

PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MODERNIZATION OF THE ENVIRONMENTAL AND SOCIAL POLICIES OF THE IDB

POLICY PROFILE

In accordance with the Access to Information Policy, this document is being made publicly available simultaneously with its distribution to the Board for information.

MODERNIZATION OF THE ENVIRONMENTAL AND SOCIAL POLICIES OF THE IDB

POLICY PROFILE

I. BACKGROUND

- 1.1 Sound management of environmental and social impacts and risks associated with IDB operations is essential to promoting sustainable growth and poverty reduction in the region. Between 1998 and 2010, the IDB adopted a series of environmental and social safeguards under five separate policies to help ensure that potential negative environmental and social (E&S) impacts of its projects are adequately assessed, managed, and mitigated. This has led to an evolving partnership between the IDB and executing agencies to integrate environmental and social considerations in the design and implementation of IDB financed operations.

Table 1. Current IDB Environmental and Social (E&S) Policies

Policies	Main Purpose
Environment and Safeguards Compliance (OP-703; 2006)	Mainstream the environment into overall economic and social development, <u>and</u> to safeguard the environment in all Bank activities.
Disaster Risk Management (OP-704; 2007)	Systematically manage risks related to natural disasters by identifying these risks, reducing vulnerability and by preventing and mitigating related disasters before they occur; <u>and</u> facilitate rapid and appropriate assistance from the Bank to borrowing member countries in response to disasters.
Involuntary Resettlement (OP-710; 1998)	Minimize the disruption of the livelihoods of people living in the area of influence of Bank funded projects, by avoiding or minimizing the need for physical displacement, ensuring that when people must be displaced, they are treated equitably and, where feasible, can share in the benefits of the project that requires their resettlement.
Gender Equality in Development (OP-761; 2010)	Actively promote gender equality and the empowerment of women through all the Bank's development interventions; <u>and</u> introduce safeguards to prevent or mitigate adverse impacts on women or men due to gender, resulting from the Bank's actions through its financial operations.
Indigenous Peoples (OP-765; 2006)	Support the development with identity of indigenous peoples, including strengthening their capacities for governance, <u>and</u> safeguard indigenous peoples and their rights against adverse impacts and exclusion in Bank-funded development projects.

- 1.2 In August 2018, the IDB's Office of Evaluation and Oversight (OVE), after conducting an evaluation of the IDB E&S policies, concluded the IDB should update its safeguard policies and consolidate them into an integrated and coherent policy framework to more effectively respond to the challenges faced by countries in the Latin American and Caribbean (LAC) Region. The evaluation noted that the current suite of five separate E&S policies were

developed in a piecemeal fashion, resulting in gaps, inconsistencies in application, and lack of clarity. Noting that over the past few years all the other major Multilateral Development Banks (MDBs) have consolidated their environmental and social policies into a single integrated framework, OVE recommended “[D]evelop[ing] a new safeguards policy framework that incorporates both environmental and social aspects in an integrated policy, differentiates more clearly between Bank and borrower responsibilities, clearly spells out technical requirements and addresses current coverage shortfalls and ambiguities, rebalances the focus on up-front procedural requirements with effective implementation for results and ensures applicability to operations without clearly designed investments at the time of approval”. IDB Management presented a [roadmap](#) to the Board in December 2018 to implement OVE’s Environmental and Social Safeguards Evaluation Recommendations. In that context, IDB Management has made a commitment to update its IDB E&S policies by the end of 2020. To that end, the Bank established a Special Group under the Office of the Presidency to lead this corporate initiative.

II. RATIONALE

- 2.1 **There is convergence of multilateral financial institutions on a policy framework architecture that incorporates both environmental and social aspects in an integrated policy and differentiates between borrowers’ and these institutions’ responsibilities.** An independent benchmarking study¹ on Environmental and Social Frameworks among Peer Institutions, commissioned by the IDB, shows that there has been significant convergence in the policy framework architecture and borrower technical requirements over the last 10 years. Particularly, multilateral financial institutions, and an increasing number of commercial banks, have adopted the policy architecture developed by the IFC in 2006, and updated in 2012. This architecture incorporates both environmental and social aspects in an integrated policy with two main components: i) an environmental and social policy statement, which specifies institutional commitments, roles and responsibilities; and ii) environmental and social standards, or requirements, applicable for the borrowers on key themes and topics. Table 2 illustrates this convergence to IFC’s policy architecture. In this table, the absence of a standard does not imply a gap in the thematic coverage and its presence does not imply completeness. For instance, pollution prevention is fully addressed under IDB OP-703, Directive B.11, although IDB has no specific policy on pollution. In addition, contrary to current IDB E&S policies, environmental and social policies of most peer institutions focus exclusively on the application of technical standards at the project level, excluding activities related to the overall promotion or mainstreaming of these topics in LAC countries.
- 2.2 **Beyond the convergence on policy architecture, institutions have also harmonized key themes for borrower technical standards with some variations.** Most of the policy frameworks of multilateral financial institutions now include the following eight standards/requirements: environmental and social impact assessment; labor and working conditions; pollution prevention and control; community health and safety; involuntary resettlement; biodiversity conservation and ecosystem services; indigenous peoples; and cultural heritage. A few institutions also consider gender, stakeholder engagement and

¹ *Benchmarking IDB Safeguards Framework with Peer Institutions*, Bill Rahill, 2019.

information disclosure, climate standards, and vulnerable groups as stand-alone standards, however for most of them, these topics are incorporated as cross-cutting themes and are considered within the content of other standards.²

Table 2. Current Policy Framework Architecture of MDBs

Responsible		International Standards	IDB (1998-2006)	WB (2016)	IFC (2012)	IDB INVEST (2013)	EBRD (2019)	EIB (2015)	CAF (2016)	AfDB (2014)	CDB (2014)	AiIB (2016)	ADB (2009)	
MFI		Policy Statement												
	Borrower	IFC Performance Standards	1: Assessment and Management of Environmental and Social Risks and Impacts											
2: Labor and Working Conditions														
3: Resource Efficiency and Pollution Prevention														
4: Community Health, Safety and Security														
5: Land acquisition and Involuntary Resettlement														
6: Biodiversity conservation and Sustainable Management of Living Natural Resources														
7: Indigenous Peoples														
8: Cultural Heritage														
Other standards		Financial Intermediaries												
		Stakeholders Engagement and Information Disclosure												
		Gender												
		Disaster Risk Management												
		Climate Standards												
		Toxic and Hazardous Substances Control and Management												
		Directly affected communities												
		Rights and Interests of Vulnerable Groups												
		Sustainable Use of Renewable Resources												

Public financing
 Private financing
 Present
 Not present

2.3 Current IDB E&S policies present gaps with respect to technical standards of other multilateral financial institutions in some areas. In other areas gaps are of less significance due to the IDB practice and existence of supporting guidance documents. Neither the IDB E&S policies nor their operational-implementing guidelines explicitly cover some themes under the following technical standards: (i) labor and working conditions (such as worker’s organization, and provisions for contractors); (ii) community health, safety and security (provisions for influx of project workers, management of security personnel); (iii) biodiversity conservation and sustainable management of living resources (risks in supply chains, offsets, no net loss/net gain on critical habitats, and ecosystem services); and (iv) vulnerable groups (targeted engagement requirements, no discrimination and provisions for people with disabilities). Additional gaps are found, among others, in the indigenous peoples standard (in regard to provisions for Free, Prior and Informed Consent applicable under certain circumstances) which are captured in guidance , but not clearly stated in policy; and in meaningful stakeholder engagement which has been a well-established practice in IDB projects during the project preparation phase, but requires a more consistent application during implementation. See Annex I for the benchmarking analysis of these topics.

² For instance, the IFC included extensive references to stakeholder engagement in its Performance Standard (PS) 1, and gender topics in PS2, PS4 PS5, and PS7. On the other hand, EBRD recognized the importance of stakeholder engagement as a core element of project implementation success and established a stand-alone Performance Requirement 10: Information Disclosure and Stakeholder Engagement. This has set the stage for other financial institutions, most recently the World Bank, to elevate the policy context for this criterion through a dedicated standard (Rahill, 2019).

- 2.4 **The current IDB E&S policies have an advantage in the coverage of gender issues.** Although most of the multilateral financial institutions consider gender a cross-cutting theme, the IDB-commissioned benchmarking study identifies a gap in the coverage of gender-based violence in most other multilateral financial institutions, a topic that is well covered under the IDB policy on gender equality in development. This stand-alone IDB policy has specific tools outlined to support safeguards such as communications and awareness campaigns, the development of community prevention plans, health services, codes of ethics and surveillance systems.
- 2.5 **Disaster risks from project-related activities are covered by other multilateral financial institutions as a cross-cutting theme.**³ However, the IDB differs from other institutions in the application of an integrated natural hazard risk assessment for projects that includes project exposure to natural hazards, including climate change considerations.
- 2.6 **Overall, the normative framework in LAC countries on social and environmental themes is moving towards a common set of international standards, although variations exist between countries regarding mechanisms and tools to support effective implementation.** Over the last 10 years, the LAC Region has experienced significant progress in systemizing environmental assessment of projects and incorporating environmental considerations in country-level normative frameworks. An independent trend analysis study⁴ on environmental advancements in the LAC Region commissioned by the IDB, highlights recent advancements in the inclusion of biodiversity topics. Most of the countries in LAC have legislation that mandates the application of the mitigation hierarchy (avoidance, minimization, restoration, compensation) and aim to achieve no net loss of biodiversity. Additionally, Mexico, Brazil and Colombia also require using biodiversity offsets (either in kind or payments) and aim to achieve net positive gain in certain circumstances, such in areas with high biodiversity values. Regarding the efficient use of natural resources, the LAC region is already well aligned with international benchmarks in areas such as water use and raw material use. Energy efficiency and avoidance of GHG emissions at the project level is also an emerging trend.
- 2.7 The results of the independent trend analysis study⁵ on social advancements in the LAC Region commissioned by the IDB also show a similar trend. In general, LAC countries have been progressively incorporating social themes in country-level normative frameworks and practice. Themes such as indigenous peoples, vulnerable groups, physical resettlement, labor and working conditions, and citizen participation are part of the normative framework of most LAC countries, with countries reaching 100% ratification of labor standards outlined by the International Labor Organization (ILO). Community health and safety, compensation for economic displacement and project-level grievance redress mechanisms⁶ appear as more recent emerging trends.

³ In the case of the IFC, Performance Standards 1,2 and 4 include disaster risk assessment under overall E&S assessment and emergency preparedness and response plans for workers and affected communities.

⁴ *Trend analysis of environmental safeguards advancements in Latin American and Caribbean countries*, Frank Fragano, 2019.

⁵ *Trend analysis of social safeguards advancements in Latin American and Caribbean countries*, Social Capital Group, 2019.

⁶ A project-level grievance redress mechanism is a locally based, formalized way to accept, assess, and resolve community feedback or complaints (World Bank, 2014). A project-level grievance redress mechanism does not substitute, but complements, the Independent Consultation and Investigation Mechanism (ICIM), which is the independent accountability mechanism of the IDB Group. The ICIM receives and investigates complaints from two or more persons who consider themselves to have been harmed

- 2.8 **The perception of relevant and recurrent themes in the region by executing agencies in LAC is consistent with international technical standards.** A client survey conducted by Ipsos on behalf of the IDB asked more than 100 executing agencies from 19 countries about their perceptions of environmental and social trends in the LAC region. Executing agencies perceive that environmental pollution (air, water, noise, soil, hazardous materials), community health and safety, and involuntary resettlement are the most relevant themes for the Region. In addition, community health and safety, grievance mechanisms, vulnerable groups and labor rights are considered recurrent themes in their projects. These themes were consistent regardless of national origin.
- 2.9 **Executing agencies recommended greater technical assistance to strengthen their capacity, more practical guidance material available, and closer IDB staff proximity and more frequent visits.** Although most respondents (79%) are satisfied or very satisfied with IDB safeguards mechanisms, many of them (54%) require more IDB support in form of technical assistance and provisions of practical guidance material and closer proximity and presence of IDB staff, especially during project execution. Executing agencies also highlighted factors such as availability of information regarding standards and best practices as the most relevant for improving their institutional capacity.
- 2.10 **Lessons learned from the Independent Consultation and Investigation Mechanism (ICIM) process reflect implementation failures consistent with the identified gaps in IDB E&S Policies.** The ICIM cases in the past 9 years confirm the need to improve and strengthen IDB E&S Policies. Implementation failures such as inadequate timelines for conducting consultations, limited information on the local cultural context, and restricted access to information for interested stakeholders during the consultation phase point out to the need for a more consistent application of meaningful stakeholder participation throughout the project cycle and the presence of quality and reliable local grievance mechanisms. Lack of attention to the risk of economic displacement, particularly in the case of small and medium business, has also been present in ICIM cases.
- 2.11 **A modern Environmental and Social Policy Framework for the IDB should be aligned with international good practices and standards on environmental and social issues.** There has been a growing convergence towards common approaches and good practice standards among multilateral financial institutions and among commercial banks,⁷ reflecting the priorities and goals of national governments as expressed in international conventions as well as national laws. The IDB and its clients would be better served by an integrated policy framework that is up-to-date, clearly establishes process and performance requirements, distinguishes responsibilities of the Bank from those of the borrower's, facilitates implementation of environmental and social standards in co-financing operations, and overall, enables the Bank to be more effective in supporting its clients in managing environmental and social risks at the project level.

by projects financed by the IDB, IDB LAB, or IDB Invest as a result of their potential non-compliance with their relevant operational policies. OVE is expected to conduct an independent evaluation of the MICI during 2019.

⁷ Over 80 commercial banks have adopted the Equator Principles, based on IFC's safeguard policy and standards.

III. OBJECTIVES

- 3.1 The modernization of IDB E&S policies would ensure the attainment of environmental and social sustainability outcomes in IDB operations. The specific objectives are to: (i) integrate both environmental and social aspects of the current IDB E&S policies into an umbrella framework, comprised of a policy statement and technical standards, that bridge the thematic gaps of these policies; (ii) separate the mainstreaming elements under the current policies to focus on the application of environmental and social standards in specific projects; (iii) clarify IDB and borrowers' responsibilities; and (iv) strengthen the management of environmental and social risks throughout the project cycle. The expected result from the modernization process would be an Integrated Environmental and Social Policy Framework better aligned with current international benchmarks and good practices for the LAC region.

IV. PRINCIPLES

- 4.1 The following guiding principles are proposed for the development process of the new Environmental and Social Policy Framework (ESPF):
- a. *No dilution*: The new ESPF – including the policy objectives, IDB roles and responsibilities, technical requirements for Borrowers/clients, remedies, timing of compliance with requirements – and environmental and social risks management approaches for each IDB instrument, including investment financing, policy-based lending and technical cooperation projects, would be at least equivalent to those of current IDB E&S policies and aligned with international benchmarks (where such standards are higher);
 - b. *“Do good” beyond “do no harm”*: The new ESPF would facilitate the enhancement of social and environmental sustainability beyond the mitigation of adverse impacts generated by IDB operations;
 - c. *Outcome orientation*: The new ESPF would have a strong emphasis on outcomes and effective implementation for results, including for operations without clearly designed investments at the time of approval;
 - d. *Proportionality*: Under the new ESPF, IDB's responsibilities and technical requirements for borrowers would be proportional to the level of project risk, that is, projects with greater risks would require more effort and resources than those with lower risk levels; and
 - e. *Transparency*⁸: The new ESPF would be developed through a collaborative and transparent process, in which adequate and timely information is provided to all interested stakeholders and with opportunities and mechanisms for them to provide feedback, concerns, and inquiries directly to the IDB.

⁸ Consistent with the IDB Access to Information Policy, which reflects the Bank's commitment to transparency, accountability and good governance.

V. APPROACH

- 5.1 **Policy Framework Architecture.** The modernization of the policy framework would align the architecture of the new ESPF with the policy architecture adopted by most multilateral financial institutions, along the following lines:
- a. **Integration of environmental and social policies into a single consolidated ESPF,** to increase operational efficiency and effectiveness for the Bank and its clients (e.g. a single classification process and integrated documentation and processes) and improve consistency of implementation across themes; and
 - b. **Separation of IDB and Borrower responsibilities,** would allow for much greater clarity on the roles of the IDB, as the financial institution, including supervising Borrower's compliance with the ESPF requirements and mandate, and the borrower, as the recipient entity responsible for the execution of projects in compliance with the ESPF technical standards/requirements.
- 5.2 The new ESPF would consist of the following two components:
- A. **IDB Environmental and Social Policy Statement.** This section would establish IDB roles and responsibilities, as the financial institution, along the following lines:
 - i. IDB commitment to promote effective environmental and social risk management
 - ii. IDB roles and responsibilities:
 - 1. Screening and classification (impact classification A, B, C at the preparation stage + risk classification: High, Substantial, Medium, Low – dynamic throughout the project cycle), with explanations for the classifications.
 - 2. Environmental and social due diligence, including project review and clearance milestones.
 - 3. Supervision and oversight of Borrower's compliance with the ESPF requirements and contractual agreements.
 - 4. Disclosure of information.
 - iii. Provisions for specific instruments.
 - iv. Use of borrowers' systems.
 - v. Arrangements for co-financing.
 - vi. Grievance Redress Mechanism and Accountability.
 - vii. Implementation arrangements.
 - B. **Technical Standards for environment and social risk management.** The IDB would establish 10 standards for environment and social risk management, which would set the requirements for projects to be implemented by the borrowers/clients. Eight of these technical standards would follow the requirements of current internationally recognized IFC Performance Standards (PS), with changes as appropriate for the IDB. The two additional standards would focus on Gender, and Stakeholder Engagement and the Disclosure of Information (see Annex II). The IFC PS represent the most widely adopted and used international benchmarks for environmental and social risk management,

and their feasibility and operational relevance is proven, both globally and in the regional context of LAC. Technical requirements of the IFC Performance Standards have been implemented, by the Equator Principles, numerous export credit agencies, the Import-Export Bank of the United States, and the Millennium Challenge Corporation, among others. These Performance Standards have also been adapted by public sector lending multilateral financial institutions, such as the EBRD in its Performance Requirements, and the World Bank in its Environmental and Social Standards. They have been adapted by MDBs in a way that accounts specific circumstances such as public sector considerations, or geographical considerations such as the European Union. The use of the IFC PS as the basis for the technical requirements would also ensure alignment of standards within the IDB Group as IDB Invest has proposed to adopt them as its only set of standards. In the case of the IDB, the IFC PS would be revised to remove requirements intrinsically relevant only to the private sector,⁹ and to incorporate targeted adaptations, on topics identified as relevant for the LAC region,¹⁰ while maintaining the integrity of the IFC PS and a common set of standards for the IDB group. In addition, the new ESPF would include two additional standards on Gender, and Stakeholder Engagement and Disclosure of Information¹¹, given that the benchmarking analysis identified that these two topics are covered in current IDB policies or practice, but not adequately or sufficiently covered in the IFC PS in relation to their application in public sector operations.

- 5.3 At the time of submission of the ESPF for its approval by the Board, Management will also submit an Implementation Plan of the ESPF for purposes of information, describing the milestones required to reach implementation (e.g., update to the Bank systems; development of the Operational Guidelines; and training activities on the new ESPF for Bank staff and the executing agencies). The Implementation Plan will include a schedule of implementation and associated budget. The ESPF will become effective upon completion of the Implementation Plan's milestones. Management will inform the Board once the Implementation Plan's milestones have been completed.
- 5.4 **Co-financing.** In the case of co-financing¹² projects with other multilateral or bilateral agencies (either public or private funding), the new ESPF would contemplate that all parties -the IDB, co-financing agency(ies) and the borrower- agree on a *common approach* for the assessment and management of environmental and social risks and impacts of the project. A common approach would be acceptable to the IDB when it followed the principles of *no dilution vis-à-vis* the ESPF, *“Do good” beyond “do no harm”*, *proportionality*, and *outcome orientation*, which means it would enable the achievement of equivalent objectives and outcomes to those of the ESPF.

⁹ For example, under Performance Standard 5, “Private Sector Responsibilities Under Government-Managed Resettlement”

¹⁰ Such as economic displacement caused by other factors than land related transactions, such as construction, risks and impacts on vulnerable groups, such as non-contacted indigenous peoples, and risk of exacerbation of personal or communal conflict or violence. The process will identify these cases based on, among others, lessons learned from the implementation of the current IDB E&S policies and ICIM cases. Other improvements to the IFC PSs may also be identified through the update process.

¹¹ Other topics may also be identified through the update process.

¹² It applies only to “joint co-financing” in accordance with the document GN-2911 “Guidelines to Register and Report Co-financing”.

- 5.5 **Transition period.** Until the new ESPF becomes effective, current IDB E&S policies would remain in force and would continue to apply to all existing operations¹³ under execution and those in preparation for which their eligibility has been declared by Management (usually at the Eligibility Review Meeting - ERM). When effective, the new ESPF,¹⁴ comprised of an Environmental and Social Policy Statement and Technical Standards, would supersede the IDB E&S policies (i.e., the Environment and Safeguards Compliance Policy (OP-703), the Disaster Risk Management Policy (OP-704), the Involuntary Resettlement Policy (OP-710), the Policy on Gender Equality in Development (OP-761), and the Indigenous Peoples Policy (OP-765)) for purposes of processing, approving, and supervising new operations. It is foreseen that IDB current E&S policies and the new ESPF would coexist for about seven years, which is the estimated time to complete the execution/implementation of all operations approved under IDB current E&S policies.
- 5.6 **Mainstreaming.** Current IDB E&S policies contain non-safeguards, mainstreaming aspects¹⁵, which aim at enhancing environmental and social sustainability in LAC countries in addition to the application of environmental and social safeguards in specific projects. OVE's evaluation concluded that this policy structure contributes to lack of clarity on the application of safeguards. Consistent with this conclusion, the new ESPF would not include mainstreaming aspects, and would exclusively focus on the application of safeguards (standards) to manage environmental and social risks in IDB projects. The mainstreaming aspects of current IDB E&S Policies are already captured in the Governor-approved Update to the IDB Institutional Strategy 2010-2020 (UIS)¹⁶, which prominently recognizes the linkages between sustainable economic and social development, including gender equality and diversity, climate change and environmental sustainability and the institutional capacity and the rule of law. This corporate mandate positions environmental and social sustainability at the forefront of all IDB's activities in the LAC region.
- 5.7 **Institutional Arrangements.** In order to further enhance the implementation of this corporate mandate, the Bank would develop and establish institutional arrangements to manage the application of the safeguards aspects, that is, the comprehensive management of environmental and social risks; and of the non-safeguards aspects, including mainstreaming activities and direct interventions to promote environmental and social sustainability. An action plan for these institutional arrangements would be presented to the Board in addition to the Implementation Plan of the new ESPF.
- 5.8 These institutional arrangements would be composed of two strong and well-founded pillars. The first pillar would entail: (i) the environmental and social risk classification and the validation of project due diligence; (ii) the design and execution of solutions to manage environmental and social risks in IDB projects; and (iii) the certification of all operational

¹³ Projects to be modified or reformulated after the new ESPF is effective would follow the IDB E&S policies applicable at the time they were approved.

¹⁴ Once the new ESPF is effective, all references to the current IDB E&S policies in Bank's policies, regulations, lending instruments, procedures and any other document would be understood as the new ESPF.

¹⁵ OP-703 (Directives A on Mainstreaming Environment), OP-765 (Promoting Development with Identity for Indigenous Peoples), OP-704 (Programming, managing exposure to natural hazards, and Post Disaster Operations), OP-761 (Section A Proactive Action for Promoting Gender Equality).

¹⁶ Update to the IDB Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve Lives (UIS, AB-3008)

teams in the application of the ESPF. The second pillar - using all Bank instruments such as country and sector strategies, operational guidelines, and action plans,¹⁷ as well as Bank interventions such as loans and grants, technical cooperation and investment grants, upstream analytical work, policy dialogue, country strategy and programming exercises, and building networks with external partners - would entail: (i) dedicated mainstreaming services for promoting environmental and social sustainability in IDB projects or sectors (beyond meeting ESPF standards); and (ii) direct interventions to strengthen environmental and social governance in LAC.

VI. COMPLEMENTARY ACTIVITIES: STRENGTHENING IDB AND CLIENT CAPACITY

- 6.1 **Strengthening IDB Capacity:** The modernization process would be accompanied by a training program to raise awareness and strengthen IDB staff capacity to support executing agencies in their supervision of environmental and social issues throughout the project cycle. The training program would also ensure consistency in the application of environmental and social standards. The training program¹⁸ would be comprised of: i) a mandatory course as a general introduction to environmental and social standards for all Bank personnel, ii) a mandatory course on Access to Information Policy for all Bank personnel; and iii) a certification course available to Bank staff, which would be mandatory for project team leaders.
- 6.2 **Strengthening Client Capacity:** The IDB recognizes the importance of national systems for effective development and supports the strengthening of client capacity to manage environmental and social risks in the medium to long-term. Therefore, the modernization process would be accompanied by efforts to strengthen national E&S systems through governance-focused environmental and social operations, improve the corporate sustainability (environmental, social and corporate governance) of clients, and training activities for clients to better manage environmental and social issues at the project level, through online courses, project launch workshops, and a certification program for personnel of executing agencies to strengthen their capacity to adequately manage environmental and social risks. In order to make the change and modernization process sustainable at the client level, Management would ensure an annual allocation of dedicated technical cooperation resources to this end, in the same way it has done to support the implementation of the Bank's Strategy for Strengthening and Use of Country Systems.

VII. PROCESS AND TIMELINE

- 7.1 **Process.** The policy modernization process would be developed following the procedures for the development and approval of sector strategies, policies, sector frameworks, and guidelines (GN-2670-5). After approval of this Policy Profile, Management would prepare the proposed ESPF. Given the significance of this modernization process, Management

¹⁷ For instance, the IDB Strategy for Strengthening and Use of Country Systems would include activities related to the strengthening of environmental and social systems. In addition, the integrated natural hazard risk assessment currently part of OP-704 could be part of the Procedural Guidelines on Risk Management of Sovereign Guaranteed Projects, which are currently under revision.

¹⁸ During 2019 and 2020, this Program will be based on the current Safeguard Policies. Once the updated Environmental and Social Policy Framework is approved, the courses will incorporate the new Policy Framework with a gradual phase out of the former policies while both set of policies are operating in parallel.

would conduct internal¹⁹ and external consultation processes to allow internal and external stakeholders to provide inputs throughout the cycle of policy development, from the early stages of drafting through consideration by the Board. For the external process, Management would conduct a transparent, effective and inclusive public consultation process²⁰ with key stakeholders (see Annex III). After the public consultation process, the second draft of the proposed ESPF would be submitted for a 30-day external comment period. Internal consultations will occur during the first drafting of the Policy Framework and after receiving inputs from the external consultation. The final proposed ESPF would be considered by Management and then distributed to the Board for consideration and approval.

- 7.2 In addition to the internal review and the public consultation process, an External Advisory Panel of Experts would be established to advise on the quality and integrity of the preparation of the ESPF and its consultation process. The Panel would serve as an advisory body, would not have a decision-making role, and would provide recommendations to Bank Management on the draft versions of the ESPF before and after consultation during the ESPF preparation. This advice will inform the decision-making process by Bank Management and the Board of Executive Directors. In order to ensure a mix of diverse backgrounds and areas of expertise, the members of the Panel will be selected on the basis of the criteria presented in Annex IV, and would be requested to provide a report that summarizes the key elements of their assessment and any recommendations.
- 7.3 Management would present the draft of the ESPF for review and to receive feedback from the Board of Executive Directors (See Table 3). Management would also inform progress to the Policy and Evaluation Committee of the Board of Executive Directors as part of the quarterly progress reports on the roadmap to implement OVE's Environmental and Social Safeguards Evaluation Recommendations.
- 7.4 **Timeline.** A proposed timeline with key milestones is presented in table 3:

¹⁹ The Special Group in the Office of the Presidency will lead the internal and external communication activities associated with the modernization process, in coordination with the respective units and with the specialized advice of KIC.

²⁰ Management will obtain Board approval before any public consultation.

Table 3. Timeline of the Modernization Process

ACTIVITY	2019												2020				
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
	Policy Profile Presented to the Board	█															
1st Draft ESPF Preparation				█	█	█	█										
Management Review					█	█											
1st Draft ESPF Sent to PEC for Approval to Submit for Public Consultation					█												
Public Consultation Process		█	█	█	█	█	█	█	█	█	█						
2nd Draft ESPF Preparation										█	█	█	█				
2nd Draft sent to PEC for Review													█				
30-day External Comment Period														█			
Preparation of Final ESPF and Implementation Plan														█	█		
Management Review																	█
Final ESPF and Implementation Plan Presented to the Board																	█

VIII. INSTITUTIONAL REQUIREMENTS

- 8.1 **Management of the process.** The modernization process of the Environmental and Social Policies at the IDB requires an organized institutional effort involving all relevant units of the Bank given its corporate nature, and significance for the operations of the Bank. The core team is led by a Special Group in the Office of the Presidency, which is coordinating with the Environmental and Safeguards Unit (ESG), the Climate Change and Sustainability Development Sector (CSD), the Social Sector Department (SCL), the Institutions for Development Department (IFD), the Infrastructure and Energy Department (INE), the Integration and Trade Sector (INT), the Legal Department (LEG), the Access to Information Section (SEC/ATI), and the Knowledge, Innovation and Communication Sector (KIC). The process would also require the active participation of the Office of Risk Management (RMG) and the Office of Strategic Planning and Development Effectiveness (SPD), and other departments in the Vice Presidency for Sectors and Knowledge (VPS), the Vice Presidency for Finance and Administration (VPF) and the Vice Presidency for Countries (VPC) and Country Offices. The team would tap into the knowledge and experience of the ongoing IDB Invest process, as relevant.
- 8.2 Resources would be required to prepare the new ESPF and implement the internal and external dissemination activities, including the public consultation plan along with other related tasks. Management has committed resources to this end for 2019 and would seek budgetary resources to finance preparatory activities in 2020, and implementation activities starting in 2021.
- 8.3 The implementation of the new ESPF would include the drafting of updated guidance materials, the design and implementation of training programs for Bank staff and the

clients, and the updating of the IDB information systems, among others. A detailed implementation plan with the corresponding budget would be presented with the final version of the new ESPF.

IX. OPPORTUNITIES AND RISKS

- 9.1 **Opportunities.** The new ESPF would align the IDB with other multilateral financial institutions, facilitate co-financing activities, and position the institution at the forefront in the management of environmental and social topics that are not explicitly covered under current IDB policies. Therefore, the new ESPF would enhance management of environmental and social risks at the project level, improving the sustainability outcomes of IDB operations, and serving as a reference point to strengthen country systems and institutions.
- 9.2 **Risks.** Stakeholder participation in the modernization process will enhance the ESPF. However, given the breadth and complexity of the environmental and social themes to be covered, the process may require more time than planned. Management has prepared a consultation plan (see Annex III) that is supported by a series of communication tools that would help organize the process and provide stakeholders with all the relevant information to receive their feedback; and will also benefit from the expert opinion of the External Advisory Panel of Experts. The initial stage of this plan would be launched as soon as this Policy Profile is approved by the Board.
- 9.3 Another potential risk is the perception of weakening the thematic coverage of existing environmental and social requirements and their application to IDB lending instruments. The IDB would mitigate this risk by abiding to the *no dilution* principle, which would maintain for each IDB lending instrument -- including investment financing, policy-based lending and technical cooperation projects -- equivalent environmental and social risk management approaches to those of current IDB E&S policies. Additionally, specific and differentiated environmental and social provisions by type of instrument would be developed, where appropriate.
- 9.4 Given that there is no tangible investment footprint associated with policy-based lending and technical cooperation operations, it is necessary to set specific boundaries for which indirect environmental and social impacts may be considered. However, anticipating long-term and indirect effects attributable to a policy-based or a technical cooperation operation requires an expert judgement call and is subject to interpretation. Policy reform processes, financed through policy-based instruments, can be particularly vulnerable to this risk. Varied interpretations of attributable impacts could lead to, among others, reputational and/or legal risks for the IDB and the borrower and it may make difficult the adequate implementation of these instruments and hinder their demand. While the IDB would develop specific and differentiated provisions for these types of instruments, within or outside of the ESPF, mitigating this risk is very challenging. However, the implementation plan would contemplate training activities especially for environmental and social specialists to best assess potentially attributable indirect impacts, to the extent possible.
- 9.5 In addition, and even though the LAC normative framework is moving towards international standards, the modernization process could be viewed by some stakeholders

as interference in domestic affairs of sovereign states. The consultation process will be key in identifying and addressing these potential concerns.

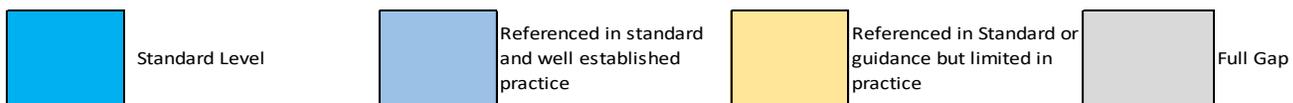
- 9.6 Furthermore, additional assessments and reporting requirements from the implementation of the new ESPF may increase costs, time and needed resources for project preparation and execution, for the Bank and its borrowers. Therefore, for the Implementation Plan, Management would conduct an analysis of costs, resources, and potential efficiency gains for the new ESPF to better dimension this risk, design associated mitigation strategies, and facilitate its efficient implementation.

X. NEXT STEPS

- 10.1 Following the approval of this Policy Profile by the Board of Executive Directors, Management would launch a public consultation process (see Annex III) and would prepare the draft of the ESPF. The initial draft ESPF would be presented to the Bank's Senior Management and its Board of Executive Directors by October 2019, and then released for public consultation (See Table 3).

ANNEX I – Benchmarking Analysis: Main Gaps²¹

Thematic Coverage Gaps				OVE Assessment of IDB	IDB (1998-2006)	IFC (2012)	WB (2016)	ADB (2009)	EBRD (2014)	EIB (2015)	CAF (2016)	AiIB (2016)	
Sector	Topic / Themes	Primary Criteria/Requirement	Subsidiary Criteria										
Environment	Biodiversity, Habitats, Forests and Living Natural Resources	Ecosystems and Ecosystem services: requirements for the management of impacts and application of mitigation hierarchy											
			Invasive alien species										
			Provisions for no net loss (biodiversity and/or habitat)										
			Provisions for net gain (loss of crit. Hab.)										
			Supply chain (crops, livestock and deforest.)										
			Specific provisions for biodiversity offsets (beyond mitigation hierarchy) with										
			Management of living natural resources										



²¹ Based on: *Benchmarking IDB Safeguards Framework with Peer Institutions*, Bill Rahill, 2019.

ANNEX II - Proposed IDB Environmental and Social Performance Standards

1. **Assessment and Management of Environmental and Social Risks and Impacts (IFC PS1)**, including identification and management of risks and impacts using the mitigation hierarchy; effective use of management systems; monitoring and reporting; organizational capacity and commitment.
2. **Labor and Working Conditions (IFC PS2)**, including working conditions and management of worker relationship (non-discrimination and equal opportunity; workers association; retrenchment; grievance mechanism); workforce protection (child labor, forced labor); occupational health and safety; workforce protection in the supply chain; community workers.
3. **Resource Efficiency and Pollution Prevention (IFC PS3)**, including energy, water and raw materials use; GHG emissions; pollution prevention (air, water and land contamination; wastes; hazardous materials management; pesticides use and management).
4. **Community Health, Safety and Security (IFC PS4)**, including infrastructure and equipment safety; exacerbation of natural disasters risk; traffic and road safety; hazardous materials safety; community exposure to disease; emergency preparedness and response; use of security personnel.
5. **Land acquisition and Involuntary Resettlement (IFC PS5)**, including resettlement and livelihood restoration planning and implementation; avoidance of forced eviction; compensation and benefits for affected persons; community engagement.
6. **Biodiversity Conservation and Sustainable Management of Living Resources (IFC PS6)**, including conservation of biodiversity and habitats; definitions and considerations for modified habitat, natural habitat, critical habitat and protected areas; invasive alien species; management of ecosystem services; sustainable management of living natural resources; biodiversity risks in supply chain.
7. **Indigenous Peoples (IFC PS7)**, including meaningful consultation and participation; circumstances requiring Free, Prior, and Informed Consent (FPIC); mitigation and development benefits.
8. **Cultural Heritage (IFC PS8)**, including protection of cultural heritage in project design and execution; provisions for specific types of cultural heritage; project's use of cultural heritage.

Complementary standards:

9. **Gender**, including risks of gender-based exclusion, gender-based violence, and sexual exploitation.
10. **Stakeholders Engagement and Information Disclosure**, including engagement and information sharing during project preparation and execution; meaningful consultation; external reporting; project level grievance redress mechanisms.

ANNEX III - Public Consultation Plan

The main objective of the public consultations is to notify all interested stakeholders of the proposed ESPF process and receive their feedback as inputs in the process. The consultation process will be guided by the principle of transparency with the goal of designing a highly effective and quality ESPF.

Public consultations will allow stakeholders to provide inputs throughout the cycle of policy development, from the early stages of drafting through consideration by the Board. The consultation process is designed to facilitate meaningful engagement with all stakeholders. It will include the following main steps: (a) pre-consultation, (b) analysis of key stakeholders, (c) public notification of the ESPF process within 5-10 days from approval of the Policy Profile, (c) forum for electronic comments and in person consultations, (d) response to stakeholders, and (e) a 30-day period to review the revised ESPF. An initial engagement phase has already been initiated as part of this process, which has included meetings with key interested parties including the United Nations High Commissioner on Human Rights, Indian Law Resource Center, and representatives from the Bank Information Center. Proposed actions during each step are listed below.

Analysis of Stakeholders. A stakeholder analysis has been initiated to inform the distribution channels and key partners for the public consultation process. Analysis at the regional level will be conducted to identify the relevant categories of interested stakeholders. The relevant stakeholder categories for the consultation process will include the following: (i) government officials and implementing agencies in LAC Region; (ii) local government agencies; (iii) government policymakers; (iv) civil society (local and international NGOs, community-based organizations, media, and communities currently or potentially impacted by IDB operations, etc.); (v) indigenous peoples governments, collective governance mechanisms, networks, and traditional leaders (IPGCNT); (vi) academia and research organizations; (vii) financing institutions; and (viii) the public at large.

The level of organized stakeholder engagement is high in Latin America and the Caribbean. There are dedicated institutions for monitoring environmental and social safeguards in the region that have gained significant experience through recent policy revisions. Institutions will be engaged at the initial stakeholder analysis in order to provide insights, and access to their dedicated networks.

Notification. Once this Policy Profile is approved by the Board, the IDB will widely announce its intention to revise and update the IDB E&S policies, using a dedicated website: www.iadb.org/mpas, country offices, networks identified through the stakeholder analysis, key civil society networks, and local media in member countries.

- The dedicated website will allow individuals to sign up for updates on the process and will provide guidance and information on notification timelines and on specific ways to provide feedback and participate. This website will be widely disseminated to a broad range of stakeholders, allowing them to view and download all relevant material, provide comments, and monitor the consultation process in real-time. Visitors to the site will also be able to sign up for notifications when significant updates are posted on the site.
- The IDB will post the following on the dedicated website: (a) the approved Policy Profile, (b) the different iterations of the draft Environmental and Social Policy Framework as available throughout the update process (in English, Spanish, Portuguese, French and other local languages as needed), (b) other resources to facilitate the consultations, and

(c) details of the timeline of the review process. The IDB will post the documentation on its dedicated website at least 30 days prior to each consultation session.

Management of Electronic Comments and In-person sessions and consultations. The IDB will use a combination of digital web-based consultations, live consultations, and other relevant communications tools available in the region to reach the widest possible audience.

- **Web-based consultations.** To ensure the broadest participation, the primary vehicle for regional, national and subnational stakeholder inputs will be a web-based platform through which any individuals or organizations with reasonable Internet access can participate in the consultations. This platform will be optimized to enable access via cell phone to encourage the active participation of rural and traditional peoples. Electronic comments will be submitted via the website or by e-mail. During the initial drafting stage (after approval of the Policy Profile), a structured questionnaire would be made available for 45 days to gather views on lessons learned on specific issues subject to be considered in the new ESPF.
- **In-person consultations.**
 - **Initial stage.** After this Policy Profile is approved by the Board, during the initial, drafting stage, two in-person workshop-style sessions will be held in Washington DC to discuss lessons learned from the implementation of the current E&S policies. Representatives of communities that have been impacted by IDB projects (both positively, as well as negatively), members of IDB staff familiar with these operations, and representatives from MICI will be invited to participate. The sessions will be led by an experienced facilitator with the goal of creating a brief summary document with key lessons learned for distribution.
 - **Consultative meetings on the ESPF Draft.** After the first draft of the new ESPF is approved by the Board for consultation and posted on the dedicated website, at least four consultative meetings will be held in the four country departments of the Bank (one for each department: “*Andean*”, “*Caribbean*”, “*Southern Cone*”, and the “*Central America, Haiti, Mexico, Panama and the Dominican Republic*” Departments). Based on the outcomes of the stakeholders’ analysis, a range of stakeholders’ government authorities, civil society organizations, business, academia, individuals, and media will be invited to participate in these meetings. Designated meetings with indigenous peoples and their representatives will be held as part of the in-person consultations in the region. Additional meetings with stakeholders will be organized at IDB Headquarters and the IDB Offices in Europe and Asia. In addition, a series of videoconferences will be prepared to bring together various stakeholder groups within and across the subregions. The IDB will post session summaries for all in-person consultations.

Feedback to Stakeholders. At the end of the consultation period, the IDB will prepare and make publicly available a Response to Comments Document, consolidating the comments received and indicating Management’s views and proposals for how to address the key issues raised. The IDB will send electronic notices to all participants who provided comments via the web or through e-mail, informing them that the Response to Comments Document has been posted.

30-day External Comment Period. Following the public consultations, Management will revise the ESPF document and translate it into the respective IDB international languages, along with

additional indigenous languages identified through the consultation period. The revised ESPF document will be posted on the external website for a period of 30 days to give stakeholders an opportunity to assess how their inputs were considered. At the end of this period, the IDB will prepare the final version of the ESPF, taking into account the comments received, and a Response to Comments Document, consolidating the comments and IDB responses. Once the 30-day external comment period has ended and stakeholder comments have been addressed, both documents will be disclosed on the IDB website at the time of their distribution to the Policy and Evaluation Committee of the IDB Board, for final consideration.

Overall, the consultation period, including in-country meetings, will initiate after the approval of the Policy Profile by the Board and it will end with the virtual 30-day consultation.

Communication Tools. The consultations will use a suite of communication tools: (a) to make the draft ESPF and other resource material available to as many stakeholders as possible, (b) to enable Country Representatives and other Bank staff in country offices to lead in-country consultations in a coherent and cost-effective manner, and (c) to ensure that the feedback from consultations is reported as accurately and uniformly as possible.

Specific tools and resources to clarify expectations will include the following:

- A global (focused on LAC Countries) consultation website promoted on the IDB homepage and through relevant social networks.
- A PowerPoint presentation of the guiding principles and key elements of the proposed policy with discussion questions for the website.
- An “easy read” summary of the Draft ESPF posted on the website (in Spanish, English, Portuguese, French and other languages as needed).
- An electronic feedback form that would be posted on the web to solicit electronic comments.
- A “Questions and Answers” guide to the Draft ESPF document.

ANNEX IV - External Advisory Panel of Experts

Overview of Key Aspects

The External Advisory Panel of Experts would advise on the quality and integrity of the Environmental and Social Policy Framework (ESPF) during its preparation and consultation process.

The External Advisory Panel of Experts would be expected to meet twice during the ESPF preparation process to exchange views and provide advice on the draft versions of the ESPF before and after consultations. This advice will inform the decision-making process by Bank Management and the Board of Executive Directors.

In order to ensure a mix of diverse backgrounds and areas of expertise, the members of the Panel will be selected based on the basis of the following criteria:

- **Regional or internationally recognized expertise** on issues related to the management of environmental and social risks and impacts of projects.
- **Diversity of expertise/knowledge of emerging issues** that are not in the current policies - for example, community health and safety, disability- and other key issues pertaining to environmental and social themes within the region: indigenous peoples, gender, and biodiversity, among others.
- **Independence, impartiality, and political integrity.**
- **Diversity** in gender, field of work (academia, civil society organizations, etc.), ethnicity, nationality, and education, among others.
- **Regional coverage** of IDB member countries.

The External Advisory Panel of Experts would be requested to provide a report that summarizes the key elements of their assessment and any recommendations.