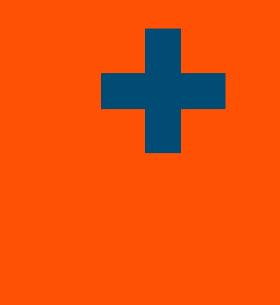


Physical Climate and Natural Disaster Risk Assessment of IDB Invest projects: Building climate resilience in Latin America and the Caribbean



Latin America and the Caribbean is one of the world regions most severely impacted by the effects of natural disasters and climate change. The threats posed by climate change, especially to vulnerable populations, have created an urgent need to build resilience across the region, to minimize the harmful consequences for our ecosystem services and thereby minimize socio-economic risks. That is why we have mainstreamed physical climate and natural disaster risk assessments (PCRA) for all projects, in accordance with the IDB Invest Environmental and Social Sustainability Policy¹.





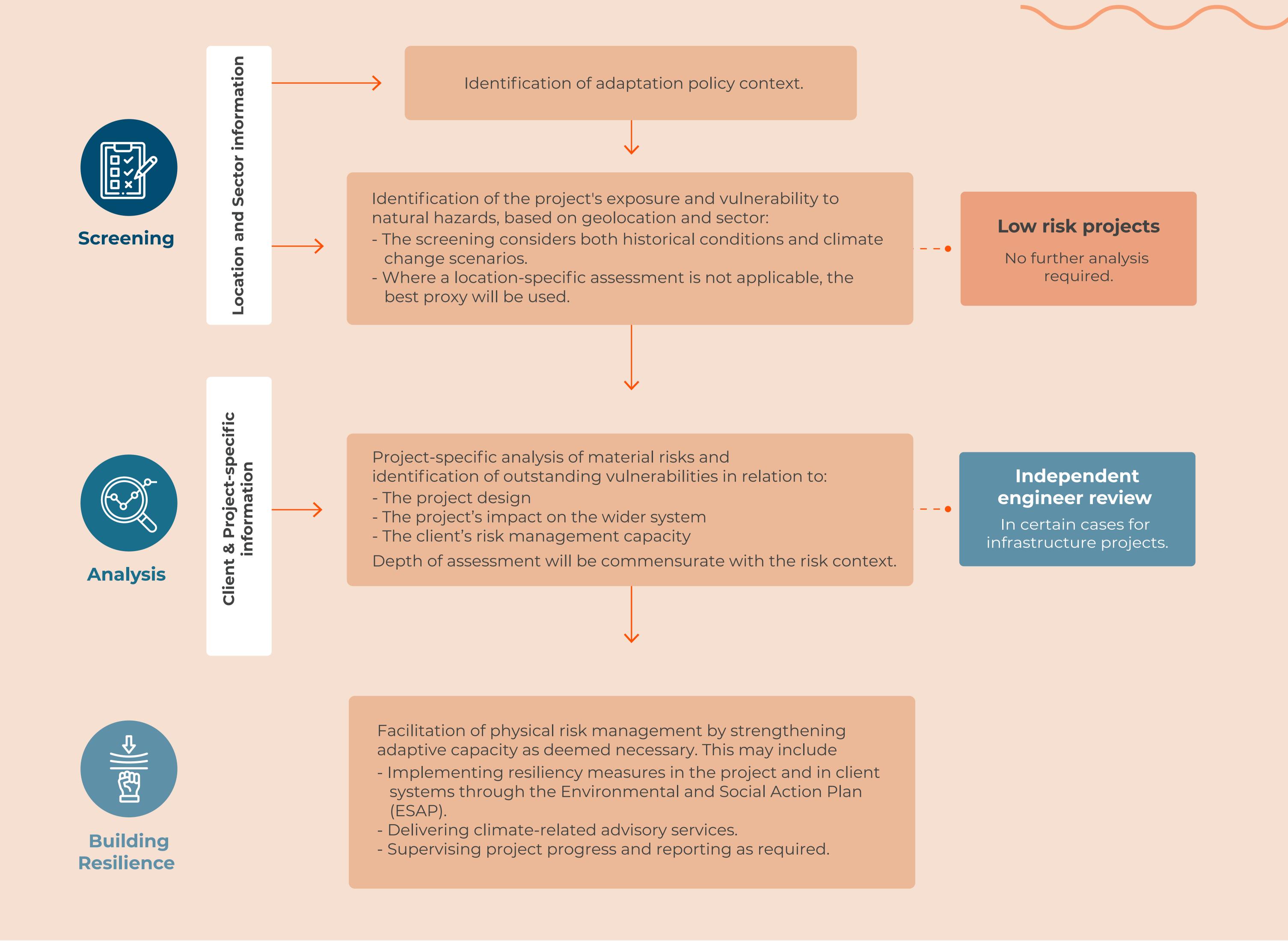
As the private sector arm of the IDB Group, IDB Invest supports clients to reduce vulnerabilities, increase the resilience of human and natural systems at large, and realize a multitude of other socio-economic and environmental co-benefits². To do so, early incorporation of resiliency measures into our projects is key – and more effective than risking higher recovery costs in the future.



CLIMATE CHANGE – AN UNDERLYING RISK DRIVER

According to the Intergovernmental Panel on Climate Change (IPCC), "in the context of climate change, risks can arise from potential impacts of climate change as well as human responses to climate change. Relevant adverse consequences include those on lives, livelihoods, health and wellbeing, economic, social and cultural assets and investments, infrastructure, services (including ecosystem services), ecosystems and species"³.

How the risk assessment process works:



The PCRA is designed to assess the resilience of projects to natural disasters and climate change, in line with the adaptation goals of the Paris Agreement. The assessment covers the project design, its impact on the wider system, and the capacity of the client to cope with a hazardous event, trend, or disturbance⁴.

IDB Invest supports clients to enhance project resilience, informed by and commensurate with the risk context.

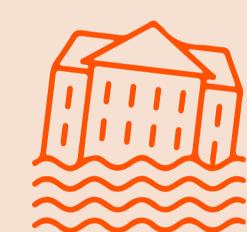
What kind of physical climate and natural hazards are being screened for through the PCRA process?



The PCRA process aims to enhance project resiliece and community safety in relation to both climate-related hazards (acute and chronic) as well as geophysical natural hazards.

The PCRA assesses climate-related hazard levels according to IPCC climate scenarios⁵, utilizing Geographic Information System technology for location-based exposure, and considering sector sensitivity. Recognizing the inherent uncertainty in risk assessment, especially concerning longer-term hydrometeorological scenarios and models, we combine historical data with multiple scenarios to comprehend potential hazard exposure across diverse future possibilities. If potentially material risks are identified in the screening process, a deeper analysis of those risks is conducted.





Flood



Drought

Sea level rise

How does IDB Invest support and incentivize its clients?

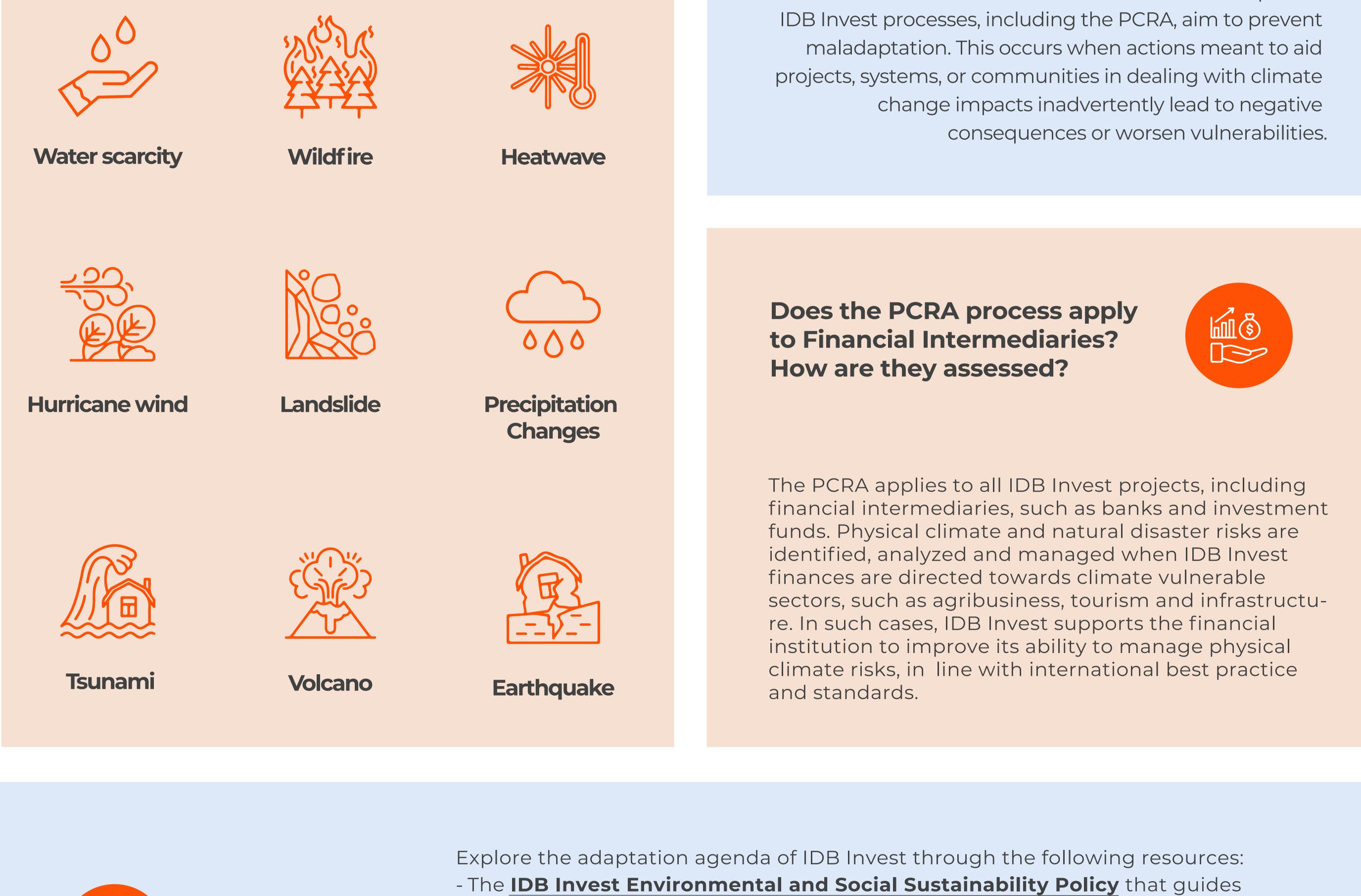


IDB Invest supports its clients in building sustainability and resilience through ESAPs as well as financial and non-financial product offerings. Client support may relate to the project design and its resilience to natural hazards, or to the client's capacity to assess and manage climate-related risks and shocks. IDB Invest has also created applied-knowledge products on adaptation.



How does the PCRA relate to the adaptation goals of the Paris Agreement?

The Paris Agreement established the Global Goal on Adaptation⁶ to enhance adaptive capacity, strengthen resilience, and reduce vulnerability to climate change. Responding to the need to align financial flows with pledges of the Paris Agreement, the Multilateral Development Banks (MDBs) have developed joint principles for assessing Paris alignment⁷. The PCRA operationalizes these principles as well as the Paris alignment commitment of IDB Invest as it relates to making finance flows consistent with a pathway towards climate-resilient development.



Curious to know more? The IDB Invest Environmental and Social Sustainability Policy that guides our work.
Our commitment to Paris alignment through the IDB Group Paris Alignment

Implementation Approach; and the business case for investing in adaptation in the IDB Invest position paper "Scaling Adaptation Finance in the Private Sector".

 Climate Change 2022: Impacts, Adaptation and Vulnerability. Working Group II Contribution to the IPCC Sixth Assessment Report

4. Definition provided by 'IPCC Special Report on the impacts of global warming of 1.5°C' (2018)

2. IDB Group Climate Change Action Plan 2021-2025. (2021)

5. Climate Change 2022: Impacts, Adaptation and Vulnerability. Working Group II Contribution to the IPCC Sixth Assessment Report (2022)

7. Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment (June 2023) **3.** Climate Change 2022: Impacts, Adaptation and Vulnerability. Working Group II Contribution to the IPCC Sixth Assessment Report (2022)

6. Paris Agreement to the United Nations Framework Convention on Climate Change, Dec. 12, 2015. Article 7.1

