations is where the most profound impacts are to be found. Where possible common standards for resource intensity and efficiency should be used, such as those under development by the Global Reporting Initiative (GRI). An action plan for implementation should be prepared within six months”.*

- Management is committed to reducing the ecological footprint of the Bank. A report with specific recommendations is expected in June 2005. Also, Management is developing a Corporate Social Responsibility (CSR) Action Plan which includes a full-time coordinator to facilitate development and execution of the work program.

## II MOVING SUSTAINABILITY ANALYSIS UPSTREAM

### 2.1 MAINSTREAMING OF ENVIRONMENTAL, SOCIAL AND CULTURAL SUSTAINABILITY

*“The Bank must allocate adequate resources to ensure the mainstreaming of environmental, social and cultural sustainability into its programmatic lending and Country strategies”.*

- Management supports the principle of upstreaming and mainstreaming sustainability into programmatic lending and country strategies. The draft Environment and Safeguards Compliance Policy calls for upstreaming and lays out directives for identifying sustainability concerns, issues and opportunities early in the pre-programming and programming phases and ensuring that the results of this analysis are reflected in the country strategies.
- Project teams will work to enhance environmental sustainability in public/private operations across sectors such as infrastructure, energy, agriculture, tourism and others.
- Management is committed to undertake country environmental analysis relevant to a country’s economic development priorities, each time a country strategy is developed.
- Currently the Bank is reviewing and modifying country strategy guidelines. As part of this, Management will include environmental sustainability references to ensure that all relevant sustainability issues are systematically addressed.
- Management will allocate the necessary resources to ensure the mainstreaming of sustainability into its programmatic lending and country strategies. A needs analysis is being undertaken to determine skill sets and resource needs for the effective implementation of mainstreaming.



## 2.2 CAPACITY BUILDING IN REGIONAL AND COUNTRY INSTITUTIONS

*“The IDB should support the building of capacity in regional and Country institutions, where necessary with the support of concessional funding. This should include support in valuing environmental and social resources in broader decision-making. Explicitly, the IDB as a Development Bank must address key decision makers including finance ministries within client Countries on the necessity to integrate sustainability issues and to demonstrate their cost effectiveness. IDB analysis at the Country level must adequately assess the commitment, capacity and track record of its members and borrowers in implementation and enforcement when deciding whether to go ahead with loans and envisage a scenario where lending might be refused on such a basis”.*

- Management agrees with the recommendation that capacity building in country institutions is critical to achieving sustainability. The draft Environment and Safeguard Compliance Policy calls for the assessment of institutional capacity for environmental management, as well as capacity building, initiated to address gaps. Also the draft Policy directs the Bank to proactively support countries in their efforts to enhance environment governance and institutional capacity building.
- The IDB will develop mechanisms for systematically assessing sustainability capacity of countries, and identifying opportunities for capacity building.
- Within the context of the MTAP, the Board recently approved an External Pillar for Development Effectiveness (PRODEV) that underscores the Bank’s commitment to capacity building. The Bank will explore with bilateral donors possible mechanisms for increasing availability of resources for capacity building. In addition, the Bank will continue to provide environmental lending aimed at enhancing the capacity of these institutions.
- Management acknowledges the value of country environmental analysis in helping to identify capacity building needs and priorities. These needs will be taken into account in the programming of Bank operations. Furthermore, Management agrees that country environmental analyses will be an important means for dialogue between the Bank and key decision makers, including finance ministers, within client countries.
- The draft Environment and Safeguards Compliance Policy calls on the Bank to assess safeguard risks, including environmental impacts, as well as governance risks such as commitment, capacity and track record of the executing agency or any relevant third party. Where, in the opinion of the Bank, the environmental risks are deemed to be too great and cannot be mitigated, the proposed investments will not be supported.

### 2.3 UPSTREAMING SUSTAINABILITY IN STRATEGIC INFRASTRUCTURE PLANNING ACTIVITIES

*“The IDB should engage in strategic infrastructure plans such as IIRSA to ensure that sustainability factors are addressed upstream and adequately address cumulative and secondary economic, social, cultural and environmental impacts early in the process. This will make engagement in later stages of the project and component projects more straightforward and consistent with these sustainability principles”.*

- Management believes that the Bank’s role in initiatives such as IIRSA and PPP brings benefits to the countries involved not least because the IDB can provide environmental and social expertise and support and facilitate appropriate regional infrastructure planning. Management agrees that sustainability should be part of the technical assistance and support provided by the Bank.
- The Bank has already developed some good experience with this in the context of PPP. With assistance of the Bank, the eight PPP countries are developing a core set of regional environmental safeguards to ensure that infrastructure development is guided by sustainability principles and guidelines.
- The Bank, consistent with the draft Environment and Safeguards Compliance Policy, will use appropriate tools, such as strategic environmental analysis (SEA), for regional programs and clusters of projects, under IIRSA and PPP. IDB will also offer to support countries with technical assistance including the application of SEA, in the context of regional infrastructure development. The Board recently approved a Fund for the financing of technical cooperation for initiatives for regional infrastructure integration that also allows for the financing, on a contingent recovery basis, of environmental studies.

### 2.4 DEVELOPMENT OF NEW ANALYTICAL TOOLS TO ‘MEASURE’ THE CONTRIBUTION OF PROGRAMMATIC OR PROJECT LENDING TO SUSTAINABILITY

*“The IDB should develop new analytical tools, which can be used to ‘measure’ the contribution of programmatic or project lending (including, for example, the contribution to meeting the Millennium Development Goals) to sustainability (i.e. beyond safeguards)”.*

- Management agrees with the need to measure the contribution of the Bank’s lending. This is also articulated in the MTAP on development effectiveness, which includes the development of comparable and validated benchmarks to measure outcomes and impacts. In this context the Bank will develop milestones as well as indicators for sustainability and establish a system to monitor and track the progress, which takes into account Millennium Development Goals (MDG) targets.
- These indicators will be included in the reporting initiative described above.

## 2.5 DEVELOPMENT OF AN INTERNAL INCENTIVE STRUCTURE TO REWARD SUSTAINABLE OUTCOMES

*“Management should commission work on developing internal incentive structures (in alignment with other work on incentives) which reward sustainable outcomes from programmatic and project lending across all staff groups which can be implemented in parallel with policy implementation. This would include the requirement for specific assessment of performance in these areas in staff assessments and promotions, in assessing candidates for positions within the Bank and in remuneration and bonuses, if applicable. Development related issues such as these should become central to the measurement of performance across all dimensions, many of which in the past have tended towards a focus on investment volume”.*

- Management supports the alignment of incentives to promote excellence in quality and results in our operations including sustainable outcomes.
- Management will commission a study on developing an appropriate incentive structure for sustainability, and based on the study will take steps to better align internal incentives with sustainability-oriented outcomes..

## 2.6 ENHANCING ‘ENVIRONMENTAL’ LENDING IN BIODIVERSITY, RENEWABLE ENERGY AND WATER

*“The IDB should develop specific targets for certain types of ‘environmental’ lending, which it believes will become more prevalent in future and which will stimulate the development of specific expertise and business understanding more widely within the Bank. This would include, but not be limited to, water, renewable energy, biodiversity based development activity and ecosystems services. The IDB should exploit the opportunity to support Governments and the private sector in their responsibilities and commitments to the Convention on Biological Diversity, the Framework Convention on Climate Change and the Kyoto Protocol, which came into effect on February 16, 2005. The IDB should develop a view on the financial institution impacts for Latin America and the Caribbean”.*

- Management agrees on the importance of increasing environmental lending and in particular in the areas of biodiversity, renewable energy and water.
- Management agrees to work with countries to explore appropriate targets in these specific areas. As part of this, the IDB will review trends and the potential effectiveness of targets and propose strategic actions that the Bank could take to enhance activity in the areas of biodiversity, renewable energy and water, for the countries where agreement is reached. The Bank recognizes the important role that the Private Sector plays in pursuing opportunities in the environmental sector and will explore ways to enhance the Bank’s role and involvement.

- In addition, the Bank will support the development of innovative financial and market based instruments to enhance the value of environmental goods and services and to facilitate sustainable flows of financial resources earmarked for the conservation and management of these goods and services.
- Furthermore, Management is actively engaged in working with the Global Environment Facility (GEF) to increase Bank activities which will create global and regional environmental benefits, taking advantage of the status of the IDB as a GEF “executing agency acting under expanded opportunities”.
- Management is currently reviewing the Bank’s climate change action plan (2000), taking into account UNFCCC and that the Kyoto Protocol has come into effect. The purpose of this review is to identify additional opportunities for the Bank to assist LAC countries in mitigating greenhouse gas emissions and taking advantage of the market opportunities under the Clean Development Mechanism. Management is organizing a conference on climate change with IDB beneficiary countries to identify priority areas for IDB activity related to greenhouse gas mitigation.

### III CIVIL SOCIETY PARTICIPATION

#### 3.1 CONSULTATION AND PARTICIPATION / CREATION OF AN OMBUDSMAN PROCESS

*“The IDB should develop innovative participatory approaches, new methodologies and instruments for civil society engagement and inclusion in project design and execution placing it at the leading edge of sustainability analysis. A framework should be developed for guiding project and programmatic consultation and information disclosure processes, which also sets out when independent monitoring and means of redress should be designed into the project. Whilst we acknowledge progress with the Independent Investigation Mechanism, we recommend full consideration be given to establishing an Ombudsman process which can respond constructively to complaints and seek to resolve disputes”.*

*“Civil society should be increasingly integral to the independent monitoring of project implementation. The IDB should robustly support the disclosure and dissemination of project preparation and monitoring information in a place, style, form and language, meaningful to affected parties and which allows them to constructively engage and for their views to be heard. We recommend that policies be developed by reference to Principle 10 of the Rio Declaration on Environment and Development”.*

- The IDB has a number of policy mechanisms that address various aspects of public participation including the Disclosure of Information Policy (OP-102), and the Strategy for Promoting Citizen Participation in Bank Activities (GN-2232-5). As well, many of our Country Offices have established advisory groups made up of representatives from civil society (CASC). Also, the draft Environment and Safeguards Compliance Policy lays out requirements for public participation in various phases of the project cycle depending on the potential risk of the project.

- As part of the draft Environment and Safeguards Compliance Policy, the IDB will develop a guidance document to implement the directives which call for public participation in various phases of project cycle and to facilitate a consistent approach to public participation in the project cycle, in line with Principle 10. The Bank will explore training initiatives for Bank staff and borrowers on participation approaches and innovative ways to assist in the financing such participation in Bank financed projects. Also, the Bank will help establish accurate and trustworthy monitoring systems to serve the needs of civil society and will endeavor to provide opportunities for the participation of affected communities in the monitoring of high risk projects.
- The draft Consultation and Compliance Review Policy, as successor to the current Independent Inspection Mechanism, proposes a consultation component that attempts to address identified problems similar to an Ombudsman, for the CCRP Executive Secretary. All aspects of the draft proposal have recently been subject to a wide-ranging public consultation and will be reviewed again by the Board of Executive Directors prior to final approval of the new mechanism.

### 3.2 IDB/NGO STAFF EXCHANGES

*“We recommend a program of staff exchanges between the Bank and NGO groups to improve recognition and understanding of the constraints, dilemmas and pressures confronted by all the parties in development projects”.*

- The IDB holds regular meetings with NGOs at the technical and policy level to exchange perspectives and experience on ways to enhance sustainability in Bank operations. The Bank recognizes the value of engaging with NGOs on a regular basis to exchange views on key issues. These meetings serve as a means to keep abreast of emerging developments and concerns, explore innovative means to address environmental issues, and identify opportunities for collaboration.
- The IDB welcomes the opportunity to increase exchanges between the Bank and NGOs on technical matters. Management will explore staff exchanges with NGOs who have already expressed some interest in secondments. In order to do this the IDB will learn from the experiences of other MFIs who undertake similar exchanges.

## IV CAPACITY, SYSTEMS AND RESOURCES

### 4.1 REPORTING GOOD PRACTICE AND LESSONS LEARNED

*“Systems should be developed to publicize examples of good practice around the institution through seminars, briefings, etc., with Senior Management taking an active role. Difficult, as well as successful, projects where problems are encountered should similarly be assessed and lessons learned communicated to staff. We believe that a comparative review of the IDB role in projects such as Camisea and Darien and how it might learn from the experience – including a comparative analysis with the approaches taken in other macro projects on this scale, such as Chad-Cameroon and Baku-Tblisi-Ceyhan pipeline projects, could very helpfully inform future procedural development. Development of case analyses, which demonstrate and monitor the lessons to be learned for use in training programs, should be undertaken”.*

- Management agrees on the importance of learning from experience. In 2004, the Bank held a series of workshops during its Environment Week, with the participation of staff from across the Bank and experts from other organizations, including civil society to exchange experiences and lessons learned. The Bank intends to hold these workshops on an annual basis.
- In the context of the MTAP on development effectiveness the Bank is identifying incentives to strengthen lesson-learning by staff on a routine basis. Sustainability will be an important area for this work.
- As part of this commitment, and in support of the implementation of the proposed Environment and Safeguards Compliance Policy, Management will organize staff workshops. The development of case studies will be part of this effort and priority will be given to the review of large scale and complex infrastructure projects. IDB intends to learn not only from internal experiences, but also from other MFIs such as the World Bank Group, ADB and the EBRD.
- Management will update, as needed, the Implementation Handbook that will accompany the new Environment and Safeguards Compliance Policy to reflect evolving practices in the field.

### 4.2 CONSISTENT AND ROBUST RISK MANAGEMENT

*“Environmental, social and cultural risk management procedures need to be more robust and more consistently applied. Project risk – through the A,B,C categorization system and client risk – their capacity, commitment and track record, should be rigorously assessed and the interaction between these risks adequately considered in the design of the due diligence. Clear operational procedures should be developed for each core product type – recognizing the different points of engagement and leverage. Procedures should explicitly preclude investments where there is a high sustainability project risk and the client cannot demonstrate the commitment, capacity and track record to adequately implement”.*

- Management agrees with the need for a more robust and consistent safeguard risk management system that is effective and efficient.
- The proposed Environment and Safeguard Compliance Policy establishes a safeguard risk management framework which includes an A, B, C categorization according to environmental impacts; and will identify and help manage other risk factors such as the level of the borrower's commitment, capacity and track record, and any relevant third party issues.
- The sustainability safeguard risk management system will feed into the Bank's broader integrated risk management program currently being developed.
- For each product type clear operational procedures will be developed and tools will be developed to support the teams in this.

#### 4.3 STRENGTHENING ACCOUNTABILITY AND EXPERTISE IN RISK MANAGEMENT

*“Procedures and training should clearly specify that accountability for project environmental, social and cultural performance rests within the business line. The role of the Committee on Environmental and Social Impact (CESI) in providing clear advice to project teams based on client and project risk analysis should be formalized and effectively resourced. This requires that the constitution of CESI is specifically nominated, with specialists who have the necessary expertise in risk management and are given the necessary time to review the documentation and participate consistently in the Committee, providing continuity and institutional memory. A dedicated Secretariat should be established. Categorization of projects should take place within the operational departments, but these should be forwarded to CESI for ratification. All category A projects should require CESI sign off in advance of Loan Committee consideration. Staff assigned to CESI should be suitably qualified to enable rigorous analysis of public, private and joint projects expeditiously at the concept and approval stage and to monitor and ensure the adequate allocation of resources at the project level. CESI recommendations should be explicitly endorsed by the Loan Committee”.*

- Management agrees that environmental and social risk assessment procedures and mechanisms need to be efficient and robust.
- Management recognizes the importance of empowering projects teams and COFs with the ability to undertake sustainability risk analysis and management within the business line of the Bank. Training for project staff, as well as CESI members, is anticipated for effective implementation of the Draft Environment and Safeguards Compliance Policy. A training program will be developed and executed to ensure the IDB's capacity to implement the directives of the Policy.
- The Bank also recognizes the importance of accountability and ensuring that there is rigor in the analysis, review and execution of the project. The new safeguard risk management framework will ensure that the risk management process of the Bank,

including CESI, has the appropriate time and resources to properly review projects. The Bank will provide technical and analytical support to staff (including CESI) to promote a consistent application and compliance with the proposed Environment and Safeguards Compliance Policy.

- As part of its review of all individual projects, CESI will recommend that an appropriate level of resources are included in cost tables of projects to ensure effective mitigation and risk management.
- Environmental performance indicators will be included in project logical frameworks and environmental conditions to be included in loan contracts will be identified, as appropriate.

#### 4.4 STRENGTHENING MONITORING OF PROJECT SUSTAINABILITY OUTCOMES

*“that the Bank’s (ex-post) monitoring of project outcomes be significantly strengthened and undertaken independent of the business line, probably through the central Sustainable Development Department and operations evaluation, specifically against the core development objectives of the project. Countries should be supported in undertaking their own (ex-post) monitoring of project sustainability outcomes”.*

- Management recognizes the importance of strengthening monitoring and supervision as well as evaluation to enhance project sustainability outcomes.
- All moderate to high-risk projects will be adequately monitored throughout execution, as part of the Bank’s new safeguard risk management framework. This will include the development of a safeguard tracking system based on the Bank’s monitoring and reporting mechanisms, such as PPMRs and PCRs.
- Consistent with the MTAP, as well as the draft Environment and Safeguard Compliance Policy, the Bank will strengthen teamwork between headquarters and country office staff during project supervision. Sustainability capacity will be part of country office strengthening.
- The Bank’s Office of Oversight and Evaluation currently undertakes ex-post evaluations, one of which is the ex-post Performance and Sustainability Assessments (EPSAs).
- Management recognizes that enhancing capacity of countries to undertake monitoring of project sustainability outcomes is very important, and the Bank will analyze how to enhance the countries capacity in this area in the context of the Bank’s development effectiveness activities.



#### 4.5 COMPREHENSIVE ANALYSES OF RESOURCE REQUIREMENTS

*“Comprehensive analysis of resource requirements at central operational department and Country Office levels to fully implement the policy mainstreaming should be completed. We believe additional resources will be required in a number of areas including:*

- Increase in core environmental, social and cultural development staff and capacity at central, country and regional levels;*
- Specific professional support in developing operational procedures and risk management processes;*
- Specific resources to be applied to the monitoring and supervision of projects during execution;*
- Enhanced training to develop new skill sets in existing environmental, social and cultural staff to meet new strategic commitments;*
- Development of a sustainability-training program which engages together all the professional groups working on investments within the Institution, so that understanding amongst the teams is consistent and mutually supportive. This program should then be progressively provided to all staff. The IDB should explore the possibility of providing such training in collaboration with private sector financial institutions, some of whom have already expressed an interest in such collaboration;*
- Development of a supportive skills network throughout the institution, which can be drawn upon to provide input on specialist issues;*
- Flexible consulting resources, which can be deployed to support internal capacity or provide specialist input”.*

- Management recognizes that the implementation of these recommendations will require increases in staff and capacity. We are currently undertaking an internal capacity analysis. Based on the results of this, Management will determine how to meet the Bank’s capacity and resource needs so that we can more effectively help project teams to succeed in meeting the objectives and the directives of the draft Environment and Safeguard Compliance Policy and realize the potential opportunities presented by a sustainability approach.
- To implement the new safeguard risk management framework, Management will increase support for monitoring and supervision of projects during execution, and ensure greater collaboration between Headquarters and country offices. This will be done in coordination with efforts to enhance the capacity of country offices under the MTAP which includes enabling specialists to focus on outcomes, shifting administration to assistants and involving country offices in country programming and project design.
- The Bank will establish a sustainability safeguards training. Management has explored opportunities for collaboration in training with MDBs and MFIs, and will pursue them.
- Management will establish a staff network to facilitate greater exchange of skills experience among environment and social sustainability specialists in the Bank. Management will commit the necessary resources to facilitate this network, including meetings of specialists from regional offices and Headquarters and website updates