IDB-9 Civil Society Issue Brief 2 – IDB & Sustainability: Climate-Energy-Forests
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Despite some advances in mainstreaming environmental and social sustainability, its comparative advantage as a "green" bank in Latin America remains to be seen. The IDB's capacity to provide high quality advisory services on the key challenges to sustainability has been hampered by institutional design, resource and leadership commitments. Recent initiatives on climate and sustainable energy have been at the margins of is core business, while poorly planned infrastructure and extractive sector investments have exacerbated land use contributions to GHG emissions.

A new IDB Environmental policy went into effect (2006) and a Bank reorganization created and strengthened the Environment and Safeguard Unit (ESG) as well as a Rural Development, Natural Disasters and Environment Division. A Blue Ribbon Panel (BRP) on the Environment was reconvened in 2007 to advise IDB Management on sustainability issues in the Bank reorganization.[2] The BRP laid out three broad recommendations to the Bank Management to make sustainability a viable outcome of the realignment: 1) to move from "do no harm" approach to "doing good"; 2) correct the sustainability functions within the Bank organization; and 3) provide adequate human and financial resources to sustainability functions. In doing so, the BRP urged the Bank to acquire the talent and allocate the financial resources to move beyond mitigation of environmental risk toward mainstreaming the provision of quality advisory, convening and resource mobilization skills in regional planning processes oriented toward sustainability challenges.

The effectiveness of IDB Environmental policy implementation remains unclear. The Office of Evaluation and Oversight (OVE) found that nearly all recent Bank operations score poorly on whether environmental costs and benefits had been included in the economic analysis. Environmental technical cooperation and sector analysis is weak and unevaluated, tending to be scattered and occurring downstream in the planning process. OVE concludes that this focus on producing short-term outputs (studies) rather than long-term outcomes suggests that the IDB lacks a concept of long-term strategic partnership with key executive agencies that undermines institution building.[3] As evidenced by IDB's 2007 Sustainability Review, the institution has not yet defined what "sustainability" means, and seems to lack a comprehensive strategy that effectively integrates environment into its operations. Environment remains on the margins.

Between 2000 and 2007, 83% of IDB's energy portfolio ignored climate change (WRI 2008). The IDB can do more to help member countries address climate change through its interventions in GHG intensive sectors such as energy, transport, forestry and agriculture. Over the past five years, there has been little evidence that IDB emphasized opportunities to mitigate emissions through its activities. Likewise, opportunities have been missed to consider the impacts of climate change on investments in low carbon, large-scale infrastructure, such as hydropower. IDB's attention to climate change issues has been weak in comparison to efforts made by its MDB counterparts such as the World Bank Group and the Asian Development Bank.[4]

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[1] Oxfam America and World Resources Institute also contributed to this proposal.
[2] IDB Blue Ribbon Panel on the Environment, http://www.iadb.org/sds/env/site_6428_e.htm
[3] IDB-OVE (Sept 2008) "The Evaluation of the New Lending Framework, 2005-2008," (RE-342-1), pgh 4.20, pg. 88 and pghs 4.83-4.84, pgs. 100.
[4] World Resources Institute (2009 forthcoming) "Correcting the World's Greatest Market Failure: Mainstreaming Climate Change at the Multilateral Development Banks. www.wri.org; BID en la Mira (Marzo 2009) Quedando Atrás: El BID y Energia Renovable. http://www.bicusa.org/en/Article.11083.aspx

While transforming the Sustainable Energy and Climate Change Initiative (SECCI) into a Bank division is a positive step toward a necessary goal, these efforts lack a strategic approach and are dwarfed by increased fossil fuel lending. The stated objective of the SECCI is to help mainstream climate change considerations into the IDB's overarching operations; however, climate relevant actions at IDB remain one-off exercises. The Bali Action Plan explicitly notes the importance of the MDBs in supporting both mitigation of climate change and adaptation to the impacts of climate change "in a coherent and integrated manner".

Although the IDB does not consistently track and disclose aggregate figures on fossil fuel lending, an independent review of IDB energy sector lending since SECCI was launched reveals how little has been achieved in changing the Bank's own carbon footprint in the sector.[5] Of the total $3 billion in approved financing for loans and technical cooperation for energy projects since 2006, only $418 million (14%) qualifies as support for renewable energy generation and 25% was for non-renewable energy. Most IDB energy projects funded the interconnection of regional electricity grids, power sector reform programs, and rural electrification – all with no clear renewable component. The other clear trend is the tremendous increase in proposed new energy sector lending in 2009 and the disproportionate bias in favor of non-renewable lending.

Fossil fuel operations continue to dominate IDB energy lending. Of the nearly $3.2 billion in energy sector lending under preparation at the IDB, less than 10% is clearly allocated for the promotion of renewable energy generation. Nearly half of all future IDB lending is financing non-renewable energy projects. Another $1.5 billion in proposed energy finance has no clear renewable support component. Since launching SECCI in 2007, the IDB has approved or is preparing loans totaling some $3.0 billion in fossil fuel based energy investments.[6]

While fossil fuel projects can be highly profitable for companies and international financial institutions, they have limited benefits for the poor.[7] If the IDB decides to continue funding these projects, measures need to be taken to ensure that they contribute to poverty reduction. Increased transparency of payments from companies to host governments would contribute to this goal, although the IDB has resisted this commitment.

With IIRSA, the IDB has sustainability sign posts pointing in opposite directions. Land use change constitutes 46% of GHG emissions in Latin America and the Caribbean.[8] However, by supporting IIRSA, both as a financial sponsor and a key provider of technical and administrative cooperation, the IDB is accelerating the causes of Amazon destruction without remedy. Since 2000, the IDB has participated as the lead institution in the Technical Coordination Commission of IIRSA and has invested over $10 million in facilitating the IIRSA decision making process. The economic results have been disappointing in terms of improved South American integration and competitiveness (as noted in a recent OVE evaluation).[9] Most alarming, however, is the massive harm to forests and communities caused by IIRSA's promotion of transcontinental highways and the damming of pristine waterways. Lacking

[5] BID en la Mira (March 2009) "Quedando Atrás" and "Sin una estrategia, el BID está en el margen de las discusiones del clima," http://www.bicusa.org/en/Article.11083.aspx
[6] Estimates by Bank Information Center based on available information from IDB Website, see "Quedando Atrás" in BID en la Mira (March 2009) http://www.bicusa.org/en/Article.11083.aspx
[7] Michael Ross (October 2001), "Extractive Sectors and the Poor", Oxfam America
[8] Augusto de la Torre, Pablo Fajnzylber, John Nash (2009) Low Carbon, High Growth: Latin American Responses to Climate Change. Washington DC: The World Bank
[9] IDB Office of Evaluation and Supervision (April 2008) Evaluacion of IDB Action in IIRSA.

adequate planning for cumulative, long –term impacts, these highways and dams are already triggering intensified land invasions, unsustainable land uses, steady biodiversity loss, conflict and deforestation.[10]

With the added push for infrastructure in the economic stimulus packages across Latin America, many IIRSA transport corridors lack even minimal planning for indirect or cumulative impacts and will devastate fragile ecosystems and expedite the collapse of the Amazon basin.[11] The IDB lacks adequate sustainability criteria for ranking IIRSA infrastructure projects and is therefore contributing to these risks. A minimal provision of environmental technical cooperation in IIRSA (0.5% of the IDB overall stake in the initiative) was grossly insufficient.[12] The Bank is providing almost no relevant sector analysis or capacity building to key institutions at the forefront of Amazon development policy.

To this end, we recommend that the IDB:

Comply with the mandate to fully review the Environmental and Safeguards Compliance Policy in 2009, as stipulated in the initiating Resolution. It is important to not move forward with GCI without a prior review of the how the Bank has implemented its Environment Strategy and Environment policy to determine how to improve implementation. Following similar steps by the World Bank, the review should focus on whether the Strategy and Policy and resources provided to it are adequate to ensure the Bank can deal with the key issues facing the region (biodiversity loss, climate change, and environmental governance). A thorough policy review that emphasizes evidence based impacts and includes public consultation would require six – nine months to complete.

Incorporate more effective guidelines for measuring and managing cumulative impacts within Environmental and Safeguards Compliance Policy. The IDB has funded numerous country environmental assessments (CEA) and strategic environmental assessments (SEA) with varying degrees of success.[13] Based on an evaluation of these environmental planning tools, the Bank should specify new rules for CEAs and SEAs that clarify the trigger, scope, objectives, as well as participatory and accountability mechanisms. The Bank should expand the use of CEA and SEA planning instruments, particularly as criteria for determining additionality in IIRSA and extractives initiatives.

Develop a comprehensive climate strategy with firm indicators and targets to mainstream climate change into its overarching operations. The IDB climate change strategy should outline each Department's response to climate change in terms of responsibilities and commitments to specific actions. The strategy should help client countries develop low carbon, climate resilient economies. It should catalyze long-term cooperative action and lead to transformative changes in the region's energy and infrastructure sectors. It should therefore be developed through **consultation with a range of stakeholders within member countries** so it can appropriately reflect their needs and establish transparent mechanisms to systematically monitor the progress in the implementation of such commitments at a national level. **Currently, no such consultation plan is contemplated.**

We recommend that the strategy include the following components:

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[10] Kileen, T. J. 2007. A perfect storm in the Amazon wilderness: development and conservation in the context of the initiative for the integration of the regional infrastructure of South America (IIRSA). Conservation International, Arlington, Virginia, USA.
[11] Bruce Babbitt and Thomas Lovejoy – members of the IDB Blue Ribbon Panel on the Environment (March 6, 2009) "O paradoxo da Amazonia," Folha de Sao Paolo
[12] IDB OVE (Abril 2008) "Evaluation of IDB Action in IIRSA," (RE-338) pgs.iii and pghs 2.7 – 2.8, pg. 10, pg. 20.
[13] BICECA Bulletin (June 2009) Understanding Strategic Environmental Assessments, http://www.bicusa.org/en/Article.11262.aspx

- **Robust targets.** IDB has the capacity to **set and achieve a target of 100% financing for clean energy by 2012** while phasing out support for fossil fuel extraction and infrastructure, and meet or go beyond the World Bank's target to increase financing for energy efficiency and renewable energy by 30% in fiscal years 2009 – 2011**.**[14] All projects and programs must meet the highest environmental and social standards.

- **Set specific strategies to reduce GHG emissions from land use change and push for client adoption**. **The strategy should include specific targets and actions to address emissions from land use change**, and coherence with IDB strategies for the agriculture and transport sectors, which facilitate land use conversion.

- **GHG management.** The strategy should include **a program to disclose, measure and manage the greenhouse gas (GHG) emissions associated with its entire portfolio using rigorous and transparent accounting methodologies.** All class A and B risk or otherwise relevant operations should incorporate a standard GHG and biodiversity assessment procedure as a routine part of loan preparation. VPP and VPS should undertake a cost benefit analysis of impacts on climate change for each operation with climate change impacts. SCF should have climate change mitigation in each of its energy projects. ESG should include climate change impacts and vulnerabilities in its due diligence and environmental analysis. **Net IDB GHG emissions should be measured and reported as a priority corporate performance indicator.**

- **Institutional Strengthening:** The Bank should also support member countries to develop and implement national level initiatives to build the capacity of government and private sector actors to measure and manage GHG emissions. Effective institutional support will require focused, long-term instruments that offer greater non-reimbursable resources.

- **Climate-relevant country strategies.** Vice President of Countries (VPC) should be responsible for developing climate change elements in every country strategy. The Bank's climate strategy should include **support to IDB members to identify and address climate risks within country strategies, and build member capacities to implement low carbon action plans**. To this end, the IDB must shift the focus from projects to policy/regulatory barriers and from finance intermediation to knowledge transfer. The IDB should put in place robust internal processes and incentive mechanisms that will help align its investments with low carbon, environmentally sustainable development choices. These should be designed to help IDB evaluate and manage the mitigation and adaptation contributions of its sector policy support. For example, such processes and mechanisms would guide IDB action to ensure that support to the agriculture sector does not drive deforestation and related emissions.

- **Adaptation and climate resilient support.** The strategy should include **support for adaptation and climate resilient strategies and initiatives** in client countries, and mandate the integration of adaptation into country assistance and poverty reduction strategies.

- **Forest governance support.** The strategy should **support member countries to improve the governance of their forests so that they can effectively, equitably, and sustainably address the drivers of deforestation and degradation and reduce related greenhouse gas emissions.** The IDB can support programs to increase the security of land and resource tenure, to develop credible land use plans, to improve practices to manage revenues from forest resources, and create coherent economic incentives that reflect the value of forest ecosystems. In this context, it

[14] WRI - WBCSD Greenhouse Gas Protocol. www.ghgprotocol.org .

is essential to improve the transparency, participation, accountability, capacity, and coordination of processes by which decisions about forests are made, and build the capacity of both government and civil society to practice better governance. To this purpose we would recommend that IDB review and amend its Sectoral Operational Policy on Forestry Development and link objectives and implementation to this climate change strategy.

- **Endorse the Extractive Industries Transparency Initiative (EITI)** and adopt a policy which requires its oil, gas, and mining company clients to disclose all of their payments to host governments (including but not limited to royalties, dividends, taxes, and signature bonuses) on a disaggregated basis. The International Finance Corporation of the World Bank implemented a policy of this nature in 2007, and posts this information online annually. Increased revenue transparency will contribute to improved governance in the region and help to ensure that the citizens that bear the brunt of the social and environmental impacts of resource extraction will also benefit from the wealth generated through these activities.

- **Suspend participation in IIRSA:** The IDB mandate to participate in IIRSA expires in 2010. IIRSA is irreconcilable with a number of the Bank's stated principles of participation and sustainability and presumably with performance indicators contemplated in the new institutional strategy.[15] As currently designed, IIRSA contradicts and stated intention of the Bank to offer leadership on climate and forest policy in the Amazon region with its new institutional strategy. IDB participation in IIRSA should be suspended and reviewed until the scientific and policy critiques of the initiative can be resolved and adequate sectoral analysis is completed.

- **Coherent public and private sector approaches**. The strategy should ensure coherence between IDB's public and private sector activities as the bank scales up investment. This would require close cooperation between the IDB's public and private sector arms to harmonize goals and objectives, maximize efficiency and prevent the risk of interventions that may undermine the climate change strategy.

Continue to build the necessary internal capacity. Comparative benchmarks at peer institutions translate into roughly **150 environmental and social professionals at the IDB** (for operational, safeguard, and all other work), which includes at least **doubling ESG staff** and the population of ESG staff in all the regional offices as an urgent priority to accommodate adequate mainstreaming of environmental priorities and safeguard policy implementation under current lending conditions. Proportionate increases should be envisioned beyond this minimal threshold for any GCI.[16]

Establish SECCI as a Division with a clear mandate and dedicated resources and responsibilities for Developing and complement the implementation of a comprehensive climate change strategy. The SECCI institutional plan should avoid concentrating responsibility for climate activities in one unit or division of the Bank, but instead emphasize the model used by the World Bank to ensure that climate

[15] Medellin Resolution AG-6/09

[16] Consider that the ADB employs 50 FTE staff (twice as many as the IDB) for a lower 2008 lending volume of $8 billion. As another benchmark, the World Bank Group's financing commitments were approximately $33.1 billion in 2006 ($23.6 billion IBRD/IDA, $6.7 billion for IFC's own account, $1.6 billion syndicated loans, and $1.3 billion structured finance transactions), and the World Bank Group has about 514 environmental and social professionals (226 environmental, 148 social development, about 40 in quality assurance and compliance, and about 100 at IFC). The IDB approved $11 billion in loans and guarantees in 2008, which would translate into about 150 environmental and social specialists at the IDB distributed among the core quality assurance and safeguards unit, SECCI and the relevant environment divisions of INE and the Country Offices.

change considerations are mainstreamed into the IDB's overarching operations. A clear division of labor should differentiate the responsibilities of SECCI from other INE sectors, SCF and ESG. To actually accomplish a shift in priorities, the IDB should internalize climate change priorities across the Bank to ensure that each relevant department and division within is charged with climate change response and responsibilities and accountable for results. The SECCI institutional plan should include public consultation along with the Bank's proposed climate strategy.

Improve and expand analytical capacity on key sustainability issues: This includes relevant environmental sector analysis (i.e. regional energy needs, forest sector governance, SEA legislation, land use GHG emission trends, rationale for institutional targets in energy, water, GHG, land use). IDB effort and achievement should be more systematically monitored through the development of a system for tracking and reporting on environmental capacity building loans and other sustainability investments. Improve environmental economic and sector work and make annual sustainability reports more rigorous, comprehensive and evaluative (rather than descriptive and selective).

Create a Clean Energy Facility: The IDB should create a fund to **off-set the additional costs of clean energy for the region's poorest countries** and to facilitate compliance with a Bank climate strategy that prohibits inappropriate energy technology.

Amazon Watch (United States)
Bank Information Center (United States)
Both ENDS (The Netherlands)
Center for International Environmental Law (CIEL, United States)
Centro de Derechos Humanos y Medio Ambiente (CEDHA, Argentina)
Environmental Defense Fund (United States)
M'Bigua Ciudadanía y Justicia Ambiental (Argentina)
Instituto Latinoamericano de Servicios Legales Alternativos (ILSA, Colombia)