

IMPLEMENTATION MANUAL

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY POLICY



This Implementation Manual is based on the IDB Invest Environmental and Social Sustainability Policy, effective as of December 15, 2020. The Sustainability Policy is supported by a broader set of policies and standards, which together form the Sustainability Framework used by IDB Invest and its clients. This manual was prepared by Reidar Kvam under the leadership of Angela Miller, Head of the Policy area in the Social, Environmental and Governance Division (SEG) and Luiz Gabriel Todt Azevedo, SEG Division Chief of the IDB Invest RSM/SEG department. IDB Invest thanks Dr. Kvam for his dedication and for lending his rich international development experience to the preparation of the Manual. IDB Invest would also like to express its gratitude to its clients and to the many stakeholders that provided comments and offered suggestions to the preparation of this Manual.

Photos are courtesy of Reidar Kvam.

ABBREVIATIONS

Term	Description
CO ₂	Carbon Dioxide
COVID-19	Coronavirus disease 2019
CSO	Civil Society Organization
DEA	Development Effectiveness Analytics Platform
DELTA	Development Effectiveness Learning, Tracking and Assessment Tool
DVF	Development Effectiveness Division of IDB Invest
E&S	Environmental and social
EHS Guidelines	World Bank Group Environmental, Health and Safety Guidelines
EITI	Extractive Industries Transparency Initiative
ESA	Environmental and Social Assessment
ESAP	Environmental and Social Action Plan
ESCR	Environmental and Social Compliance Report
ESG	Environment, Social and Governance
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary
FCR	Financial Contribution Rating
FI	Financial Intermediary
FPIC	Free, Prior, and Informed Consent (applicable to Indigenous Peoples in certain circumstances)
GBV	Gender-based violence
GHG	Greenhouse gases
GIIP	Good International Industry Practice
GN	Guidance Note
GRI	Global Reporting Initiative
ICMM	International Council on Mining and Metals
IDB	Inter-American Development Bank
IDB Invest	The private sector arm of the IDB Group
IE	Impact Evaluations
IFC	International Finance Corporation, the private sector part of the World Bank Group
ILO	International Labor Organization
IT	Information technology
MFI	Multilateral Finance Institution
MGM	IDB Invest Management-led Grievance Mechanism
MICI	Independent Consultation and Investigation Mechanism

NFP	Non-Financial Products, Advisory Services and Blended Finance at IDB Invest
OHS	Occupational Health and Safety
PPE	Personal Protective Equipment
PRCA	Proposed Response Course of Action, issued by the MGM
PS	Performance Standard
SEG	Environmental, Social and Corporate Governance Division
TCFD	Task Force on Climate-related Financial Disclosures
UNDRIP	United Nations Declaration on the Rights of Indigenous Peoples
XSR	Expanded Supervision Report

TABLE OF CONTENTS

ABBREVIATIONS	3
EXECUTIVE SUMMARY	8
PART I: IDB INVEST COMMITMENT TO SUSTAINABILITY	12
1. INTRODUCTION AND OVERVIEW	12
2. SUSTAINABILITY RISK MANAGEMENT AND VALUE PROPOSITION	16
3. ROLES AND RESPONSIBILITIES	19
4. ENVIRONMENTAL AND SOCIAL POLICIES AND STANDARDS	21
4.1. Environmental and Social Sustainability Policy (2020)	24
4.2. Access to Information Policy (2019)	25
4.3. IFC Performance Standards (2012)	26
4.4. World Bank Group Environmental, Health, and Safety Guidelines	28
4.5. Compliance with Host Country Laws and Regulations	29
4.6. Consistency with International Frameworks and Good Practice	30
5. IDB INVEST SUPPORT TO THE PRIVATE SECTOR	32
5.1. Financial Solutions	32
5.2. Non-Financial Solutions	34
PART II: KEY ENVIRONMENTAL AND SOCIAL ISSUES	36
1. RISK FACTORS	36
2. VULNERABLE AND DISADVANTAGED GROUPS	40
2.1. Gender	43
2.2. Indigenous Peoples	46
2.3. Afro-Descendants and Other Minorities	50
2.4. Persons with Disabilities	52
3. HUMAN RIGHTS	55
4. STAKEHOLDER ENGAGEMENT	58
4.1. Stakeholder Identification and Analysis	60
4.2. Stakeholder Engagement Planning	64
4.3. Access to Information	67
4.4. Meaningful Stakeholder Engagement	69

4.5. Addressing Concerns and Grievances	70
4.6. Protection against Violence and Reprisals	70
4.7. Situations of Restrictions on Public Gatherings	72
5. LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT	73
6. LABOR AND WORKING CONDITIONS	77
6.1. Objectives and workers' rights	77
6.2. Types of Workers	78
6.3. Non-Discrimination	79
6.4. Labor Influx	80
6.5. Gender-Based Violence and Harassment	81
6.6. Freedom of Association	81
6.7. Grievance Mechanism	81
6.8. Child Labor	82
6.9. Forced Labor and Human Trafficking	83
6.10. Employment, Demobilization and Retrenchment	84
7. HEALTH AND SAFETY	85
7.1. Workers' Health and Safety	85
7.2. Community Health and Safety	87
7.3. Use of Security Forces	89
8. CULTURAL HERITAGE	91
9. BIODIVERSITY AND NATURAL RESOURCES	94
10. NATURAL DISASTERS	98
11. CLIMATE CHANGE	99
12. RESOURCE EFFICIENCY AND POLLUTION PREVENTION	101
PART III: POLICY DELIVERY AND ACCOUNTABILITY	104
1. ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM	104
2. PROPORTIONALITY AND FLEXIBILITY	105
3. CLIENT MANAGEMENT SYSTEM	109
3.1. The Project Cycle	109
3.2. Environmental and Social Assessment	111

3.3. Risk Mitigation Hierarchy	115
3.4. Responsibilities in Relation to Different Risk Categories	116
3.5. The Client's Environmental and Social Management System	119
3.6. Consultants and External Experts	121
3.7. Contractor and Subcontractor Management	122
3.8. Supply Chain Management	125
3.9. Financial Intermediaries	127
3.10. Monitoring, Reporting and Adaptive Management	130
3.11. Emergency Preparedness and Response	133
4. IDB INVEST MANAGEMENT SYSTEM	135
4.1. Sustainability Considerations in IDB Invest's Portfolio	135
4.2. Due Diligence and Quality Review	137
4.3. Transaction Cycle	139
4.4. Screening and Risk Categorization	142
4.5. Exclusion List	143
4.6. Structure, Staffing and Resources	144
4.7. Incentives and Sanctions Related to Client Performance	146
4.8. Corporate Governance	146
4.9. Synergies Within the IDB Group	147
5. ACCOUNTABILITY MECHANISMS	149
5.1. Project-Level Grievance Mechanisms	150
5.2. Independent Accountability Mechanisms	154
6. CONTINUED LEARNING, LISTENING, AND ENGAGEMENT	158
6.1. IDB Invest Capacity	158
6.2. Client Support and Capacity Building	159
6.3. Partnerships, Coordination, and Continued Learning	160
ANNEX A: IDB INVEST EXCLUSION LIST	162
ANNEX B: REFERENCES AND RESOURCES	164
ANNEX C: GLOSSARY OF TERMS	180

EXECUTIVE SUMMARY

This implementation manual is based on the IDB Invest 2020 Sustainability Policy and the accompanying policies and standards which together make up the IDB Invest Sustainability Framework.¹ As a development finance institution, IDB Invest has an overall mandate and mission to add value not just from the perspective of growth and financial returns, but also to make a positive contribution to society. Environmental and social sustainability is central to this.

The manual describes each of the policies and standards that together constitute the IDB Invest Sustainability Framework, with objectives, principles and requirements that apply to IDB Invest and its private sector clients in the area of environmental and social risk management. Through application of the Sustainability Framework, the expectation is that any adverse environmental or social impacts projects may cause or contribute to should be identified; avoided and minimized where possible; and mitigated through compensation or other mechanisms where necessary. Going beyond risk mitigation, the Sustainability Framework also provides a basis for engaging with local communities and other stakeholders to identify benefits and opportunities that projects can contribute to.

While the scope of the IDB Invest Sustainability Framework is ambitious and requires significant effort and resources, there are many benefits both for companies and for society in applying such a strong framework. Evidence across Latin American and at a global level shows that companies or projects with robust Environmental, Social and Corporate Governance (ESG) performance achieve better overall results. This includes acceptance and support by local communities; shorter implementation time of projects; medium to long-term cost savings and overall financial results; higher valuation; easier access to capital; and attraction and retention of talent, among others. This manual is intended to help companies realize their ESG potential and associated benefits.

The manual seeks to provide guidance on how clients may consider different factors and apply judgment consistently in different settings based on core principles and requirements in the IDB Invest Sustainability Framework. It should be noted that the manual does not constitute a mandatory policy for IDB Invest or its clients, and it does not introduce new or additional policy requirements.

Beyond the requirements in the Sustainability Framework, the manual is informed by international good practice and lessons learned. It also seeks to incorporate comments and suggestions from external stakeholders during

¹ IDB Invest (2020). Environmental and Social Sustainability Policy. See [overview web page](#) with the policy available in English, Spanish, French, and Portuguese, with a summary of the review and consultation process and a link to this manual.

the public consultation process when the 2020 Sustainability Policy was prepared, and during the public comment period for a draft version of this manual in September and October 2020. Since the manual discusses both the formal policy requirements and good practice and recommendations, practitioners should refer to the specific policies under the Sustainability Framework to ensure that formal requirements are met.

The manual discusses key topics covered by the Sustainability Framework, and suggests ways in which risks may be identified and managed. IDB Invest and its clients have different and complementary roles and responsibilities in this process:

- Clients are responsible for identifying and managing potential adverse risks and impacts as part of project design and implementation.
- IDB Invest is responsible for explaining the requirements in the Sustainability Framework to clients; undertaking due diligence and supervision throughout the lifetime of the project; and providing guidance and advice to clients.²

The Sustainability Framework is a flexible framework with an emphasis on principles and outcomes, rather than on prescriptive procedural detail. The manual therefore does not contain a great deal of detail on specific, step by step requirements. Part III of the manual gives a general overview of typical sequencing of activities during a project cycle, but procedural requirements will vary from project to project, in part determined by individual clients' organizational structure. It is also beyond the scope of this manual to provide detailed practical guidance on how to address every topic discussed. Where relevant, the manual contains reference and links to additional guidance materials and methodologies.

The expected overall outcome is that projects should result in no net environmental or social harm, and ideally net positive gain. To achieve this, the framework is based on a comprehensive set of factors that should be considered in different project settings. Risk factors include risks of potential adverse impacts that projects may cause or contribute to, such as displacement of local populations or degradation of the natural environment. They also include contextual risk factors such as existing vulnerabilities among affected communities, weak corporate governance, weak local institutions, sensitive biodiversity areas, or fragility, conflict and violence. Some of the topics and risk factors discussed in the manual are:

- Vulnerable groups, including groups that may be disadvantaged in the development process based on gender (including sexual orientation and gender identity); Indigenous Peoples; Afro-descendants; and persons with disabilities;

²In this manual the phrase 'lifetime of the project' refers to the timeframe during which IDB Invest is contractually involved with the project.

- Human rights;
- Transparent and inclusive stakeholder engagement throughout the project cycle;
- Land acquisition and involuntary resettlement;
- Labor and working conditions;
- Tangible and intangible cultural heritage;
- Biodiversity and natural resources;
- Natural disasters and climate resilience;
- Resource efficiency and pollution prevention;
- Risks related to supply chains and contractor management; and
- Indirect financing of projects through financial intermediaries.

The Sustainability Framework also considers client capacity and commitment among potential risk factors. This varies considerably among different clients, depending in part on the client's familiarity with identifying and addressing environmental and social risks and opportunities.

Together, these different factors mean that overall risk and development opportunities will vary from project to project, and will need to be assessed on a case by case basis, with varying requirements needed to manage the risks, and identification of potential benefits and opportunities the project may contribute to. Requirements in the area of risk management is guided by a principle of proportionality, where efforts and requirements are commensurate with each project's unique characteristics. Higher risk circumstances will require more careful documentation, studies and plans, and more systematic engagement and consultation with affected communities and other project stakeholders. Projects of a low to moderate risk can be prepared and implemented with a minimum of requirements.

The Sustainability Framework is flexible in terms of measures and timing of mitigation. It stipulates that requirements and actions agreed on in projects be achieved within a reasonable time frame, and in a manner that is technically and financially feasible. This timeframe will vary from project to project, depending on what the issues are and what is realistic to achieve in the short, medium, and longer term during the project cycle. Objectives and results may be achieved incrementally, and compliance with the requirements will generally be a gradual process.

Successful application of the Sustainability Framework depends on both IDB Invest and its clients establishing a well-functioning Environmental and Social

Management System, ESMS. IDB Invest has established a robust system reflecting these principles. This involves not just having a clear normative framework, but also the organizational capacity and competency to assess and manage risks; to enhance development benefits and opportunities; and to monitor and review these throughout the project cycle. On the client side, this is done through a comprehensive environmental and social assessment process which includes stakeholder consultation and engagement. IDB Invest undertakes due diligence and quality review, including identification of projects and activities which may be ineligible for financing. This is done through screening and risk classification of proposed investments, and documenting the development benefits and additionality of each project.³ IDB Invest also advises and guides the client as needed, and provides support towards client capacity building.

The manual discusses accountability mechanisms for individuals and groups who feel the project may affect them or the environment adversely. These mechanisms include project-level grievance mechanisms and access to remedy managed by the client, and engagement with IDB Invest through its various accountability mechanisms.

The IDB Invest management system for environmental and social risk management is dynamic and evolving. There are always new lessons learned that are reflected on and incorporated into the way environmental and social issues are handled, both internally and in the requirements and guidance for clients. This manual may be revised and updated from time to time, to reflect evolving good practice and feedback from clients and other stakeholders such as civil society.

IDB Invest remains committed to working with its clients and other stakeholders to listen and learn, and continue to contribute to a shared body of good practice on environmental and social risk management for practitioners and other stakeholders concerned with how private sector projects may contribute to development and sustainability. These aspects are discussed in the last part of the manual.

³ Part III of the manual discusses how these issues are addressed through clients' and IDB Invest's management systems.

PART I

IDB INVEST COMMITMENT TO SUSTAINABILITY

Part I of this manual provides an overview of IDB Invest commitment to sustainability and environmental and social risk management. It describes the recently updated Sustainability Policy, and how the institution works with its clients to ensure that environmental and social risks are identified, avoided or minimized, and mitigated. Part I discusses the distinction between the objective of promoting development opportunities and enhancing sustainability benefits, and risk management as a formal requirement. It also outlines the different roles and responsibilities of IDB Invest and its clients.

1. INTRODUCTION AND OVERVIEW



This section gives a brief overview of the IDB Invest 2020 Sustainability Policy and the accompanying policies and standards that together form the IDB Invest Sustainability Framework, which this manual is based on. The manual also makes reference to current international good practice in environmental and social risk management. This introductory section describes the manual's structure and overall content.

This manual is based on IDB Invest's Sustainability Framework. IDB Invest, the private sector institution of the Inter-American Development Bank (IDB) Group, is a multilateral development bank committed to supporting the private sector in Latin America and the Caribbean. It finances sustainable enterprises and projects to achieve financial results that maximize economic, social and environmental development for the region. IDB Invest works across sectors to provide innovative financial solutions and advisory services that meet the evolving demands of its clients.⁴

The manual was prepared following the institution's adoption of a new Environmental and Social Sustainability Policy, which replaced the 2013 Sustainability Policy. The manual provides guidance and an overview of important environmental and social issues, and on how clients and IDB Invest are expected to achieve the objectives of the Framework.

The manual's main intended audience are those responsible for environmental and social risk management and sustainability considerations in the private

⁴Link: idbinvest.org.

sector companies IDB Invest works with. In addition to this primary audience the manual may be of relevance and interest to decision-makers and others responsible for environmental and social issues in other institutions, as well as to civil society organizations and others interested in development finance and environmental and social standards.

The implementation manual makes reference to the IDB Invest Sustainability Framework, but the manual itself does not constitute official policy of IDB Invest. The content of the manual is not exhaustive, nor does it provide a comprehensive or detailed discussion of every topic covered. It should not be applied mechanically or as a blueprint. Rather, the manual seeks to provide guidance on how to apply judgment consistently based on core principles, on the understanding that many factors need to be considered in managing environmental and social issues, and that the nature of the project, the local context, and client capacity vary significantly from one project to another.⁵ Throughout the manual, references are made to specific guidance or standards on particular topics. The reader should in particular refer to the Guidance Notes that have been issued by IFC to accompany the eight Performance Standards, and to IDB Invest guidance tools and other relevant information that may be issued or updated on an ongoing basis. In addition to references to guidance material in the individual sections of the manual, key documents and resources are listed in Annex B, References and Resources.

The Sustainability Framework is based on seven standards and policies.⁶ They are:

1. The Environmental and Social Sustainability Policy (2020);
2. The IDB Invest Access to Information Policy (2019);
3. The IFC Performance Standards (2012);
4. The World Bank Group's Environmental, Health and Safety (EHS) Guidelines;
5. Corporate Governance Development Framework.
6. Policy of the IDB Invest Independent Consultation and Investigation Mechanism (ICIM, 2015); and
7. IDB Invest Exclusion List.

These seven standards and policies are described in the section on Environmental and Social Policies and Standards. In addition to these policies and standards, clients are required to comply with host country laws and regulations. The IDB Invest work in environmental and social sustainability

⁵ See the section on Proportionality and Flexibility in Part III for a discussion on how efforts and requirements are expected to be commensurate with project risk, scale and complexity.

⁶ See the next section, Environmental and Social Standards, for more detail.

and risk management is also informed by, and intended to be consistent with, internationally agreed upon norms such as UN conventions and the Sustainable Development Goals, and current and emerging good international industry practice, GIIP.⁷ Similarly, as a signatory to the Operating Principles for Impact Management, IDB Invest's impact management approach, including ESG risk management, is aligned with these principles.⁸

The later section, Environmental and Social Policies, Standards, and Guidelines, provides more detail on these policies and standards.

The revised sustainability policy was approved by the IDB Invest Board of Executive Directors on April 10, 2020, and is effective as of December 15, 2020. The policy review and update process was informed by a public consultation process between July and October 2019.⁹ During that period, IDB Invest received nearly 350 comments from different stakeholders in the private sector, civil society, Indigenous Peoples' and Afro-descendants' organizations, community representatives, the public sector, and academia. The comments covered a number of topics, including requests to clarify and place more emphasis on stakeholder engagement, gender issues, human rights, and concerns related to Indigenous Peoples and Afro-descendants.

In their response to these consultation inputs, IDB Invest noted that while many of the suggestions were incorporated into the finalized Sustainability Policy, a number of issues were more appropriately addressed as implementation aspects rather than policy language.¹⁰ These suggestions have informed this implementation manual. A draft of the manual was made available for a public comment period in September and October 2020, and IDB Invest received nearly 200 comments from reviewers and stakeholders, covering topics such as management systems; the relationship between risk management and quality enhancement; accountability mechanisms; and specific topics such as Indigenous Peoples, Afro-Descendants, and persons with disabilities. These comments and suggestions have been considered and to the extent possible reflected in the manual approved in December 2020. The manual also draws upon current international good practice in environmental and social risk management, including guidance notes and policy documents prepared by other Multilateral Finance Institutions, MFIs.

Readers should note that consistent with the Sustainability Framework, this

⁷ GIIP is defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. The outcome of such exercise should be that the project employs the most appropriate technologies in the project-specific circumstances. (Definition from Performance Standard 3, footnote 4.)

⁸ The Operating Principles provide a framework to guide investors on the integration of impact considerations throughout the investment lifecycle. Signatories must publicly disclose the alignment of their impact management systems with the Principles and have this alignment independently verified. See IDB Invest's Disclosure Statement and the Independent Verifier's Report.

⁹ Valuable guidance was also provided by a recent evaluation of the IDB Group's safeguards and sustainability standards. For more detail on this, see the discussion on the Office of Evaluation and Oversight in Part III of this manual.

¹⁰ A summary of received comments to the draft Sustainability Policy and IDB Invest's responses has been posted to the IDB Invest web site. [Link](#)

manual is largely sector-agnostic. It discusses general principles, objectives and requirements of environmental and social risk management, but does not contain detailed discussions of specific sectors or sectoral strategies. Clients and other users of the manual are encouraged to supplement the content in this manual with more sector-specific guidance and methodologies for risk management.¹¹

The manual has three main parts:

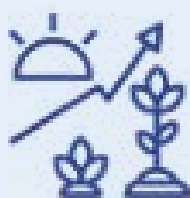
1. Part I (this part) discusses broad principles related to environmental and social sustainability and risk management, with an overview of the applicable policy frameworks as well as roles and responsibilities of IDB Invest and its clients. This part also provides an overview of the financial and non-financial services that IDB Invest provides to the private sector.

2. Part II contains guidance on key environmental and social topics in the Sustainability Framework. The content of this part references good practice and lessons learned in areas such as human rights and climate change. This part also contains a brief discussion of environmental and social risk management relating to disasters and emergencies, including pandemics such as the 2020 COVID-19 pandemic.

3. Part III provides an overview of policy delivery and accountability mechanisms for IDB Invest and its clients. It discusses how they are expected to establish and maintain an Environmental and Social Management System, ESMS. This part describes how clients are expected to undertake environmental and social assessment, conduct stakeholder engagement, and apply a mitigation hierarchy in their management of environmental and social risks. Part III also discusses the IDB Invest organizational structure and approach, both in terms of risk management and in promoting sustainability benefits and development opportunities. This section includes an overview of project cycle and decision points, mechanisms for due diligence and quality assurance, transparency and disclosure requirements, and accountability mechanisms such as project-level grievance mechanisms and the IDB Group's Independent Consultation and Investigation Mechanism, ICIM.

¹¹ As an example, human rights are discussed in Part II of this manual without reference to specific sectors. For many sectors, specific Information and guidance are available, such as in that issued by the International Council on Mining and Metals, ICMM, 'Integrating human rights due diligence into corporate risk management processes'. [Link](#)

2. SUSTAINABILITY RISK MANAGEMENT AND VALUE PROPOSITION



The Manual is based on IDB Invest's commitment to environmental and social sustainability, through risk management and enhanced development opportunities. The risk management and development opportunities constitute IDB Invest's additionality and development impact. The main emphasis in this manual is on requirements related to risk management, reflecting the focus of the IDB Invest Sustainability Policy. This section discusses broader aspects related to development opportunities and sustainability issues as additional guidance.

As a development finance institution, IDB Invest has an overall mandate and mission to add value not just from the perspective of growth and financial returns, but also to make a positive contribution to society, generate and share knowledge, and report on development impacts. Environmental and social sustainability is at the core of this. The Sustainability Policy states that its purpose is to:

..enhance the environmental and social sustainability of the investment projects financed by IDB Invest through the application of robust environmental and social risk management standards.¹²

IDB Invest seeks benefits and opportunities in the area of sustainability, not just risk management. The Sustainability Policy states that the institution has a 'commitment to sustainable development, as the foundation of its approach to risk management, as well as its development mandate.¹³ This approach is also reflected in IFC's Performance Standard 1, which states as one of its objectives:

To promote improved environmental and social performance of clients through the effective use of management systems.¹⁴

The Sustainability Framework positions environmental and social issues as a central part of the value proposition of private sector projects. The emphasis is on embedding sustainability considerations as core elements of how projects are identified, designed and implemented, rather than perceiving these issues as externalities. This approach is gradually becoming the accepted way of doing business, where commitment to issues such as climate change and social justice increasingly matter to clients and their customers as intrinsic values.

¹² Sustainability Policy, para 2.

¹³ Sustainability Policy, para 2.

¹⁴ Performance Standard 1, Objectives. [Link](#)

There are also a number of practical and business-related reasons and benefits for companies to demonstrate that they are operating in a sustainable and responsible manner. They include:

- Research has shown that there is a strong correlation between attention to sustainability issues, and **financial performance** of a company.
- Good environmental and social performance enhances a company's **reputation and brand value**, while poor performance may lead to boycotts and loss of business.
- Increasingly, **investors** are considering whether companies are conducting business responsibly. Good environmental and social performance may attract investments and facilitate access to capital on more favorable terms than otherwise.
- Lack of attention to environmental and social considerations may lead to **financial losses** from climate-related risks affecting a project, or from impacts related to local fragility, conflict and violence, among other risks.
- Companies and businesses that have strong ESG performance are more likely to attract and retain talent. Similarly, they tend to be more diverse and there is strong evidence to show that diverse companies are more resilient and innovative.
- Meaningful and respectful engagement with local communities and other stakeholders, and transparency in how environmental and social issues are addressed, leads to more trust and support for a company and contributes to its '**social license**' to operate. Conversely, lack of consideration of environmental and social issues frequently leads to tensions and conflict, and may result in costly delays and work stoppages if there is local opposition to a project.
- Attention to environmental and social issues may constitute business **opportunities** for a company to develop new products and services, for example in renewable energy, climate resilience, or support to women entrepreneurs.
- In the case of IDB Invest's clients, a company's **performance and track record** are among the factors looked at when considering and appraising a project. Well performing clients may have their project processing streamlined and fast-tracked.

There is a subtle but important difference between promoting sustainability and development opportunities, and ensuring that projects cause no harm through environmental and social risk management. Application of the

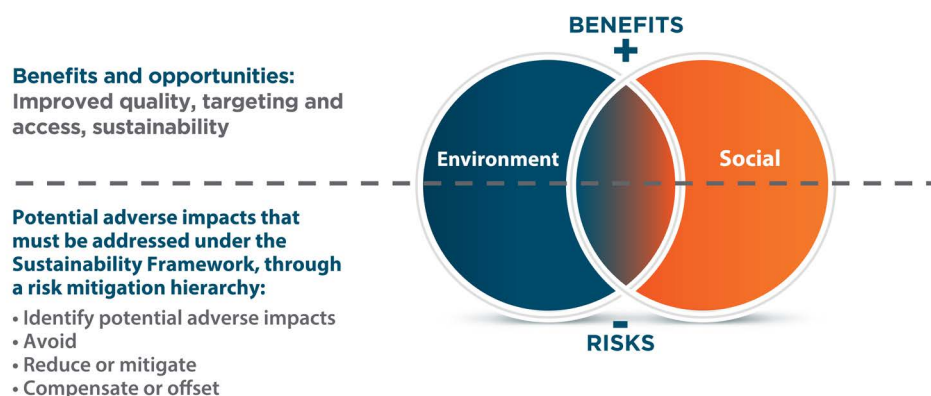
IFC Performance Standards are primarily 'designed to help avoid, mitigate, and manage risks and impacts'.¹⁵ The assumption behind the Performance Standards is that projects should achieve a restoration of baseline conditions and what may be termed 'no net loss' at a minimum, through application of the mitigation hierarchy.¹⁶ This may be achieved incrementally and gradually, depending on the circumstances and risk factors:

*IDB Invest will only finance operations that are expected to meet the Sustainability Policy's environmental and social requirements within a reasonable time frame.*¹⁷

Compliance with the Sustainability Framework is defined as meeting applicable requirements of the Performance Standards; agreed upon actions in plans referenced in legal contracts between IDB Invest and its clients; and meeting defined procedural requirements including provisions for reporting and supervision.¹⁸

Meeting goals of positive development impact beyond risk assessment and management is important from a development perspective. However, progress in achieving development goals such as the SDGs is generally incremental, and targets in specific projects depend on local context. By comparison, risk management is always intended to, at a minimum, restore baseline conditions. This can be illustrated with the following graphic:¹⁹

Figure 1: Risks and Benefits



¹⁵ IFC Performance Standards Overview, para 1.

¹⁶ See the section on Risk Mitigation Hierarchy in Part III.

¹⁷ Sustainability Policy, para 29. 'Reasonable time frame' is determined on a case by case basis. This is discussed in Part III on Proportionality and Flexibility.

¹⁸ Sustainability Policy, para 29.

¹⁹ Source: IDB (2018) Social Impact Assessment. Integrating Social Issues in Development Projects. [Link](#)

Compliance requirements in relation to the Sustainability Framework's risk management approach focus on what is 'below the line' in this illustration, while the 'above the line' goals represent areas where consideration is expected from clients, but which are aspirational in nature. As an example, failure to achieve a goal of for example enhancing and improving a wildlife sanctuary is different from failure to avoid or mitigate harm from a project. Using this illustration, the formal requirements around the Sustainability Framework are those that fall below the line, focusing on identifying and managing risks of potential adverse environmental or social impacts. While it is expected that good faith efforts are made in projects to go 'above the line', the primary compliance responsibility of IDB Invest and its clients is to identify and address any adverse impacts that projects may have caused or contributed to in accordance with the relative roles and responsibilities discussed in the next section.

Risk management and development opportunities are part of a sustainability continuum. This is reflected in the IDB Invest organizational structure. Environmental and social risk management is the primary responsibility of the Environmental, Social and Corporate Governance Division, SEG, within the institution.²⁰ SEG both collaborates with other departments within IDB Invest and with IDB in this area, and manages its own technical assistance funds for client strengthening and support. In addition to SEG, the positive environmental and social sustainability and development impacts of operations involves joint efforts primarily with two other divisions within IDB Invest: The Development Effectiveness Division (DVF), and the Non-Financial Products Division (NFP). The Development Effectiveness Division, DVF, oversees the Impact Management Framework, an end-to-end series of tools and practices to measure and manage development impact from origination to ex-post evaluation, and the Non-financial Products Division, NFP, provides technical assistance and advisory services to optimize development impact.²¹

3. ROLES AND RESPONSIBILITIES



This section summarizes relative roles and responsibilities of IDB Invest and its clients. It stresses that assessing and managing risks related to projects is a client responsibility. IDB Invest undertakes its due diligence and supervision of the client's activities, and provides advice and support.

²⁰ See the section on IDB Invest Management System in Part III.

²¹ See Part III of the manual for a discussion of how development impact is measured and tracked.

As a development finance institution, IDB Invest supports private sector and state-owned enterprises that meet specific criteria. In the investment projects financed, IDB Invest and its clients have different roles and responsibilities throughout the project cycle.

It is a **client responsibility to identify and manage** any potential adverse environmental and social risks and impacts. This is described in the Sustainability Policy:

The identification, management and mitigation of environmental and social risks, and potential impacts of activities financed by IDB Invest, are the responsibility of the client in accordance with the Sustainability Policy.²²

Clients are required to comply with the IDB Invest Sustainability Policy, and to apply the eight IFC Performance Standards and the World Bank Group EHS Guidelines. They are also required to apply relevant elements of the Access to Information Policy. The Sustainability Policy summarizes and clarifies a number of topics that are contained in the Performance Standards, and which are client responsibilities. These include stakeholder engagement, gender risk management and equality, human rights, inclusion of vulnerable groups such as persons with disability among social topics, and climate change, biodiversity, and ecosystem services among environmental topics, as well as other topics. These topics are discussed in more depth in Part II, Key Environmental and Social Topics.

The role of IDB Invest is complementary to that of the client. While it is a client responsibility to plan and implement projects, **IDB Invest has a responsibility to explain requirements and undertake due diligence and supervision.** IDB Invest has established an Environmental and Social Management System, with clear roles, responsibilities, and resources for supporting clients and providing due diligence and supervision throughout the various phases of a project cycle. This is discussed in more detail in Part III, Policy Delivery and Accountability.

The following sections describe the environmental and social policies and standards that IDB Invest applies in more detail.

²² Sustainability Policy, para 26.

4. ENVIRONMENTAL AND SOCIAL POLICIES AND STANDARDS



This section summarizes the policies and standards IDB Invest and its clients are required to apply and stresses the significance of consistency in approaches among Multilateral Financial Institutions. The section also discusses other international standards and good practice approaches.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy. [Link](#)
 IDB Invest (2019). Access to Information Policy. [Link](#)
 IFC (2012). Performance Standards. [Link](#)
 World Bank Group. Environmental, Health and Safety Guidelines. [Link](#)
 Development Finance Institutions (2015). Corporate Governance Development Framework. [Link](#)²³
 IDB Invest (2015). Policy of the Independent Consultation and Investigation Mechanism. [Link](#)
 IDB Group. Exclusion List.²⁴

This section provides a brief overview of the environmental and social policies and standards IDB Invest and its clients apply. It is not a complete treatment of the policies and standards but intended to summarize some of their key elements. Staff and consultants working for IDB Invest or its clients are expected to refer to the specific policies and standards where they apply, for a complete treatment of the relevant aspects and requirements. Parts II and III of this Manual address several of the topics covered by these policies and standards in more detail.

In recent years, there has been significant convergence among Multilateral Financial Institutions, MFIs, on the architecture and content of environmental and social standards. MFIs have moved towards more coherent and integrated frameworks. While organizational structures and procedural requirements differ, the key substantive elements are now quite similar across institutions. This is particularly the case for those institutions working with the private sector, such as IDB Invest. For clients, and the countries they are working in, this consistency allows for greater coordination and reduces duplication of effort or conflicting approaches.

This convergence of standards means that the content of this Manual, especially Part II, may be of relevance and use also in other settings, even

²³ The Corporate Governance Framework is a joint framework adopted by 34 Development Finance Institutions, including IDB Invest and IFC.

²⁴ Annex A of this manual contains the list of products, substances and activities IDB does not finance.

when IDB Invest is not involved. The key environmental and social topics discussed in Part II are of importance regardless of which institution finances the project, or which procedural requirements are applied.

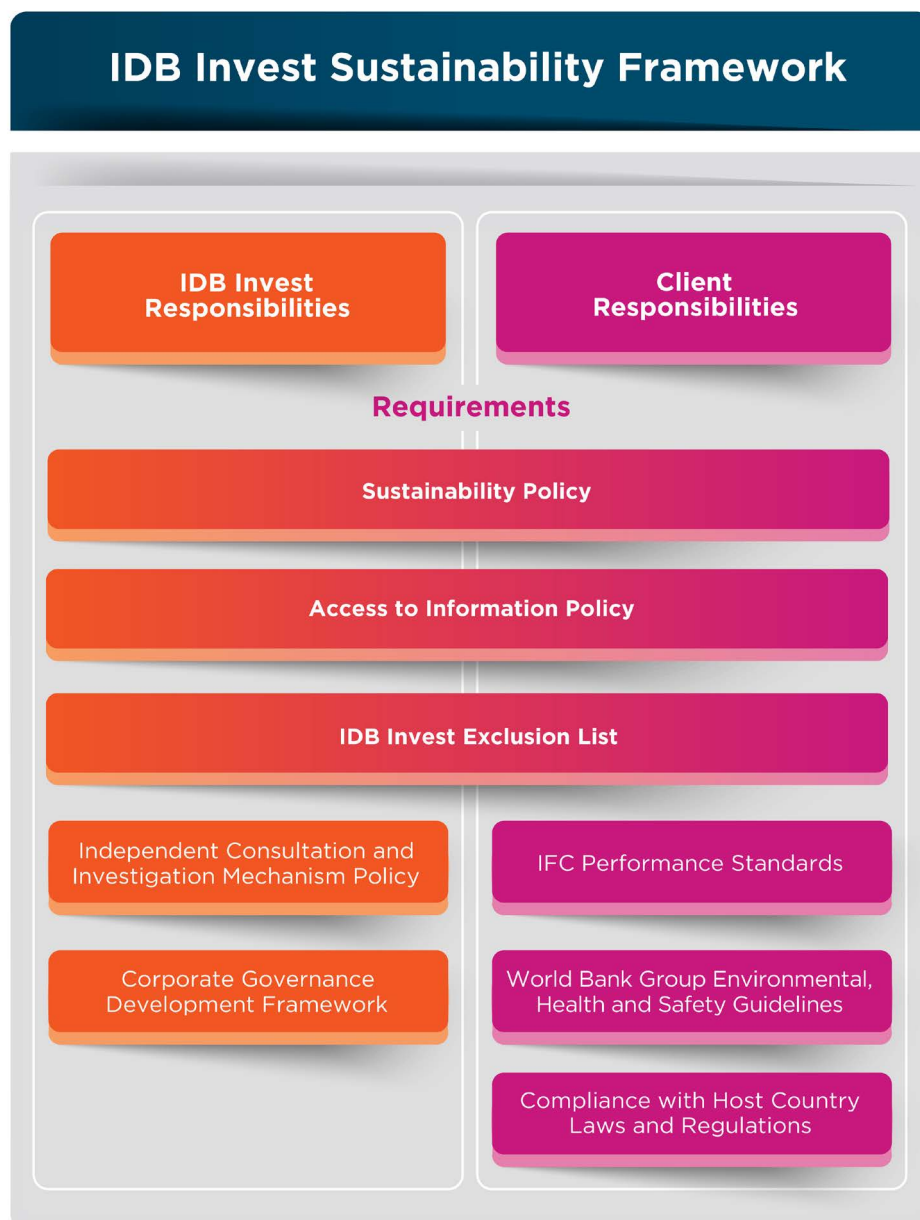
The emerging common approach among MFIs is characterized by elements such as:²⁵

- An emphasis on risk management and ‘do no harm’, but also recommendations and guidance on promoting benefits and development opportunities;
- A clear distinction between lender and borrower responsibilities;
- A balance between environmental and social considerations, and a comprehensive inclusion of risk factors considered to be of importance, such as contextual risk factors;
- Application of a risk mitigation hierarchy;
- Application of a principle of proportionality, where project risk levels determine effort and requirements;
- A move away from rigid and prescriptive approaches towards more flexibility and use of judgment, case practice, and precedent; and
- Related to this, a balancing between requirements prior to approving a project, and an emphasis on implementation, incremental achievement of objectives, and outcomes on the ground.

The figure on the next page shows an overview of the IDB Invest Sustainability Framework architecture, distinguishing between IDB Invest’s and clients’ responsibilities. In addition to the Sustainability Policy, the figure also shows the other policies which together form the Sustainability Framework.

²⁵ These principles and elements are discussed in more detail in Part III of the manual.

Figure 2: IDB Invest Sustainability Framework



The policies are supported by guidance and good practice resources consisting of several handbooks, sourcebooks, tools and methodologies, and good practice notes produced by IDB Invest and others. This includes this implementation manual. These materials are not mandatory, but are produced to provide greater clarity and interpretation of policy principles, and to offer ways and methodologies to assess and manage environmental and social

risk in order to meet the principles and requirements in the Sustainability Framework.

In addition to the mandatory policies shown in this figure, the IDB Invest Sustainability Framework is informed by international norms and standards such as the United Nations Sustainable Development Goals, SDGs; the International Bill of Human Rights; the UN Guiding Principles on Business and Human Rights; Good International Industry Practice, GIIP; the Operating Principles for Impact Management; and others.²⁶ Some of these standards are legally binding on States while others are aspirational and non-mandatory. The Framework seeks to be consistent with these norms and standards but does not claim equivalence with them.

The Sustainability Framework is explained in more detail in the following sections.

4.1. Environmental and Social Sustainability Policy (2020)

As noted in the introductory section, IDB Invest's Sustainability Framework is based on specific policies and standards. In addition to the policies approved by the IDB Invest Board, the Sustainability Policy requires clients to apply the IFC Performance Standards and the World Bank Group's EHS Guidelines. IDB Invest also expects to adopt any new or revised Performance Standards or EHS Guidelines:

Any subsequent revisions to the above-mentioned Performance Standards and EHS Guidelines will apply to this Sustainability Policy unless otherwise determined by IDB Invest's Board of Executive Directors.²⁷

The 2020 IDB Invest Environmental and Social Sustainability Policy replaces the IDB Invest 2013 Sustainability Policy. Its revision was undertaken in part in response to the recent evaluation of IDB Invest safeguards policies, and in part to reflect changing circumstances, new and emerging priorities, and lessons learned over the last few years.

An important aspect of the IDB Invest Sustainability Policy was described in a recent evaluation conducted by the IDB Group's Office of Evaluation and Oversight, OVE:

The approach underlying IDB Invest's E&S sustainability policy is focused less on processes and more on outcomes and how to achieve them, thus allowing for greater flexibility in procedures. The policy allows meeting safeguards requirements over time.²⁸

Note that this outcome orientation is not a new principle. It was present in

²⁶ See IDB Invest Disclosure Statement. [Link](#)

²⁷ Sustainability Policy, para 7.

²⁸ OVE (2018). Environmental and Social Safeguards Evaluation, p. xiii. [Link](#)

the previous Sustainability Policy, and has been retained. The flexibility and sequencing of activities are discussed in Part III of this manual, in the section Proportionality and Flexibility. Part III also contains a description of how OVE contributes to accountability and learning. The flexibility was highlighted in the evaluation since it contrasts with a more procedural and ‘front-loaded’ approach, which many MFIs have been applying until recently.

The Sustainability Framework approach requires commitment and experience, and systematic engagement and follow-up by IDB Invest:

Because IDB Invest’s safeguards policy allows clients to meet safeguards requirements over time, strong implementation follow-up by IDB Invest is essential.²⁹

Part III of the manual discusses these issues in detail, and describes how IDB Invest and its clients seek to ensure consistency and quality in application of the policy principles and requirements.

The Sustainability Policy highlights IDB Invest commitments in several areas, both environmental and social. Topics that are given increased emphasis include disaster risk management, human rights, stakeholder engagement, gender and diversity, and reprisals. These and other topics are discussed in Part II of this Manual, Key Environmental and Social Topics.

The Sustainability Policy also describes core responsibilities and requirements both for IDB Invest’s clients, and for the institution itself during environmental and social appraisal and supervision. Different types of project interventions and client engagement are described in the Policy, such as investment projects and technical assistance. The Policy also discusses governance aspects and IDB’s Independent Consultation and Investigation Mechanism, ICIM. These parts of the Policy along with other process or organizational aspects are described in Part III of this Manual, Policy Delivery and Accountability.

4.2. Access to Information Policy (2019)

IDB Invest replaced its Disclosure of Information Policy in 2019.³⁰ The new Access to Information Policy recognizes the access to information as a fundamental human right. It is governed by the principles of maximum access to information, and a presumption favoring disclosure, subject to a list of clear and well-defined exceptions.

For individual projects, IDB Invest makes information available on its website at different times during the project cycle, both before and after projects are approved. This includes information on environmental and social issues, including

²⁹ OVE evaluation, p. xiv.

³⁰ Disclosure of Information Policy approved in 2005.

the project's risk classification.³¹ Disclosure is done throughout the project cycle:

*The client produces and discloses key environmental and social information throughout the investment cycle consistent with the project's environmental and social risk category. For projects where there are affected communities, the client will communicate in the formats and languages accessible to such communities, in a manner commensurate with the level of risk.*³²

4.3. IFC Performance Standards (2012)

IDB Invest requires its clients to apply the set of eight Performance Standards developed by the private sector arm of the World Bank Group, the IFC. The Performance Standards were established in 2006 and revised through a global consultation process from 2009 to 2011. The updated framework became effective in January 2012.³³

The eight Standards are:

1. Assessment and Management of Environmental and Social Risks and Impacts
2. Labor and Working Conditions
3. Resource Efficiency and Pollution Prevention and Management
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

IDB Invest has required clients to apply the Performance Standards since 2013. The 2018 OVE evaluation endorsed the continued use of the IFC Performance Standards, which, as it noted, 'are widely recognized and adopted by private sector companies in the region'.³⁴ IDB Invest therefore decided to remove earlier references to the other requirements included in the previous Sustainability Policy dated 2013, in particular the IDB environmental and social safeguard policies.³⁵ The 2020 Sustainability Policy clarifies that clients will apply the Performance Standards in all projects:

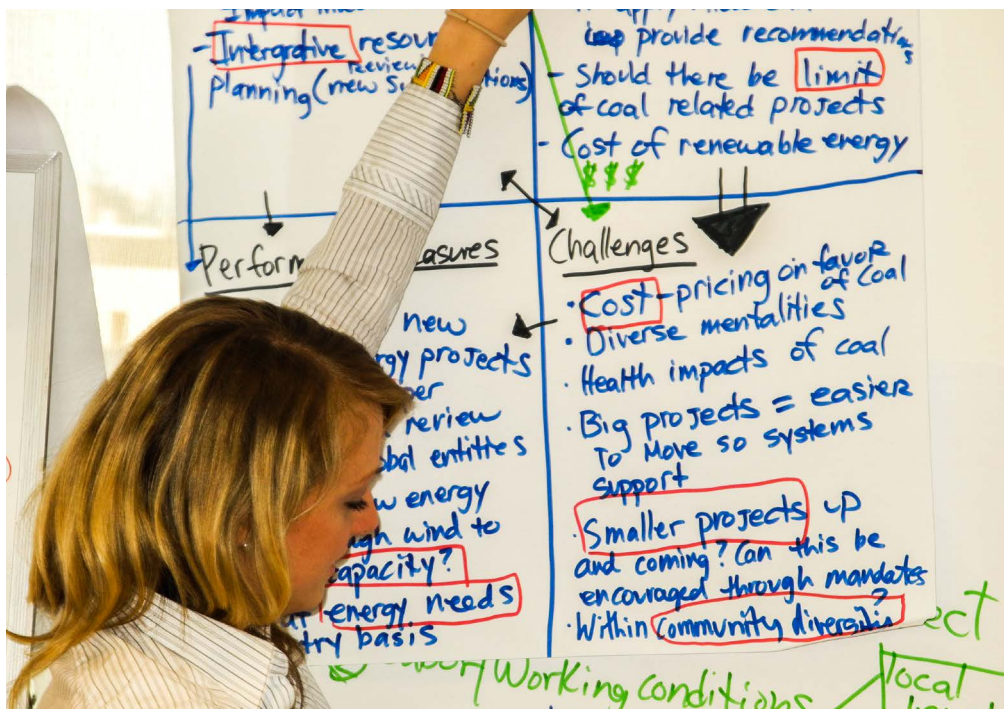
³¹ See the section on Screening and Risk Categorization in Part III, Policy Delivery and Accountability.

³² Access to Information Policy, paras 31 and 41.

³³ IFC Performance Standards. [Link](#)

³⁴ OVE Environmental and Social Safeguards Evaluation, p. x.

³⁵ In September 2020, the IDB Board of Executive Directors approved a new Environmental and Social Policy Framework for the IDB. [Link](#) This is expected to become effective within a year from its approval.



Consultations on standards. USA, 2011

IDB Invest requires its clients to comply with this Sustainability Policy, which includes the requirements specified herein, as well as the following IFC standards and guidelines: the Performance Standards (PS) on Environmental and Social Sustainability of the International Finance Corporation (IFC) (the “Performance Standards”) and the World Bank/IFC Environmental Health and Safety (EHS) Guidelines (including both General EHS guidelines and Industry Sector EHS Guidelines) (the “EHS Guidelines”).³⁶

The use of IFC’s Performance Standards is important. It is a comprehensive framework that has stood the test of time, and it has become the most recognized and widely used international framework for environmental and social risk identification and management. This is particularly the case among banks and other financial institutions: As of November 2020, 111 commercial financial institutions in 37 countries have adopted the Equator Principles.³⁷ The member institutions require their clients to apply the IFC Performance Standards in financing of projects and large-scale corporate finance. The standards are also used by OECD Export Credit Agencies, and by the European bilateral Development Finance Institutions. Numerous private corporations also refer to the Performance Standards. Similarly, the Performance Standards have influenced other MFIs, in particular EBRD and the World Bank, who have adopted variations of the standards. Use of the

³⁶ Sustainability Policy, para 7.

³⁷ See Equator Principles website. [Link](#)

Performance Standards contributes to greater consistency among finance institutions, and provides greater clarity for clients.

4.4. World Bank Group Environmental, Health, and Safety Guidelines

The EHS Guidelines are technical reference documents with examples of good international industry practice.³⁸ They contain performance levels and measures that are acceptable and generally considered to be achievable in new facilities at reasonable cost using existing technology.

There are currently general guidelines related to environmental issues, occupational health and safety, community health and safety, and construction and decommissioning. Additionally, there are detailed EHS guidelines for different industry sectors. The general EHS Guidelines cover the following topics:

- Environmental
- Occupational Health and Safety
- Community Health and Safety
- Construction and Decommissioning

The Industry Sector Guidelines cover several sectors, with specific guidelines for particular activities within each sector. The sectors covered are:

- Agribusiness / Food Production
- Chemicals
- Forestry
- General Manufacturing
- Infrastructure
- Mining
- Oil and Gas
- Power

The EHS Guidelines are available in six languages, including English and Spanish. They undergo regular revisions to update them with current industry standards.

³⁸ EHS Guidelines [Link](#).

4.5. Compliance with Host Country Laws and Regulations

IDB Invest's clients are required to follow national law in the countries where they operate:

In addition to meeting the requirements under the Performance Standards, clients must comply with applicable national law, including those laws implementing host country obligations under international law.³⁹

Where host country regulations are different from the requirement in IDB Invest's Sustainability Framework, clients are required to apply whichever is more stringent.

Undertaking a review may highlight gaps between national law and practice, and what IDB Invest requires based on its Sustainability Framework. Some common examples include:⁴⁰

- **Environmental assessment:** Most countries require environmental assessments. However, they rarely cover social issues in an explicit or comprehensive manner. In contrast, Performance Standard 1 requires a balanced environmental and social assessment process.⁴¹
- **Stakeholder engagement:** While some sort of public consultation is required by law in most countries, it is generally limited to some disclosure of documents on a website, and occasionally one or two public consultation meetings prior to project licensing and approval. IDB Invest's Sustainability Framework sees stakeholder engagement as an ongoing and iterative process throughout a project's lifetime, including during implementation.⁴²
- **Involuntary Resettlement:** All countries have laws related to land acquisition through eminent domain. However, the support to those affected by displacement is generally lower than what is required by Performance Standard 5. This is particularly so when it comes to amounts of compensation for loss of land and other assets; support to livelihood restoration; and recognition of different types of land tenure and occupancy, including informal settlements.⁴³

It is extremely rare that there is a direct conflict between the IDB Invest Sustainability Framework and national law. More often, the differences constitute gaps in areas where national law has lower requirements, or is silent, on a particular topic. It is generally not a problem for a company to

³⁹ IFC Performance Standards Overview, para 6.

⁴⁰ These topics are discussed in more detail in Parts II and III of this Manual.

⁴¹ See the section on Environmental and Social Assessment in Part III.

⁴² See the section on Stakeholder Engagement in Part II.

⁴³ Performance Standard 5 has a section titled 'Private Sector Responsibilities Under Government-Managed Resettlement'. See also the section on Land Acquisition and Involuntary Resettlement in Part II.

decide to ‘go above and beyond’ the minimum requirements established by law in the countries where they are operating.

The greater the gap is between a country’s legislation and practices, and what the Sustainability Framework requires, the harder it is for individual firms to operate. It is therefore important that firms have a clear understanding of national contexts, both when it comes to the legal and normative frameworks, and the existing, contextual risk environmental and social risk factors in the country.⁴⁴

While clients can address gaps between the Sustainability Framework and national law on a project by project basis, it should be recognized that the Framework requires clients to understand and try to address the many systemic issues that may affect projects, where the root causes are not caused by the project itself.⁴⁵ As such, these systemic issues cannot easily be mitigated or remedied through individual transactions. At best, clients can deal with the symptoms rather than the causes of some of these issues, which may include fragility, conflict and violence in the operating environment, pervasive discrimination, marginalization of Indigenous Peoples, or gender-based violence.⁴⁶

4.6. Consistency with International Frameworks and Good Practice

As noted earlier, IDB Invest’s Sustainability Framework is informed by, and intended to be consistent with, internationally agreed upon norms and standards. These are aspirational in nature and not mandatory for IDB Invest or its clients, unless they are part of the legal structure of host countries. Such norms and standards include both formal and binding international law such as UN conventions and treaties signed and ratified by IDB Invest member states, and other instruments such as declarations. One example of a UN declaration which is important to IDB Invest and reflected in its Sustainability Framework is the 2007 UN Declaration on the Rights of Indigenous Peoples, UNDRIP.

It is not practical or realistic to list all the standards and instruments that may apply in a given project context. This will vary from country to country, and will also depend on the nature of the project. Some frameworks or principles referred to in the Sustainability Policy include:⁴⁷

⁴⁴ See the section on Risk Factors in Part II.

⁴⁵ See the discussion in Part III on Synergies within the IDB Group for a discussion on how the public sector part of the IDB Group can engage with governments to address some of these systemic challenges.

⁴⁶ Note that in this manual, the term ‘gender-based violence’ is used as an ‘umbrella term’ to cover any harmful act that is perpetrated against a person’s will, and that is based on socially ascribed gender differences. The term covers both physical and non-physical acts of violence, and includes sexual exploitation, abuse, harassment, human trafficking, and denial of resources or opportunities, among other issues.

⁴⁷ See also the discussion on recognized conventions and standards in the section on Biodiversity and Natural Resources in Part II.

- Commitment to alignment with the UN Sustainable Development Goals, SDGs.
- Promotion of the responsibility of business to respect human rights, guided by the International Bill of Human Rights and the eight core conventions of the International Labor Organization, ILO.⁴⁸
- Addressing gender-based risks and impacts is guided in part by the 1979 Convention on the Elimination of All Forms of Discrimination Against Women, CEDAW.⁴⁹
- The Sustainability Policy also refers to the 2006 Convention on the Rights of Persons with Disabilities.
- The Policy also refers to norms included in the IFC Performance Standards, including the core ILO conventions.
- IDB Invest has adopted the Corporate Governance Development Framework, a common methodology among Development Finance Institutions for assessing corporate governance of investee companies.⁵⁰

Other important standards include:

- The Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean (known as the Escazú Agreement).⁵¹
- IDB Invest's Impact Management Framework (including practices for assessment and managing ESG risks) is aligned with the Operating Principles for Impact Management.

IDB Invest does not claim equivalence in process or outcomes with every framework referred to, but sees these as providing guidance and core principles that will inform the work that IDB Invest and its clients do. Failure to achieve any goal or objective should not be interpreted as non-compliance with the more specific policy requirements of the IDB Invest Sustainability Framework listed in the previous sub-sections.

⁴⁸ The responsibility of the private sector to respect human rights was established through the 2011 UN Guiding Principles on Business and Human Rights. For more detail on this, see the section on Human Rights in Part II of this Manual.

⁴⁹ See the discussion of gender issues, including sexual orientation and gender identity, and of gender-based violence, in Part II.

⁵⁰ See the section on Corporate Governance in Part III.

⁵¹ See [link](#) to agreement. As of December 2020, the Agreement has not yet entered into force, pending ratification of the necessary number of member states.

5. IDB INVEST SUPPORT TO THE PRIVATE SECTOR



This section provides a brief overview of the different types of client support IDB Invest provides, and how the Policy and Performance Standards apply to different instruments. It covers established mechanisms for support, as well as a brief discussion of some new and emerging financial and non-financial instruments.

Selected references and resources:

Overview of IDB Invest solutions and resources. [Link](#)

IDB Invest provides support to clients in different ways and through different financial and non-financial instruments.⁵² IDB Invest also works to leverage financing and foster investor confidence in collaboration with other financial institutions, with an emphasis on sustainable development. Some of the financial and non-financial solutions are described below.

5.1. Financial Solutions

5.1.1. Loans

The most common financial instrument where the IDB Invest's Sustainability Framework applies is through IDB Invest's loans to firms. The loans are offered in US dollars and some local currencies in the region. Clients may borrow funds for a range of activities that are expected to have a development impact, in sectors as diverse as energy, transport, agribusiness, and telecommunications.

5.1.2. Equity

IDB Invest may invest in a company and become a part owner. IDB Invest's involvement can help leverage additional debt funding, and provide managerial support and help strengthen financial management and environmental, social and governance standards. IDB Invest does not take managerial responsibility in the companies it invests in.

5.1.3. Trade and Supply Chain Finance

IDB Invest facilitates trade by providing credit needed for companies to acquire goods, raw materials and equipment. IDB Invest also provides short-term loans to local banks to finance eligible trade transactions, as well as credit guarantees to global banks to mitigate risks associated with trade finance provided by banks in the region.

⁵² Financial instruments involve funding through loans or other instruments; non-financial instruments are other types of support such as technical assistance.

5.1.4. Blended Finance

Blended finance is a strategic tool to bridge financing gaps in projects with a high development impact, to contribute to meeting the Sustainable Development Goals. This finance provides targeted use of concessional funding where risks are considered too high for commercial finance alone. IDB Invest works with other Development Finance Institutions in the area of blended finance.

5.1.5. Guarantees

IDB Invest issues guarantees to private sector clients across Latin America and the Caribbean. This provides working capital for clients and their supply chains to finance projects. Through these guarantees, risks are spread, and IDB Invest shares gains and losses with their clients.

5.1.6. Capital Markets

IDB Invest works with clients in different sectors to help them obtain debt financing, to extend loan maturities and mitigate risks. IDB Invest's environmental and social standards contribute to investor confidence, and provides a 'seal of quality' for clients. This includes financing of thematic bonds such as green, gender, and social bonds.

5.1.7. Resource Mobilization

IDB Invest acts as a catalyst to expand the overall available funding for investments in the private sector. In addition to their own financing, IDB Invest brings other lending institutions together and helps structure investments in infrastructure and other sectors. These other institutions include international commercial banks, including members of the Equator Principles Financial Institutions that already apply the IFC Performance Standards; regional commercial banks, insurance companies and pension funds; social impact investors; and sovereign wealth funds. By working with companies on strengthening their sustainability framework and demonstrating the positive impacts of their activities, IDB Invest strives to attract investors and mobilize resources from other regions to finance projects in Latin America and the Caribbean.

This type of joint financing or other types of coordination with different financial institutions is important, since a shared approach to sustainability is more likely to contribute to positive environmental and social outcomes. As noted earlier, the Equator Principles Financial Institutions, EPFIs, have adopted a common approach to environmental and social risk management in different financial products, including project finance. The EPFIs require their clients to apply the IFC Performance Standards in projects in all countries in

⁵² Financial instruments involve funding through loans or other instruments; non-financial instruments are other types of support such as technical assistance.

Latin America and the Caribbean, with the exception of Chile.⁵³ Co-financing and collaboration between IDB Invest and one or more of the EPFIs therefore means that there is a common approach to environmental and social risk management, which may contribute to strengthening national systems and frameworks.

5.2. Non-Financial Solutions

5.2.1. Public-Private Partnerships

There are significant funding gaps in the region, particularly in infrastructure. Governments do not have the financial resources needed to bridge the investment gaps, and they seek to increase private sector participation in constructing and operating projects in different sectors. Many projects are therefore structured as Public-Private Partnerships, PPP. There are clear synergies and complementarities when the public and private sectors work together. For companies trying to apply the IDB Invest Sustainability Framework, having a positive regulatory framework and national institutions that operate on the same principles makes it easier and more predictable to invest in different countries. In their engagement with governments in the region, the IDB Group offers advice on the design and implementation of bankable bidding processes. For private sector clients, the institution supports engaging with governments to establish PPPs for infrastructure projects.

5.2.2. Climate Change

Investments in low or zero carbon transition such as clean energy are necessary to tackle climate change challenges and meet the goals set by the Paris Agreement. This provides opportunities for firms and investors. IDB Invest helps companies implement mitigation and adaptation strategies into their business by advising them on climate-smart solutions adapted to the specific needs of different clients. This includes new technology, pilot projects, and the design of green financing products, as well as feasibility studies on energy storage and ecosystem services assessments. IDB Invest works with other Multilateral Development Banks to increase climate finance levels, and to develop transparent reporting mechanisms on commitments.

5.2.3. Gender, Diversity, and Inclusion

Assessing and managing how environmental and social risks and impacts affect different groups in different ways is a requirement under the Sustainability Framework. This includes addressing diversity issues and non-discrimination, and ensuring that vulnerable or disadvantaged groups are not disproportionately affected by project-related adverse impacts. Social

⁵³ Chile is the only country in the region among the so-called 'designated' countries deemed by the Equator Principles Association to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment.

identities may be based on a number of criteria, that separately or together may cause vulnerability or disadvantage in different settings:⁵⁴

*This disadvantaged or vulnerable status may stem from an individual's or group's race, color, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status. The client should also consider factors such as gender, age, ethnicity, culture, literacy, sickness, physical or mental disability, poverty or economic disadvantage, and dependence on unique natural resources.*⁵⁵

These aspects are discussed in more detail in Part II, in the section on Vulnerable and Disadvantaged Groups.

Beyond risk management, IDB Invest also promotes diversity and inclusion in the companies they work with, both from an equity and fairness perspective and because it has been proven that diversity is good for business. The institution works with companies to identify opportunities and benefits from implementing strategies of gender equality, diversity, and inclusion into their business.

5.2.4. Micro, Small and Medium-Sized Enterprises

Micro, small and medium-sized enterprises (MSMEs) constitute the largest share of businesses and employment in Latin America and the Caribbean and are among the strongest drivers of economic development and innovation. They represent 99 percent of businesses, and 67 percent of employment. Access to finance is one of the main barriers to their growth and improved productivity. IDB Invest works to tackle the funding gap by partnering with other financial institutions, specialized funds and others to increase access to finance for MSMEs.

⁵⁴ For an overview of IDB Invest initiative related to Gender, Diversity and Inclusion, see [Link](#).

⁵⁵ Performance Standard 1, footnote 18.

PART II

KEY ENVIRONMENTAL AND SOCIAL ISSUES

Part II of the manual summarizes requirements and good practice related to key environmental and social issues and risk management. The requirements for IDB Invest clients includes the IDB Invest Sustainability Policy, the IFC Performance Standards, the World Bank Group Environmental, Health and Safety Guidelines, and host country laws and regulations. Part II is not an exhaustive or complete treatment of the topics, but highlights some important considerations that should be taken into account in projects. This part discusses risk factors and potential adverse impacts that projects may cause or contribute to. Clients should refer to additional guidance, such as the IFC Guidance notes that accompany the Performance Standards and IDB Invest good practice notes and tools referenced throughout the manual. The last part, Part III of the Manual, describes the management aspects of how IDB Invest and its clients seek to deliver on the objectives and requirements of the Sustainability Framework.

1. RISK FACTORS



This section discusses and defines risk factors. It provides a summary of risks and adverse impacts that projects may cause or contribute to, and more systemic and contextual risks in the operating environment that should be considered. While client responsibilities under the Performance Standards focus on causal and contribution-related risks stemming from projects, it is also important to understand more contextual risks, since they can affect projects and project outcomes in different ways. The section also discusses the importance of client performance, noting that lack of capacity or commitment may constitute significant risk factors.

Selected references and resources:⁵⁶

IDB Invest (2020). Environmental and Social Sustainability Policy. See in particular paras 7, 26, 28, 32, and 39-44. [Link](#)

IFC (2012). Performance Standard 1. See in particular paras 1 with footnote 2, and 7. [Link](#)

IDB (2018). Social Impact Assessment. See in particular Section One, Part Two: Identifying Risks, and Appendix A: Social Risk Factors. [Link](#)

⁵⁶ The references in this section refer to risk assessment in general. For risks and opportunities in relation to specific topics, see subsequent sections, with selected references and resources.

While we are concerned with both positive development opportunities and potential adverse impacts of projects, the Sustainability Framework is primarily a risk management system. IDB Invest's 2020 Sustainability Policy states that the purpose of the Policy is:⁵⁷

*To enhance the environmental and social sustainability of the investment projects financed by IDB Invest through the application of robust environmental and social risk management standards.*⁵⁸

Similarly, the IFC Performance Standards, which apply to IDB Invest's clients, stress the purpose of the standards as they relate to risk management:

*The Performance Standards are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities.*⁵⁹

The wording 'risks and impacts' occasionally leads to some confusion about how to define these terms. They are also sometimes used interchangeably.

From the perspective of identifying and managing environmental and social issues, it is more accurate to distinguish between risk and impact as follows:

- Impact can refer both to a positive or negative effect of a project. Generally, 'impact' refers to something longer term and more permanent than outputs and results.
- Risk in the context of environmental and social issues refers to a potential, future negative or adverse effect (impact) a project may have on people or on the natural environment. These are risks from a project. Risk also refers to risks to a project, for example if poor governance or conflict in the project area makes it difficult to meet the project's objectives.

It is standard practice to define risk as the combination of how severe a potential adverse impact is if it occurs, and the probability or likelihood of this occurring. IFC's Performance Standard 1 states that:

*Environmental and social risk is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.*⁶⁰

⁵⁷ In addition to the IDB Invest Sustainability Framework, this section draws on the IDB 2018 publication on Social Impact Assessment. [Link](#) It is also informed by the 2011 UN Guiding Principles on Business and Human Rights.

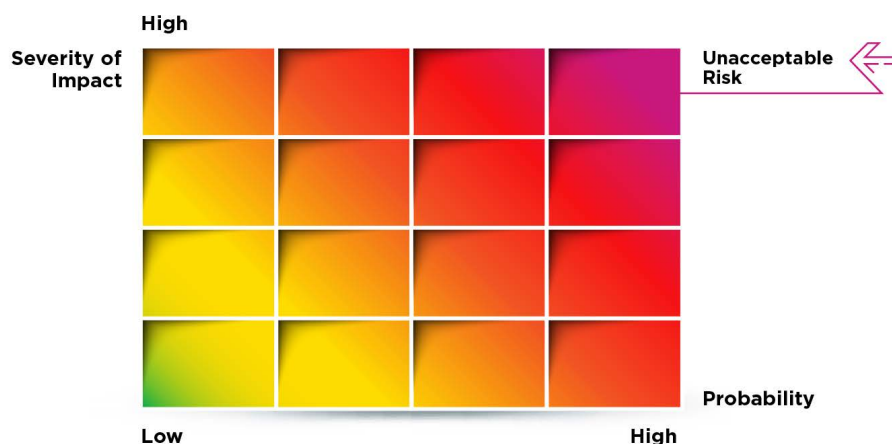
⁵⁸ Sustainability Policy, para 2.

⁵⁹ IFC Performance Standards (2012), Overview, para 1.

⁶⁰ Performance Standard 1, footnote 2.

This can be illustrated in a heat-map as shown below:

Figure 3: Risk matrix



Two things to note with this illustration are:

1. In looking at probability and severity of an adverse impact, **severity should be weighted more heavily** than probability. An example would be a project impact that may threaten the collective well-being and viability of an Indigenous community. Even if the likelihood of this occurring is low or moderate, the risk should still be considered high, given the consequences if it were to occur.

2. Some risks may be **unacceptable**. If the severity of a potential adverse impact is high, and the likelihood of it occurring is substantial or high even with proposed mitigation measures, the project should be reconsidered or redesigned.

It is useful to distinguish between two broad categories of risk:⁶¹

1. Risk from the project: The risk of a project causing harm to people or the natural environment. This includes both risks of adverse impacts directly caused by a project, and more indirect and cumulative risks of contribution, which may involve third-parties where the client has limited leverage.

2. Risks to the project: Association with third parties such as through business relationships, as well as contextual and other risks, may affect a project and jeopardize its meeting its objectives. Contextual risks may include pre-existing conflict, fragility, and violence; human rights abuses; presence of vulnerable groups or sensitive biodiversity

⁶¹ For a more detailed discussion of risk categories and how they affect each other, see IDB (2018), Social Impact Assessment. [Link](#)

settings; history and legacy issues; weak governance or institutional capacity; and corruption. Weak environmental and social legislation and regulations, or weak implementation capacity of existing rules, may also constitute risks to a project. Risks to the project also include performance factors: Weak capacity on the part of the client, lack of resources, or insufficient commitment all constitute potential risks that should be taken into consideration.

These two broad categories are not independent of each other. Each may influence the other. For example, contextual risk such as prevalence of conflict or violence, or pervasive corruption, may exacerbate the harm caused by a project to people or the environment, and it may make it more difficult to implement the mitigation measures required by the Sustainability Framework. An example is a situation where a project causes resettlement in a context where vulnerable groups are affected by violence, and where client capacity is low. In such situations, risk factors may intersect and act as ‘risk multipliers’, where the overall risk is far greater than the individual parts.

Understanding risk levels is the first step towards managing them. IDB Invest calibrates its level of due diligence and support to projects in large part based on the project’s risk levels. It may also require clients to undertake more in-depth studies and prepare detailed mitigation plans, and to engage more systematically with project stakeholders, in higher risk circumstances.⁶²

⁶² For more detail on how requirements and efforts are commensurate with risk levels, and how client responsibilities may vary depending on the type of risk, see the section on Responsibilities in Relation to Different Risk Factors in part III of the manual.

2. VULNERABLE AND DISADVANTAGED GROUPS



This section discusses key issues and principles related to vulnerable and disadvantaged groups, with the objective of addressing four key considerations:

1. Ensuring that vulnerable groups are not disproportionately affected by adverse impacts a project may cause or contribute to;
2. Ensuring that vulnerable and marginal groups are given voice and enabled to participate fully in project consultation processes.⁶³
3. Ensuring that systemic or structural barriers do not prevent vulnerable groups from accessing project benefits; and
4. Considering how development opportunities can be targeted to benefit vulnerable and disadvantaged groups.

The section specifically discusses discrimination on the basis of gender. It also discusses gender-based violence; sexual exploitation, abuse and harassment; and sexual orientation and gender orientation (SOGI). The section also addresses key characteristics and considerations related to Indigenous Peoples, including topics such as Free, Prior and Informed Consent (FPIC), and Indigenous Peoples in voluntary Isolation. Other potentially disadvantaged groups described in the section are Afro-descendants, Roma people, and persons with disabilities.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy. See in particular paragraphs 10, 18, 21, 22, and 23, and footnote 11. [Link](#)

IFC (2012). Performance Standard 1, Assessment and Management of Environmental and Social Risks and Impacts. See in particular paragraph 12, 27, 30, and footnotes 18 and 27. Attention to vulnerable groups is a cross-cutting theme addressed in several of the Performance Standards. [Link](#)

IFC (2012). Performance Standard 7, Indigenous Peoples. [Link](#)

IDB Invest (2020). Gender Risk Assessment Tool. [Link](#)

IFC and others (2020). Addressing Gender-Based Violence and Harassment. Emerging Good Practice for the Private Sector. [Link](#)

World Bank (2018). Afro-Descendants in Latin America: Toward a Framework of Inclusion. [Link](#)

World Bank (2018). Inclusion Matters. The Foundation for Shared Prosperity. [Link](#)

World Bank (2019). Disability Inclusion and Accountability Framework. [Link](#)

⁶³ Stakeholder engagement is discussed in more detail in a separate section.

Many groups are confronted with structural barriers that prevent their full inclusion in the development process. IDB Invest seeks to avoid risks and adverse impacts of projects disproportionately affecting vulnerable and disadvantaged groups, and ensure that their concerns and situation are given appropriate consideration. The Sustainability Policy specifically refers to people who may be disadvantaged based on their gender or gender identity; Indigenous Peoples; Afro-Descendants; and people with disabilities, as well as ‘other vulnerable groups’.⁶⁴

Similarly, IFC’s Performance Standard 1 requires that:

*Where individuals or groups are identified as disadvantaged or vulnerable, the client will propose and implement differentiated measures so that adverse impacts do not fall disproportionately on them and they are not disadvantaged in sharing development benefits and opportunities.*⁶⁵

The assessment and management of environmental and social risks and impacts should therefore explicitly consider how some people may have less resilience to project-related negative impacts, or be disadvantaged in accessing project benefits and opportunities for development because of their gender, race, religion, disabilities, languages, or other identities.⁶⁶ Projects should avoid discrimination, both in relation to affected communities and among project workers.

In addition to ensuring that disadvantaged or vulnerable groups are not disproportionately affected by adverse impacts, and that they are not limited in their ability to take advantage of project benefits, the Sustainability Framework also requires the consultation and engagement process to ensure that the views and concerns of disadvantaged or vulnerable groups are heard and considered.⁶⁷

The Sustainability Policy gives examples of identities that may cause vulnerability:

*Vulnerable status may be related to race, color, sex, sexual orientation, gender identity, language, religion, political or other opinion, national or social origin, property, or other status. Clients should also consider factors such as gender, age, ethnicity, culture, literacy, state of health, disability, poverty or economic disadvantage, and dependence on unique natural resources.*⁶⁸

⁶⁴ Sustainability Policy, para 22.

⁶⁵ Performance Standard 1, Para 12.

⁶⁶ This and the following sections in Part II focus on key risk factors and development opportunities. Part III provides more detail on how the assessment process is undertaken, and how clients’ and IDB Invest’s management systems are expected to address these issues.

⁶⁷ See the later section on Stakeholder Engagement.

⁶⁸ Sustainability Policy, footnote 12.

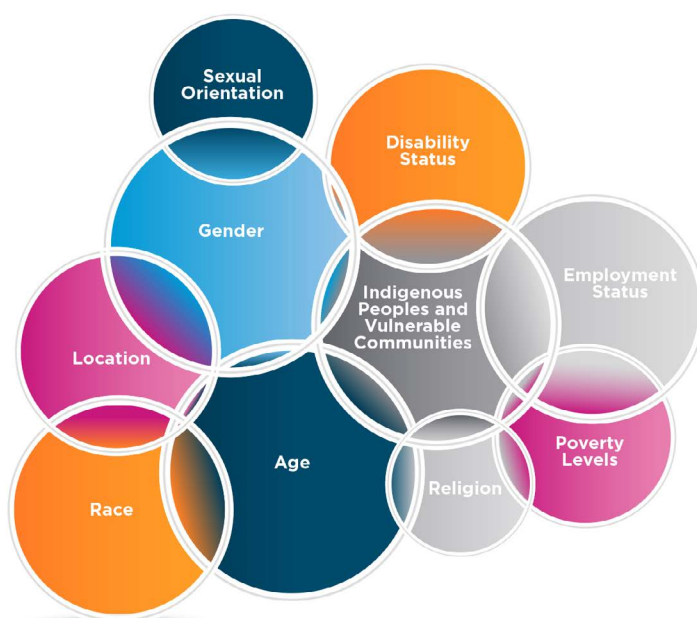
Which status or identity makes an individual or group disadvantaged can vary from one project setting to another. The listing of identities above is indicative only; other factors can also cause people to be at a disadvantage.

For the client, there are four main steps involved in addressing the needs of disadvantaged or vulnerable groups:

1. Identify who is disadvantaged or vulnerable in the project setting;
2. Assess how project risks and benefits may affect different groups in different ways;
3. Consider how discrimination or bias may exclude some individuals or groups from equal opportunity; and
4. Design differentiated measures to (i) avoid or mitigate adverse impacts including in relation to discrimination; (ii) promote diversity and inclusion and provide access to project benefits; and (iii) involve disadvantaged or vulnerable groups in the consultation process related to the project.

It is important to note that the combination of identities is likely to have different implications than when each factor is seen in isolation. Being female, Indigenous, and illiterate may exacerbate levels of poverty, social exclusion, and vulnerability. The fact that individuals fall into several categories that interrelate and affect each other is referred to as intersectionality. The combination of two or more of these identities can constitute cumulative disadvantages. Some examples of such identities can be illustrated with the figure below:⁶⁹

Figure 4: Overlapping categories of disadvantage and vulnerability



⁶⁹ Adapted from IDB (2018), Social Impact Assessment. [Link](#)

Different categories may be relevant in different project settings and contexts. Many identities are fluid and context-sensitive, and may change over time. However, four statuses or identities are consistently indicative of disadvantage in the Latin America and Caribbean region. They relate to gender (including sexual orientation and gender identity); Indigenous Peoples; Afro-Descendants; and persons with disabilities. These categories are highlighted in the Sustainability Policy, and discussed in more detail in the following sub-sections.

2.1. Gender

Gender identity and relations are social constructs which vary across culture and time, and are reflected both in formal and informal institutions and norms. The Latin America and Caribbean region is characterized by significant inequality and discrimination based on gender. Gender inequality is manifested in a number of areas, including in distribution of power; legal rights; education and health status; and access to productive resources.



Honduras, 2007

IDB Invest's Sustainability Policy recognizes that people may be more vulnerable to negative project impacts based on gender.⁷⁰ It requires clients to identify and address gender-related risks, and to ensure inclusion of all genders in the consultation processes in accordance with the Performance Standards:

Gender-differentiated impacts should be assessed and the risks and impacts identification process should propose measures designed to ensure that one gender is not disadvantaged relative to the other in the context of the project. This may include providing opportunities to enhance full participation and influence in decision-making through separate mechanisms for consultation and grievances, and developing measures that allow both women and men equal access to benefits (such as land titles, compensation, and employment).⁷¹

Gender-differentiated risks and impacts of projects are addressed as a cross-cutting theme throughout the Performance Standards. These considerations should be reflected in how projects address areas such as labor and working conditions; access to natural resources; community health and safety; in resettlement situations; when dealing with Indigenous communities; and in how tangible or intangible cultural heritage is understood and managed.

IDB Invest requires clients to identify gender-based risks and impacts, and to implement effective measures to avoid, prevent or mitigate such risks and impacts. The social assessment process, stakeholder analysis, mitigation measures and monitoring indicators should reflect these concerns, and disaggregate based on relevant gender identities.⁷² To assist clients in assessing and managing such risks, the institution has developed a Gender Risk Assessment Tool.⁷³ This tool contains guidance on identification and management of risks and impacts; consultation and engagement processes; working conditions including occupational health and safety; community health and safety; and gender aspects of resettlement situations. Clients are also supported in strengthening their attention to gender and diversity through IDB Invest's technical assistance / advisory activities.

Gender-based Violence, GBV, is of particular concern. Roughly one-third of women in the world have experienced physical or sexual violence. Children are particularly vulnerable: It is estimated that ten percent of girls under the age of 18 have experienced rape or other unwanted sexual acts. GBV is a broad term, which encompasses issues such as sexual exploitation and abuse; sexual harassment; physical or psychological violence within the family or household;

⁷⁰ Both men and women may be disadvantaged in different contexts. But women are far more often discriminated against than men. In practice, a gender-response approach to project risk assessment and management should in most cases focus on risks to women, and their roles and opportunities.

⁷¹ Performance Standard 1, Guidance Note, para GN50.

⁷² Sustainability Policy, para 21.

⁷³ IDB Invest Gender Risk Assessment Tool [Link](#)

and human trafficking.⁷⁴ While GBV exists in all societies and may constitute pre-existing, contextual risk factors in a project setting, projects may exacerbate violence. They may also cause new situations of violence, such as with labor influx in a construction project increasing the demand for sex work; exposure to sexually transmitted diseases; commercial sexual exploitation of children and youth; land distribution and resettlement; migration patterns; and changing economic and power relations in communities as a result of a project.⁷⁵



Mexico, 2018

Assessing and managing risks of GBV in a project setting involves three key steps:

1. **Identification and assessment** of GBV risks. This is generally done as part of the overall environmental and social assessment process and stakeholder analysis using the IDB Invest Gender Assessment Risk Tool, and may also involve additional or specialized studies and consultations in high-risk circumstances.
2. Address GBV risks through **mitigation and monitoring** mechanisms. This may for example be done through inclusion of GBV-related measures in contractors' code of conduct, specific requirements for lodging facilities, awareness campaigns, and other means.

⁷⁴ See the definition of GBV in Part I, Environmental and Social Policies and Standards.

⁷⁵ For more comprehensive guidance see 'Addressing Gender-Based Violence and Harassment', co-published by IFC, CDC, and EBRD in July 2020. [Link](#) See also the discussion on GBV in the later section on Labor and Working Conditions.

3. Establish **response mechanisms** for GBV cases, including services for victims of GBV, keeping their information confidential and anonymous.

When considering gender aspects, an assessment should be made not only of the differences between men and women. People affected by projects may also be discriminated against or be disadvantaged in other ways based on their real or perceived sexual orientation, gender identity, gender expression, or sex characteristics. This may involve lesbian or gay persons, bisexual or transgender persons, and other forms of gender expression.

Assessing how some people may be more vulnerable in a project because of their sexual orientation and gender identity (SOGI) must be done in a respectful way. Frequently, confidentiality and anonymity are required, since SOGI issues may be politically or socially sensitive in some contexts.

2.2. Indigenous Peoples



Mexico, 2018

Indigenous Peoples are social and cultural groups which are often among the most vulnerable and poorest segments of the population. Many of them have been subjected to systematic human rights abuses and marginalization. Despite progress and increased recognition of their rights, they remain among the most vulnerable in the development process. Their lands and territories are predominantly rural, and they typically depend on natural resources.

Through various international bodies, including the UN and the Inter-American Commission on Human Rights, Indigenous Peoples' collective rights and special status have become recognized. Important documents in this regard are the 2007 United Nations Declaration on the Rights of Indigenous Peoples, UNDRIP, and the 1989 ILO Indigenous and Tribal Peoples Convention.

Indigenous Peoples' resources and overall cultural identity may be threatened by development projects, especially if there is potential for land acquisition or if a project may cause restriction on the use of natural resources. Indigenous Peoples may also be restricted in their ability to participate in and benefit from development projects. Within Indigenous communities, women and children may be further marginalized from decision-making or access to resources.

IDB Invest's Sustainability Policy states that:

IDB Invest is committed to fostering full respect for the human rights, dignity, aspirations, culture and livelihoods of Indigenous Peoples, Afro-descendants and other vulnerable groups.⁷⁶

The emphasis in relevant international instruments and in the IDB Invest Sustainability Framework is on the collective rights of Indigenous Peoples. These communities' economic, social, spiritual, and cultural development and well-being are generally based on their relationship to the land and the natural resources.

Determining who is Indigenous in the project setting may not be straightforward, and may in some cases be controversial. While an increasing number of countries in the Latin America and Caribbean region recognize cultural and ethnic diversity, there are still processes of assimilation into 'mainstream' society. IFC's Performance Standard 7 requires clients to determine the identity of Indigenous Peoples based on whether they possess the following characteristics in varying degrees:⁷⁷

- Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others;
- Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories;
- Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture; or

⁷⁶ Sustainability Policy, para 22

⁷⁷ Performance Standard 7, para 5.

- A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.

Consultation with local communities is essential when determining identity and eligibility in relation to the Sustainability Framework's requirement. Local communities' own view of their identity must be ascertained through culturally appropriate and respectful engagement and consultations. There are situations, for example, where Indigenous groups have lost their ancestral language, but still consider themselves as Indigenous Peoples with certain collective rights. Performance Standard 7 recognizes this type of situation, in that not all the characteristics listed have to be present for a group to be considered Indigenous.

While Indigenous groups exhibit some or all of the characteristics listed above, it is also important to recognize that they are not homogenous or groups with similar cultures. Each group is likely to have its own history, worldview, linguistic roots, and institutional and organizational structures. It is therefore important that clients be aware of these characteristics and nuances, to be able to engage with the groups in a respectful and culturally appropriate manner.

Once it has been determined that the project may affect or involve Indigenous communities, clients are expected to:

- Ensure that the project activities foster full respect for the identity, culture and rights of Indigenous Peoples;
- Avoid adverse impacts on Indigenous Peoples. Such adverse impacts have in the past included pressure on lands and extraction of natural resources; incursions into Indigenous community lands; exposure to contagious and other diseases; and even direct violence and attacks.
- Promote sustainable development benefits;
- Take into account traditional knowledge and practices of Indigenous Peoples; and
- Ensure meaningful and culturally appropriate engagement and consultation with Indigenous Peoples, respecting their institutions and decision-making processes. This may include a process aimed at obtaining Free, Prior, and Informed Consent, FPIC, in certain circumstances.⁷⁸

Sustainable development benefits may include support from the project towards several opportunities for Indigenous communities, including:

- Strengthening of land security and access to resources, including protection of natural resources;
- Capacity building;⁷⁹

⁷⁸ See the discussion of FPIC below.

⁷⁹ This may be of particular importance when it comes to consultations with Indigenous communities, to ensure that good faith discussions can take place on 'a level playing field' with full understanding of risks and opportunities, and the rights of the affected populations.

- Activities to enhance food security;
- Improved access to labor markets and services such as health and education;
- Management of cultural heritage; and
- Environmental services.

Performance Standard 7 and its accompanying Guidance Note provide detailed information on client requirements and good practice approaches when projects involve Indigenous Peoples. Of particular importance is the section in PS7 that describe high-risk levels to the collective identity and well-being of Indigenous Peoples. **The Free, Prior, and Informed Consent** of the Indigenous Peoples is required if the project involves one or more of the following circumstances:⁸⁰

- Impacts on **lands and natural resources** subject to traditional ownership or under customary use;
- **Relocation** of Indigenous Peoples from lands and natural resources subject to traditional ownership or under customary use; or
- Significant impacts on **critical cultural heritage**.

In such circumstances, a process of good faith negotiation resulting in a documented agreement and expression of support from the Indigenous community is required.⁸¹ Clients are expected to assess, and when relevant, document the following:

- Are Indigenous communities present in the project area, and are they likely to be affected by the project?
- What are the communities' economic, social, and cultural characteristics that may be relevant in how a project affects them, and how they can engage with the project?
- Are Indigenous communities vulnerable to project-related adverse impacts, or are there constraints on them accessing project benefits?
- What potential does the project have for providing development opportunities for Indigenous communities?
- What are the local organizational and institutional mechanisms?
- How should a meaningful and culturally appropriate consultation process be conducted?
- Does the project require Free, Prior, and Informed Consent? If so, what are the legitimate decision-making bodies or institutions among the potentially affected Indigenous? How does the project intend to deal with dissent?

⁸⁰ Performance Standard 7, paras 13-17.

⁸¹ Such a legitimate agreement may be reached even if some individuals disagree with the project, since it is unrealistic to expect unanimous support from all community members.

IDB Invest's Sustainability Policy also requires clients to respect and protect groups who have had limited or no previous contact with outsiders, and who live in voluntary isolation. These are groups who do not maintain sustained contacts with the majority non-Indigenous population, and who generally reject any type of contact with persons not part of their own people.⁸²

In the Latin America and Caribbean region, it is known that there are Indigenous Peoples in voluntary isolation in Bolivia, Peru, Brazil, Colombia, Ecuador, Paraguay, Peru, and Venezuela. There are also likely groups in Guyana and Suriname. These groups are not usually 'uncontacted'. However, their previous contacts with outside groups have often been violent and have had serious negative impacts on them. Peoples in voluntary isolation have therefore generally adopted their position as a survival strategy resulting from outside pressures.

Appropriate measures should be taken to recognize, respect and protect the land and territories of these groups, as well as their environment, health, and culture. Their vital spaces should be preserved from pressures, especially from extractive industries, logging, and human settlements by outside groups. Any project component or aspect that may result in undesired contact should be cancelled. Attempts at engaging in a project-related consultation process, for example with the objective of achieving FPIC, are by definition unacceptable, since the groups in voluntary isolation seek to avoid contact with outsiders.

2.3. Afro-Descendants and Other Minorities

While Afro-descendants in Latin America and the Caribbean are not 'Indigenous' in the sense that they were present before colonization, they share many characteristics with Indigenous Peoples in the region. They all have a long history of displacement and exclusion.

Afro-descendants are the largest socially and economically excluded group in the region. They account for about a quarter of Latin America's population — nearly 135 million people — and they are more than twice as likely to live in poverty than whites or mestizos. Afro-descendants are unevenly distributed across the region, with the highest concentrations in Brazil and Venezuela. In Brazil, Colombia, Ecuador, Panama, Peru, and Uruguay combined, Afro-descendants represent 38 percent of the total population, but about half of all the people living in extreme poverty.⁸³

⁸² For a detailed overview of this topic, see Inter-American Commission on Human Rights (2013), Indigenous Peoples in Voluntary Isolation and Initial Contact in the Americas. [Link](#)

⁸³ Source: World Bank (2018): Afro-descendants in Latin America. Toward a Framework of Inclusion. [Link](#)



Jamaica, 2006

As with Indigenous communities, there is not full clarity or agreement on who is Afro-descendant. They live in very different conditions and settings. Some are characterized as Afro-Indigenous, such as the Garifuna in Central America. Identifying who is Afro-descendant is made more difficult by the lack of national data, caused in part by refusal by many governments to acknowledge racial differences. This attitude has changed in recent years, and there is now an increasing recognition of the presence, challenges, and rights of Afro-descendants. Most countries in the region are now including racial variables in the national census.

Overall, Afro-descendants have higher levels of poverty and access to markets than other groups. They have lower chances of social mobility, have higher levels of unemployment, and are disproportionately represented in urban slums. While education opportunities have improved at the primary level, this has not been the case at the secondary or tertiary levels. Some of these disadvantages are worsened by overt discrimination and negative stereotypes.

There are also other ethnic minorities in the region. Several countries have relatively small groups of Roma people, most of them having immigrated in the late nineteenth and early twentieth centuries. Some arrived earlier, sent as slaves to work in the colonies of Portugal, Spain, and France. There is not much research or data related to them, so it is unclear how many Roma people live in different countries in Latin America. It is estimated that about 1 million Roma live in Brazil, with smaller numbers in Argentina, Chile, Mexico, Ecuador, Uruguay, and Colombia. Many of them work outside the formal economy. Many are artisans, and some live as nomads. As with Roma in Europe, they are often subjected to harassment and persecution. There is gradual recognition of their presence in society; in 1999, Colombia recognized Roma people as one of the country's ethnic minority groups, giving them more access to education, health, and other services.

The disadvantages of Afro-descendants, Roma, or other minorities represent systemic barriers to opportunity and inclusion. Individual clients and projects supported by IDB Invest can only to a limited degree address and improve on these structural inequalities. However, each project is responsible for ensuring that the assessment and consultation process and the project design and implementation take account of these issues to ensure that any adverse impacts the project may cause or contribute to do not disproportionately affect such groups, and to make good faith efforts to provide benefits and opportunities for disadvantaged groups. The consultation and engagement process with these groups should be respectful and free of coercion. It should be culturally appropriate, and prior information should be provided in an accessible and understandable manner, with sufficient time for individuals and groups to consider the issues and arrive at informed positions and views. Where national law gives them equal status to Indigenous Peoples, including the right to Free, Prior, and Informed Consent, this must be applied in a project setting if the circumstances described in the section on FPIC in Performance Standard 7 are met.⁸⁴

2.4. Persons with Disabilities

Persons with disabilities are individuals who have long-term physical, mental, intellectual or sensory impairments which may lead to marginalization, discrimination, or reduced access to opportunities, services, and participation in society. Globally, it is estimated that 15 percent of the population live with disability. It is therefore likely to be of relevance in most, if not all, project contexts.

The Sustainability Policy requires clients to take account of the needs and requirements of persons with disabilities:

⁸⁴ The Performance Standards and the IDB Invest Sustainability Framework limit the application of FPIC to Indigenous Peoples under certain circumstances, unless national law accords the same rights to other groups as well. This is consistent with UN standards such as ILO 169 and UNDRIP, which apply to Indigenous Peoples only.

In an effort to protect the rights of persons with disabilities, IDB Invest requires clients to practice participation and inclusion of persons with disabilities, including access to the physical environment, equality of opportunity in employment for persons with disabilities, other rights and avoidance of all forms of discrimination based on disability.⁸⁵

The UN Convention on the Rights of Persons with Disabilities states that:

Persons with disabilities include those who have long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others.⁸⁶



Mexico, 2005

⁸⁵ Sustainability Policy, para 23.

⁸⁶ United Nations (2006). Convention on the Rights of Persons with Disabilities, Article 1. [Link](#)

It is important to note that persons with disabilities may be disadvantaged or vulnerable in a project setting not because of their inherent characteristics, but because of societal, attitudinal and environmental barriers. They may face higher rates of poverty compared with persons without disabilities, and are also frequently subjected to prejudice and discrimination. Such discrimination can be direct, such as excluding a blind child from attending school. It can also be more indirect or non-intentional, such as when meeting venues are inaccessible for physically disabled persons, for example persons in wheelchairs.

Persons with disabilities do not represent homogeneous groups with the same characteristics or interests. It is therefore important that the assessment and consultation process in a project disaggregate among different categories of people, and ensure that consideration is given to the needs of all. This does not just apply to impacts on local communities that projects may cause or contribute to; it also applies to non-discrimination in the workplace. Performance Standard 2 (Labor and Working Conditions) has as its first objective to project the fair treatment, non-discrimination, and equal opportunity of workers, and states that:

The client will not make employment decisions on the basis of personal characteristics unrelated to inherent job requirements.⁸⁷

Clients should identify barriers and opportunities for persons with disabilities as part of the assessment and consultation process, and consider how project design and implementation can be improved to improve opportunities and avoid adverse impacts for persons with disabilities. Considerations may include:⁸⁸

- Are there potential adverse project impacts that would disproportionately affect persons with disabilities?
- Is the project operating in an area of fragility, conflict, or violence, in which case the percentage of persons with disabilities is likely to be higher?
- How can persons with disabilities access project benefits?
- How can hiring and employment related to the project be done in a non-discriminatory way?
- Are workplace accommodations appropriate for persons with disabilities?
- Are principles of universal access being applied to relevant aspects of the project?⁸⁹

⁸⁷ Performance Standard 2, para 15. People with disabilities are specifically mentioned under this requirement.

⁸⁸ For recent and comprehensive guidance related to persons with disabilities, see for example World Bank (2018), Non-Discrimination and Disability. A Good Practice Note under the Environment and Social Framework, ESF. [Link](#)

⁸⁹ Universal access means unimpeded access for persons of all abilities and ages in different situations and circumstances, such as in the design of buildings, products, services, or environments.

- Are there health and safety hazards that may affect persons with disabilities?
- How will persons with disabilities be included and meaningfully consulted as part of the stakeholder engagement process?
- How will persons with disabilities be involved and participate during the project implementation process?
- Do emergency response and preparedness plans contain appropriate measures for persons with disabilities?
- Is the project grievance mechanism suitable for persons with disabilities?

When engaging with people with disabilities, it is important to ensure privacy, security, and safety, and to avoid segregating or stigmatizing those involved. Ethical and safety concerns are essential, including in protecting the confidentiality of data.

3. HUMAN RIGHTS



This section addresses human rights as they are referenced in the IDB Invest Sustainability Framework.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy. See in particular paragraph 17. [Link](#)

IFC (2012). Performance Standards. See in particular Performance Standard 1, paragraph 3, and footnote 12. [Link](#)

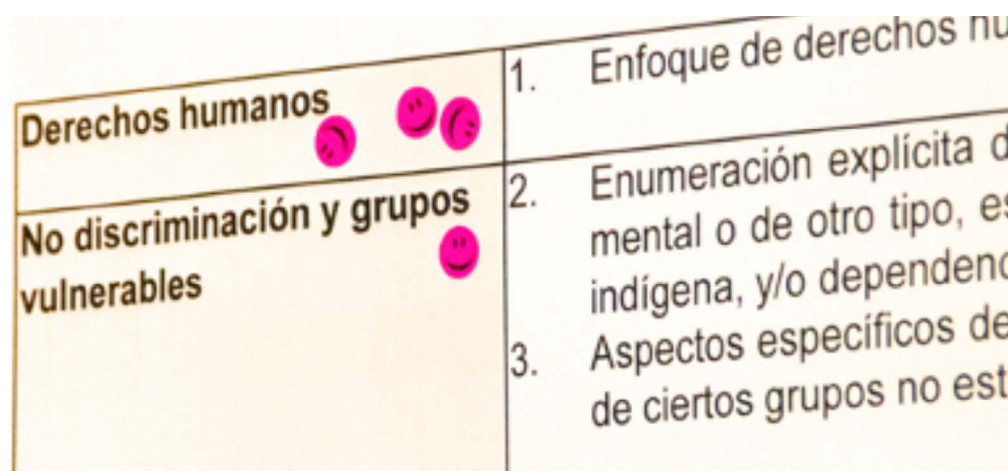
United Nations (2011). Guiding Principles on Business and Human Rights. [Link](#)

IDB Invest has a clear statement in its Sustainability Policy requiring clients to respect human rights:

IDB Invest requires its clients to have in place an approach to assess potential human rights risks and impacts, respect human rights, avoid infringement on the human rights of others, and address adverse human rights risks and impacts in IDB Invest- supported projects.⁹⁰

⁹⁰ Sustainability Policy, para 17.

Development projects may cause or contribute to adverse impacts in areas that have human rights implications, including in relation to Indigenous Peoples; displacement as part of land acquisition and resettlement; gender-based violence; and labor rights and working conditions. Principles of equality, non-discrimination, participation, transparency, and accountability also constitute human rights, and failure to respect these principles may adversely impact the human rights of those affected. IDB Invest seeks to adhere to these principles in its own work, and requires clients to do the same.



Consultation on standards. Mexico, 2015.

The core human rights instruments relevant for projects supported by IDB Invest are the International Bill of Human Rights and the eight ILO core conventions contained in the Declaration on Fundamental Principles and Rights at Work.⁹¹ These are at the core of companies' responsibility to respect human rights. The Sustainability Framework also recognizes other issues where the United Nations has elaborated further on rights of specific groups, such as Indigenous Peoples, women; ethnic, religious, and linguistic minorities; children, and persons with disabilities.⁹²

Recognizing the private sector's responsibility to respect human rights is also part of the IFC Performance Standards. Performance Standard 1 states that:

*In limited high risk circumstances, it may be appropriate for the client to complement its environmental and social risks and impact identification process with specific human rights due diligence as relevant to the particular business.*⁹³

⁹¹ The International Bill of Human Rights consists of the Universal Declaration of Human Rights; The international Covenant on Civil and Political Rights; and the International Covenant on Economic, Social and Cultural Rights. For an overview, see [Link](#).

⁹² Some of these issues are discussed in more detail in this Manual.

⁹³ Performance Standard 1, footnote 12.

The approach to human rights taken in the Sustainability Framework is informed by the United Nations Guiding Principles on Business and Human Rights. These were developed by the Special Representative of the UN Secretary-General on the issue of human rights and transnational corporations and other business enterprises, and endorsed by the UN Human Rights Council in 2011. The Guiding Principles establish that companies' responsibility to respect human rights exist independently of States' ability or willingness to fulfill their own human rights obligations. This framework is often referred to as the 'Protect, Respect and Remedy' Framework, since it establishes three core principles:

1. The State duty to **protect** human rights;
2. The corporate responsibility to **respect** human rights; and
3. Access to **remedy** for those affected by business-related human rights abuses.

Assessing and managing risks of adverse human rights impacts, and conducting specific or enhanced due diligence relating to human rights as indicated in the Performance Standards, should be done with the appropriate level of expertise in the area. This may be done as a stand-alone or in-depth study, sometimes referred to as a Human Rights Impact Assessment, HRIA. However, it should be undertaken within the overall continuum of, and coordinated with, the environmental and social assessment process.

Risk factors that are particularly important from a human rights perspective include characteristics of affected populations, and how contextual risk factors such as fragility, conflict and violence may exacerbate human rights-related impacts, for example by making vulnerable and marginal populations less resilient to adverse impacts. High contextual risks may also make mitigation measures more difficult, for example if there is only limited access to an area due to conflict.⁹⁴

As with other issues and specialized topics within the overall Sustainability Framework, the degree of effort and attention in relation to human rights should be proportionate to risk levels. Higher risk situations will require more in-depth attention and expertise.

In terms of impacts that projects may cause or contribute to, the Performance Standards cover most relevant human rights issues. This is noted in Performance Standard 1, which states that:

*Due diligence against these Performance Standards will enable the client to address many relevant human rights issues in its project.*⁹⁵

⁹⁴ See the sections in Part III on Environmental and Social Assessment and on Client Management System, in particular the sub-section on Responsibilities in Relation to Different Risk Categories.

⁹⁵ Performance Standard 1, para 3.

The UN Guiding Principles discuss what companies should do to address adverse human rights impacts they have caused or contributed to, or are associated with, for example through business relationships. Client responsibilities in different risk situations are discussed in the section on Client Management System in Part III. They include risk identification; application of the risk mitigation hierarchy; and using leverage and good faith efforts to influence third parties where relevant.

4. STAKEHOLDER ENGAGEMENT



This section summarizes key principles and elements of meaningful stakeholder engagement. The section covers topics such as stakeholder identification and analysis; stakeholder engagement planning; and addressing concerns and grievances. The section also incorporates key issues and recommendations from the more recent work on reprisals.⁹⁶

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy, in particular paragraph 18. [Link](#)

IFC (2012). Performance Standard 1. See in particular paragraphs 25 to 35. [Link](#)

IFC (2007). Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets. [Link](#)

IDB (2017). Meaningful Stakeholder Consultation. [Link](#)

IDB and MFI Working Group on Environmental and Social Standards (2019). Meaningful Stakeholder Engagement. [Link](#)

United Nations (2018). Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean. [Link](#)⁹⁷

Identifying and engaging with stakeholders in a meaningful way is an essential element of the IDB Invest Sustainability Framework:

IDB Invest promotes open, transparent, inclusive engagement between the client and stakeholders, particularly Affected Communities, as a key element to enhance the environmental and social sustainability of investments.⁹⁸

Stakeholder engagement is described in detail in the IFC Performance Standard 1, and it is a cross-cutting consideration with specific requirements described in the other seven standards. Core principles of stakeholder engagement and consultation processes are also established through national law and regional agreements in Latin America.⁹⁹

⁹⁶ This section is largely based on recent publications sponsored by the IDB Group: Meaningful Stakeholder Engagement (2019), and Meaningful Stakeholder Consultation (2017).

⁹⁷ This is also known as the Escazú Agreement.

⁹⁸ Sustainability Policy, para 18.

⁹⁹ See for example the reference to the Escazú Agreement in Part I, in the section on Environmental and Social Policies and Standards.

Meaningful stakeholder engagement serves several purposes:

- It is the basis for constructive relationships with local communities and other groups who may be affected by a project, or have an interest in it;
- It identifies and engages with individuals and groups who may be disproportionately affected by any adverse impacts a project may cause or contribute to;¹⁰⁰
- It identifies and engages with groups who may be more limited than others in their ability to benefit from project opportunities; and
- It is an essential source of information about local knowledge and perspectives that should be considered in project design and implementation.

Stakeholder engagement should be a respectful and good-faith dialogue process between a project sponsor and affected or interested stakeholders. It should be done systematically and transparently throughout a project's lifetime. While the specifics of project-level stakeholder engagement will vary depending on the nature of the project and the local context, a meaningful process should reflect the following principles and elements.¹⁰¹

- It should be **ongoing and iterative**, and undertaken as a process both during project preparation and implementation, rather than one or a few isolated events.¹⁰²
- It should be based on a **disaggregated stakeholder analysis**, and ensure that different categories of stakeholders are represented and involved.
- It should be **equitable and non-discriminatory**, and ensure that women, the poor, and vulnerable groups among stakeholders are given a voice and are not disproportionately impacted by the project.
- Stakeholders should have **prior information** about relevant aspects of the project, in a language, format, and manner that is appropriate, clear, and accessible.
- Consultation events and other means of engagement with stakeholders should be **tailored to the needs of different groups**, to ensure that all relevant perspectives are captured and considered.
- The engagement process should be **respectful and free of coercion or intimidation**. Participants, including those who voice opposition to the project, should be protected against reprisals.¹⁰³

¹⁰⁰ See the earlier section on Vulnerable and Disadvantaged Groups.

¹⁰¹ For a more detailed discussion of these principles, see IDB and others (2019). Meaningful Stakeholder Engagement [Link](#)

¹⁰² By 'iterative', we mean that the various project aspects should inform each other and adapt accordingly. Preliminary designs may guide how stakeholders are identified and how initial consultations are carried out; such consultations may in turn serve to modify and improve project designs and implementation mechanisms.

¹⁰³ See the later sub-section on Protection Against Violence and Reprisals.

- The process should be **transparent, with documentation and public disclosure** of how stakeholders are engaged, what their views and concerns are, and how stakeholder perspectives are considered and reflected in project design and implementation.
- Stakeholders should be able to **voice concerns and grievances**, and to seek remedy from the client if they feel the project may cause harm to them or the environment.

These principles and elements of engagement between the client and stakeholders are discussed in more detail below. This overview follows and expands on the steps outlined in IDB Invest's Sustainability Policy.

4.1. Stakeholder Identification and Analysis

Projects affect different groups differently, both positively and negatively. Different groups are also likely to have different views and perspectives on the project, and may be able to influence project outcomes in different ways. A project therefore needs to undertake an analysis that identifies and disaggregates among different stakeholder groups. The figure below illustrates a simplified stakeholder analysis.¹⁰⁴ Within the four main categories shown here, there will normally be a need to disaggregate the analysis into further sub-categories.

Figure 5: Key Stakeholder Groups



Groups and individuals do not fall into discrete categories, and the broad groups in the figure are not mutually exclusive. The same people can be both positively and negatively affected by a project, depending on what the issues are. For example, there may be adverse impacts related to noise, pollution, and increased traffic for groups that also benefit from local community development.

¹⁰⁴ The figure is adapted from the publication Meaningful Stakeholder Engagement (2019) [Link](#)

In determining who the relevant stakeholders are, the project will need to take a number of aspects into account. This should include the nature of the project itself; the main groups affected or involved with the project; and the setting and operating environment, including the presence of vulnerable groups, governance aspects, and historical and legacy issues. The stakeholder analysis should in particular be guided by an analysis of different risk factors and how they may affect different groups and individuals differently. Relevant questions to ask in identifying stakeholders include:

- Who may be **adversely affected** by the project? Are some groups particularly vulnerable to adverse impacts?
- Who are the groups who may **benefit** from the project? Are there differences when it comes to different groups' ability to access project benefits, for example based on gender, ethnicity, or other characteristics? The stakeholder analysis should disaggregate on the basis of relevant social identities including gender, both in terms of risks of adverse impacts, and how access to benefits may be differentiated.
- Who may be disadvantaged in the actual consultation process, in terms of ability to participate and have their voices heard? This may include persons with disabilities, elderly people or others with limited mobility, or people who are discriminated against in the local context, such as ethnic minority groups.
- Who are the **key decision makers** who are responsible for project planning and implementation, and who need to be informed and consulted about environmental and social issues?¹⁰⁵ This broad category includes groups and individuals such as:
 - Company or implementing agency staff and their consultants, both at the technical and management levels;
 - Senior management and board members of firms or institutions where appropriate;
 - Contractors and sub-contractors; and
 - Government agencies directly responsible for approval processes related to the project, such as land acquisition authorities or licensing agencies.
- Who may be **opposed** to the project, for example for political or ideological reasons?
- Who can **influence** project decision-making? Whose support is needed to ensure expected project outcomes? This category may include:

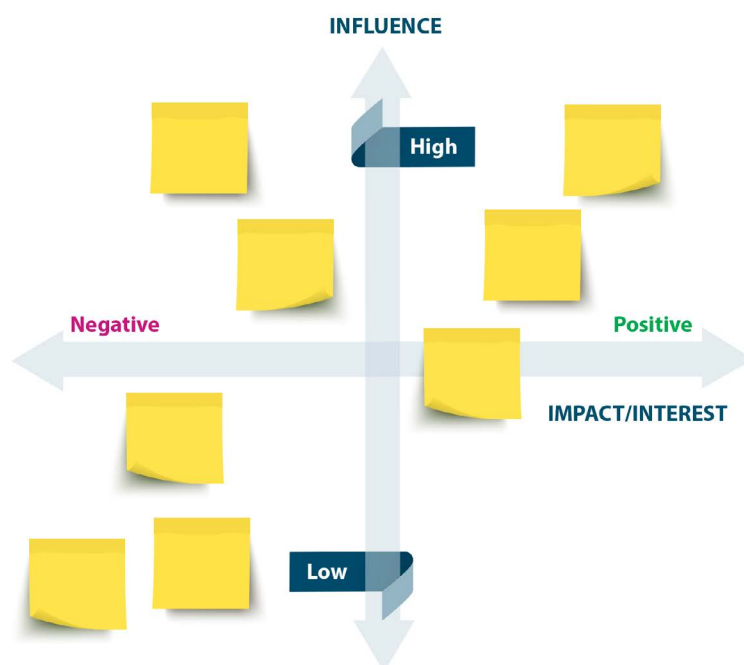
¹⁰⁵ While stakeholder engagement often focuses on external stakeholders to the company or project, experience has shown that it is important to ensure that key decision-makers and others involved in project management and implementation are informed and support the environmental and social assessment and management process.

- Other agencies or institutions contributing to the project (e.g. extension services that can collaborate with the project, government agencies at sub-national and local levels, etc.);
- Government policymakers and local authorities;
- Civil society (local and international NGOs, community-based organizations, religious groups, media, etc.);
- Academia and research organizations; and
- Organized interest groups (business associations, trade unions, others).

An initial analysis and mapping of stakeholders, and a preliminary plan for how to engage with different groups, should be done as early as possible in the project planning process. IFC's Performance Standard 1 requires that this be done at a minimum based on how the project may be of interest to, or may affect, different groups in different ways, with particular requirements for projects that may generate adverse environmental and social impacts to affected communities.¹⁰⁶

A stakeholder analysis can use different criteria and methods. A typical and simple way to visualize how stakeholders relate to a proposed project can be done through a simple matrix that positions stakeholder groups along two dimensions:

Figure 6: Stakeholder Analysis Matrix



¹⁰⁶ Performance Standard 1, para 26.

- On the horizontal axis: How the project may affect them positively or negatively, or what their view of the project is — positive or negative ('champions' and opponents); and
- On the vertical axis: The level of influence each stakeholder category has.

The figure above and the photo illustrate this type of matrix. A practical way to do this type of mapping is by organizing a workshop where different resource persons participate. When doing this as a participatory exercise, index cards can be used for each stakeholder category, as shown in the photo. Having diversity in perspectives, experience, and knowledge of the local context among the workshop participants is recommended. Participants could for example be drawn from the company, labor union representatives, academics, and civil society representatives. Such a workshop does not have to be lengthy — an early mapping can usually be done in half a day.



Stakeholder analysis. Honduras, 2018

Beyond considering impact and influence, the stakeholder analysis should identify relevant characteristics of different groups and individuals as they relate to the project. This will vary from project to project, but could include a brief description of socio-economic factors; gender and age aspects; relevant cultural factors; whether and how the stakeholders may be considered disadvantaged, vulnerable, or socially excluded; and other aspects relevant to the project and its stakeholders.¹⁰⁷

¹⁰⁷ See the earlier section on Vulnerable Groups and Non-Discrimination.

The stakeholder analysis and mapping should not be regarded as static or a one-time exercise. It may need to be updated from time to time. New stakeholders who had not earlier been considered may emerge; the engagement process and discussions may show the need to further disaggregate within existing stakeholder groups (e.g. landless workers may have very different rights and opportunities depending on their ethnic background, and may need to be considered separately); and people who had a particular view and perspective on the project may change their opinion. If possible, the engagement process should seek to move people towards the right in the matrix illustrated above — from opposed towards neutral or even favoring the project, and from adversely affected towards being project beneficiaries.

By identifying stakeholders and their characteristics, the analysis provides the basis for how the project should engage with different groups. That is discussed in the next subsection.

4.2. Stakeholder Engagement Planning

Stakeholder engagement can take many forms. In its simplest form, it consists of a one-way dissemination of information, such as public disclosure of basic project information on a company's website. This is only acceptable in projects that do not involve any environmental or social risk. Most projects will require a two-way dialogue with affected and interested stakeholders. Complex, large scale, or high-risk projects will require systematic and thorough engagement with stakeholders throughout the project cycle.

Performance Standard 1 requires that a Stakeholder Engagement Plan or a Stakeholder Engagement Framework be developed if the project involves risks of adverse environmental or social impacts.¹⁰⁸

The simple mapping shown in a matrix format in the previous section can illustrate key characteristics of different groups, which may serve as a basis for planning how the project should engage with them. Examples may include:

- Powerful opponents to the project (in the upper left quadrant) may pose threats to the project's achieving its expected outcomes. Efforts should be made to discuss their concerns, and either make adjustments to the project design where appropriate, or finding other ways to address the opposition.
- Groups adversely affected by the project with relatively little influence (lower left quadrant) are often marginal or vulnerable groups. They may require separate conversations or discussion formats to ensure that their voices are heard and taken into consideration.

¹⁰⁸ Performance Standard 1, paras 26-28. A plan is used where the impact area and likely affected stakeholders are known, while a framework describing key principles and approaches is used where the project location is not known.

A framework or plan to engage with different stakeholder groups should focus on how a project may affect different groups. Clients of IDB Invest should consult with local communities and other key stakeholders about benefits and opportunities as well as about risks of potential adverse impacts. Risk levels may be different for different groups depending on the project or project component, as illustrated by the table below.¹⁰⁹

Table 1: Risks Levels by Stakeholder Groups

RISK LEVELS BY STAKEHOLDER GROUPS: EXAMPLES (SIMPLIFIED)					
Project activity	Urban, prosperous property owners and business owners	Subsistence agriculturalists with recognized land occupancy	Informal land occupants and landless day laborers	Women	Children and the elderly
Land acquisition and resettlement	Loss of partial value of land and houses. No direct threat to economic viability. Risk: Moderate	Loss of land as only source of livelihood Risk: Substantial	Loss of access to employment, no legal recourse for compensation. Risk: High	Potential loss of access to economic activity. Legal tenure uncertain. Risk: Substantial	Depends on overall situation of household. Risk: Moderate to Substantial
Increase in traffic volume	Potential increase in traffic accidents. Risk: Moderate	Potential increase in traffic accidents. Risk: Moderate	Potential increase in traffic accidents. Risk: Moderate	Potential increase in traffic accidents. Risk: Moderate	Potential increase in traffic accidents. Risk: High
Reduced access to water and natural resources	Minimal use of natural resources; availability of piped or purchased water. Risk: Low	Loss of important resources. Risk: Substantial	Loss of resources they depend fully on. Risk: High	Frequently responsible for providing water. Risk: High	Children and the elderly often gather firewood and collect water. Risk: High
Urban development and new traffic patterns	May constitute loss of customers and reduced livelihoods. Risk: Substantial to High	Does not affect them directly. Risk: Low	May constitute loss of day employment. Risk: Potentially Substantial	Depending on occupation and location. For urban women shopkeepers. Risk: Potentially Substantial	Unlikely to affect them directly. Risk: Low to Moderate

¹⁰⁹ Source: IDB (2018), Social Impact Assessment. [Link](#)

Based on likely project impacts and stakeholder characteristics, the engagement plan may outline different types of engagement with different groups. Forums and methods may include:¹¹⁰

- Nontechnical summary project studies and plans
- Public hearings or meetings
- Workshops and seminars
- Consultations with key informants
- Focus groups
- Round tables
- Discussions as part of conducting surveys or census studies
- Consultations using electronic media
- Awareness campaigns and outreach

An engagement plan should be proportionate to the risk levels, scale and complexity of the project, taking characteristics of different stakeholder groups into account. It should focus particularly on those likely to be adversely affected by the project, and consider the needs of marginal and vulnerable groups. Such groups may have limitations in how they can access information about the project, or participate in the consultation process. These limitations may relate to language differences, lack of mobility, or social exclusion and discrimination by others in the project setting. Targeted support to enable all relevant groups to participate may therefore be required. Such support may include capacity building to enable groups to more fully understand the project and their roles.

Elements to be reflected in a plan may include:

- Stakeholder category
- Stake in project: expected or potential project impact, or interest
- Summary of previous engagement
- Characteristics of stakeholder category, including level of influence
- Strategy for consultation: How the project intends to engage with different stakeholders in a manner appropriate to their characteristics and interest (timing, locations, format, responsibility)
- How the engagement process will be documented

¹¹⁰ For more detail on methods and types of events, see Meaningful Stakeholder Engagement [Link](#).

- How stakeholder views and concerns will be considered in project design and implementation
- How stakeholders will be provided with feedback about how the project is addressing their views and concerns

4.3. Access to Information

Stakeholders will be provided with information about the project, including relevant information about potential environmental and social adverse impacts. Performance Standard 1 states that:

The client will provide Affected Communities with access to relevant information on: (i) the purpose, nature, and scale of the project; (ii) the duration of proposed project activities; (iii) any risks to and potential impacts on such communities and relevant mitigation measures; (iv) the envisaged stakeholder engagement process; and (v) the grievance mechanism.¹¹¹

Stakeholders should receive information as part of a two-way, direct consultation and engagement process with them. This information should be made available prior to actual consultation events, since it is important that stakeholders have the opportunity to consider the information and discuss among themselves before being asked their views in a structured consultation setting.

The information provided to different groups should be tailored to their interests, needs, and likely concerns. People should be provided clear information about how the project is likely to affect them, and what they are being asked to do or agree to.

In many cases, it will be appropriate to extend written or formal invitations to a consultation event, especially more structured public meetings. This can be done together with prior disclosure of information. The information must be provided in a manner and format that is understandable, easily accessible, and culturally appropriate. Technical information on a website is rarely meaningful as background information. Instead, the information should be made available in appropriate locations, formats, and local languages. Verbal communications or the use of images may be needed if some stakeholders are illiterate. If information is provided in clear and understandable ways, it can help avoid uncertainty and worries about the future.

Disclosure should also be done after consultation events, as follow-up and feedback to those consulted. Transparency and feedback contribute to better understanding of the project among local communities and other stakeholders, and may reduce the potential for dissent or conflict. Timely

¹¹¹ Performance Standard 1, para 29.

and relevant feedback to stakeholders about how their concerns are being addressed may include:

- A record of location, time, and who participated;
- Key issues discussed;
- Any agreements reached;
- How recommendations have been or will be considered in project decision-making;
- How decisions taken based on stakeholder inputs are expected to enhance benefits and reduce or compensation for adverse impacts;
- Areas of disagreement or diverging views, whether among stakeholders or between participants and project authorities, and the reasons why some recommendations cannot be accommodated; and
- Future communication channels and expected consultation process, including access to remedy through a grievance mechanism.



Colombia, 2013.

4.4. Meaningful Stakeholder Engagement

In order for the consultation process to be meaningful, a degree of modification of the project design or implementation should exist as a possibility, particularly if the project may have adverse impacts on any stakeholder groups. It is therefore important that stakeholders' inputs are given proper consideration, and that they are informed about how their views are addressed. This will reduce uncertainty and increase support for the project among affected and involved communities. Performance Standard 1 describes this as **Informed Consultation and Participation**, ICP, and states that:

ICP involves a more in-depth exchange of views and information, and an organized and iterative consultation, leading to the client's incorporating into their decision-making process the views of the Affected Communities on matters that affect them directly, such as the proposed mitigation measures, the sharing of development benefits and opportunities, and implementation issues.¹¹²



Colombia, 2013.

¹¹² Performance Standard 1, para 31.

Consideration of how stakeholder views may be reflected in project design and implementation should be seen as an ongoing process rather than as a single event or decision point.¹¹³ This is particularly the case in projects where project design is done in stages, for example in projects with multiple sub-projects, or linear projects like an oil or gas pipeline. There are many project design decisions that can be improved by considering stakeholder inputs, and that can avoid or reduce potential adverse environmental or social impacts. A road alignment can be changed to avoid damaging community assets; cultural and spiritual beliefs can influence the design of a health program; and understanding women's preferences for organizing their work can improve the design of water and sanitation projects. A positive outcome of such processes is when there is an element of **empowerment**, where key stakeholder groups participate in project decision-making, such as through implementation committees, participatory monitoring, or joint fact-finding exercises.

There may be situations where a project is far advanced in design or even implementation prior to a client's or IDB Invest involvement, and where there has been insufficient consultation with relevant stakeholder groups. In such cases additional consultations should be considered, and reasonable efforts should be made to adjust project components to reflect stakeholder views in a meaningful manner.

4.5. Addressing Concerns and Grievances

IDB Invest requires clients to engage with affected communities on an ongoing basis, and to provide a way to resolve questions, concerns and complaints:

Where there are Affected Communities, IDB Invest requires the client to establish a grievance mechanism to receive and facilitate resolution of concerns and grievances about the client's environmental and social performance in accordance with PS 1.¹¹⁴

The functions and structures of grievance mechanisms, both on the part of clients and on the part of IDB Invest, are discussed in the section on Accountability Mechanisms in Part III, Policy Delivery and Accountability.

4.6. Protection against Violence and Reprisals

Participation in consultation events should be voluntary and free of coercion, intimidation, or retaliation. It is essential that there be no pressure

¹¹³ For an illustration of how stakeholder engagement is an ongoing process during project planning and implementation, see Figure 8 in Part III, Environmental and Social Management System.

¹¹⁴ Sustainability Policy, para 19.

or retribution against people who oppose a project or complain about it. People protesting projects, whether local communities demanding fair and timely compensation for adverse impacts, or activists advocating for social and environmental justice, have in some instances been persecuted and even murdered. Unfortunately, the Latin America and Caribbean region is the region in the world where such murders are most frequent. Recognizing this as a risk, the Sustainability Policy of IDB Invest states that:

IDB Invest does not tolerate retaliation, such as threats, intimidation, harassment, or violence, against those who voice their opinion or opposition to IDB Invest financed projects.¹¹⁵

The zero tolerance for any violence, intimidation or retaliation against people protesting against projects includes, but is not limited, to those who choose to access project grievance mechanisms or IDB Invest's accountability mechanisms such as the Independent Consultation and Investigation Mechanism, ICIM.¹¹⁶

Reprisals against people protesting projects financed by development finance institutions such as IDB Invest may take many forms, including:

- Verbal intimidation and threats
- Surveillance, including digital surveillance
- Property damage or loss
- Restrictions to freedom of movement
- Discrimination relating to employment
- Legal harassment and lawsuits
- Physical attacks

Risks of retaliation may be an issue in any project. The project analysis and engagement process should be cognizant of such risks, particularly in areas where powerful economic or political interests threaten land, resources, or livelihoods of poor or vulnerable people. Such reprisals may be perpetrated by different groups, including representatives of companies or the government, wealthy landowners, security forces, or even community members against other community members in cases of internal conflicts. There may also be violence against minority groups such as sexual and gender minorities.¹¹⁷ It is therefore important to be watchful for any indication that project opponents or groups such as minorities and marginal communities are being threatened or subjected to intimidation or retribution in any way, and to be familiar with

¹¹⁵ Sustainability Policy, para 20.

¹¹⁶ See the section on Accountability Mechanisms in Part III.

¹¹⁷ See the earlier section on Vulnerable and Disadvantaged Groups.

how to identify such risks and measures that may be taken. This may include:¹¹⁸

- **Emphasize prevention**, by identifying risks of retaliation at early stages of the project, and be prepared to respond to potential incidents;
- Incorporate attention to conflict, violence, and the risk of retaliation in the project's **environmental and social assessment** process, including through systematic analysis of contextual risk; and
- Involving those at risk by **consulting and collaborating** with project stakeholders at risk and ensuring that their concerns are reflected in project design and implementation.

4.7. Situations of Restrictions on Public Gatherings

There are occasions when public meetings or other forms of consultation events may be difficult to organize. Typically, this has been in situations of conflict and violence. Such situations continue to exist in parts of Latin America and the Caribbean, but the more immediate reason for the need to avoid or minimize public gatherings has come with the 2020 outbreak and spread of the pandemic COVID-19. In such circumstances it becomes difficult to ensure that the voices of all, in particular vulnerable and marginal groups, are heard. People who contract the disease may be stigmatized socially, and poor or vulnerable groups have less access to medical facilities.

When there are restrictions on public gatherings, other ways of capturing and considering the views of different groups should be considered. The Stakeholder Engagement Framework or Plan may include:¹¹⁹

- Focus on essential discussions of material relevance that are necessary for project decision-making, while avoiding more general discussions;
- Civil society representatives or key informants and resource persons may be able to provide relevant information regarding their members or groups they work with;
- In cases where physical meetings are being organized, participant numbers should be kept low. Small focus group meetings should be considered as an alternative to larger public meetings.
- Travel distances should be minimized; and use of physical distancing and protective equipment such as face masks should be provided; and
- Where Internet access is available to participants, consider virtual

¹¹⁸ For details on protection against reprisals, see IDB Invest guidance note 'Assessing and Addressing Risks of Reprisals in the Context of IDB Invest Projects (forthcoming).

¹¹⁹ For projects already under implementation, it may be necessary to update and modify existing stakeholder engagement mechanisms.

workshops, with online registration, prior electronic distribution of information, and online working groups. Social media, radio, the Internet, online discussion applications such as Zoom and Skype, and phone conversations may be alternatives for some groups.

IDB Invest has developed guidance on how to assess and manage risk relating to the COVID-19 pandemic.¹²⁰

5. LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT



This section addresses requirements embedded in Performance Standard 5, focusing particularly on challenges around appropriate compensation and support mechanisms, different land tenure systems and eligibility, and livelihood restoration. It notes that forced evictions are unacceptable, and describes the need for appropriate consultation processes, options and choices related to appropriate support and compensation, and due process.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy. See in particular paragraph 25. [Link](#)

IFC (2012). Performance Standard 5. Land Acquisition and Involuntary Resettlement. [Link](#)

EBRD (2017). Resettlement Guidance and Good Practice. [Link](#)

World Bank (2004). Involuntary Resettlement Sourcebook. [Link](#)

Restrictions on land use are common in many projects, particularly infrastructure projects. This includes but is not limited to land acquisition undertaken by a government under its laws of eminent domain. Such changes in land use may have adverse impacts on individuals and groups who use the land. It may result in physical or economic displacement of affected populations, potentially leading to impoverishment or other significant adverse impacts such as joblessness, marginalization, food insecurity, and loss of access to common property and social networks. It can also lead to environmental damage. It is one of the most challenging issues to manage in a project context, in part because national requirements and practice in most countries do not incorporate the broad set of protections that IDB Invest and other Development Finance Institutions have adopted.

Ideally, land would be acquired based on purchase, in a ‘willing buyer, willing seller’ situation. When that is not possible, IDB Invest and other institutions

¹²⁰ See for example IDB Invest (2020). Guidance for Infrastructure Projects on COVID-19. [Link](#)

apply the principles and requirements described in IFC's Performance Standard 5, Land Acquisition and Involuntary Resettlement. The standard clarifies that:

Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in physical or economic displacement.¹²¹

Involuntary resettlement should be avoided whenever possible. Even with the best project planning and implementation, involuntary resettlement is nearly always traumatic to those affected, and it is particularly important to engage with potentially affected groups in a sensitive and transparent manner. If displacement cannot be avoided, it should be minimized through alternative designs. People affected should be compensated for any losses and assisted with restoration of livelihoods. Both temporary and permanent losses should be addressed.



Land titling. Honduras, 2007.

¹²¹ Performance Standard 5, para 1.

Performance Standard 5 and its accompanying Guidance Note provide details on principles, objectives, and requirements related to involuntary resettlement. Experience shows that there are three areas that require particular attention, in part because there are often gaps between the requirements in PS5 and national law and practice. The three areas are:

1. Full compensation for lost assets: Compensation levels are frequently insufficient to replace the lost assets. The valuation of assets such as land and houses may be based on outdated records, under-reporting of value, or be insufficient for other reasons. A more accurate accounting of value reflecting full replacement cost should be done.¹²²

2. Livelihood losses: Loss of land and land-related resources may lead to loss of livelihood and earning opportunity, particularly for agriculturalists and peasants. The consultation process should include a discussion about current livelihood strategies, how those may be affected by the project, and what alternatives may be viable. Vulnerable groups are likely to have far less resilience to shocks than people who have resources, and may need targeted, additional support to ensure that they can recover from displacement.

3. Tenure and eligibility: Most national legislation recognizes the right to compensation in cases of expropriation for individual property owners who have formal title to property. However, there are many affected people who do not fall into this category, and who still have a right to compensation or support. This may include people who have recognized but not formal rights to land, for example through traditional or customary claims; people who have collective ownership of the land, as in the case of many Indigenous communities; tenants; migrants; and people who are informal occupants of land, for example in urban slums. Performance Standard 5 requires appropriate levels of support to different categories of people, but security of tenure should be provided in all cases regardless of pre-existing property rights.

Situations involving economic or physical displacement require a transparent consultation process with affected groups, including host communities in cases of relocation to a new area. This consultation process should include a discussion and agreement on options and choices of different compensation types or support mechanisms for those affected. In discussing options and choices, including for livelihood opportunities, it is important to consider intra-household dynamics. Men and women may have different livelihood practices, and they may have different preferences when it comes to the most appropriate support mechanisms.¹²³

Forced evictions are unacceptable in projects supported by IDB Invest.¹²⁴ The United Nations Office of the High Commissioner of Human Rights defines what is meant by forced evictions:

¹²² Replacement cost is compensation sufficient to replace assets at their real value, including necessary transaction costs.

¹²³ For example, it is not unusual that men state they would like a cash settlement, while women may have a better understanding of the risks associated with cash compensation, and may prefer support in kind.

¹²⁴ Sustainability Policy, para 25.

Forced eviction is the permanent or temporary removal against their will of individuals, families and/or communities from the homes and/or land which they occupy, without the provision of, and access to, appropriate forms of legal or other protection.¹²⁵

It is important to note that the term ‘forced eviction’ is not synonymous with involuntary resettlement. Displacement can take place even if it is involuntary, provided that due process of legal and other protection is followed; that the process is transparent and gives affected people compensation and support at least equivalent in value to their pre-displacement situation; and that no undue force is used. If all the principles and requirements of Performance Standard 5 are followed, displacement may take place and is not considered forced eviction.

Private sector companies such as IDB Invest’s clients do not have the legal authority to expropriate land. But it is not uncommon that governments acquire land under eminent domain or displacement of people who do not have formal title to the land they occupy, and then provide the land for a company’s use on a concession basis. Performance Standard 5 describes private sector responsibilities under such government-managed resettlement. Clients are required to collaborate with the responsible government agency, and to undertake an assessment of whether the process and support mechanisms provided by government to affected people meet the requirements in Performance Standard 5. In cases of gaps, the standard states that:

If these measures do not meet the relevant requirements of this Performance Standard, the client will develop an Environmental and Social Action Plan to complement government action. This may include additional compensation for lost assets, and additional efforts to restore lost livelihoods where applicable.¹²⁶

¹²⁵ See United Nations OHCHR, Forced evictions website [Link](#)

¹²⁶ Performance Standard 5, para 32.

6. LABOR AND WORKING CONDITIONS



This section summarizes key aspects related to labor and working conditions, workers' organizations, non-discrimination and equal treatment, and retrenchment. It covers challenges related to labor influx, and includes a discussion on workforce demobilization.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy., in particular paragraph 24. [Link](#)

IFC (2012). Performance Standard 2. Labor and Working Conditions. [Link](#)

World Bank Group. Environmental, Health and Safety Guidelines. [Link](#)

IFC and others (2018). Managing Risks Associated with Modern Slavery. [Link](#)

6.1. Objectives and workers' rights

IDB Invest's Sustainability Framework is guided by international conventions and instruments, including several ILO Conventions and UN Conventions. Core among those standards is the 1998 Declaration on Fundamental Principles and Rights at Work, which commits member states to respect principles and rights in four categories:

1. Freedom of association and the effective recognition of the right to collective bargaining;
2. The elimination of forced or compulsory labor;¹²⁷
3. The abolition of child labor;¹²⁸ and
4. The elimination of discrimination in respect of employment and occupation.

The objectives, principles and requirements for clients are contained in IFC's Performance Standard 2, Labor and Working Conditions. The objectives as stated in this standard are:¹²⁹

- To promote the fair treatment, non-discrimination, and equal opportunity of workers.

¹²⁷ Forced labor is labor extracted from an individual under threat of force or penalty, such as bonded labor.

¹²⁸ Children under 14 should not be engaged in work under any circumstances. Children between 14 and 18 may be engaged with a project as long as the work is not hazardous, harmful to the child's development, or interfering with the child's education.

¹²⁹ Performance Standard 2, Objectives.

- To establish, maintain, and improve the worker-management relationship.
- To promote compliance with national employment and labor laws.
- To protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain.¹³⁰
- To promote safe and healthy working conditions, and the health of workers.
- To avoid the use of forced labor.

Labor-related risks can also include issues such as disguised employment relationships and the lack of lawful employment contracts; low or insufficient wages or unlawful wage deductions; excessive overtime; discriminatory hiring or promotion practices; and unsafe or unhygienic living quarters for workers.¹³¹

As part of the assessment of risks and impacts of the project, the client should analyze the situation of workers engaged with the project; consult with them about their working conditions; and incorporate improvements to the overall project management system when the assessment and consultation process identifies issues that need to be addressed.

6.2. Types of Workers

Project workers include men and women employed directly by the project or the responsible agency, as well as workers engaged through contractors and sub-contractors and primary suppliers of materials and goods related to core aspects of the project. Clients have different degrees of influence and control over the working conditions and treatment of these different types of workers associated with the project, and somewhat different requirements may apply:

- **Direct workers** are workers directly engaged by the client, and all requirements of Performance Standard 2 apply to them.
- **Contracted workers:** Workers engaged through third parties such as contractors, brokers, or intermediaries need to have clear contractual agreements with their direct employer. The client needs to make reasonable efforts to ascertain that the third parties who engage these workers are reputable and legitimate enterprises and have an appropriate

¹³⁰ For a discussion of management responsibilities in relation to supply chains, see the section on Client Management System in Part III.

¹³¹ Disguised employment relationships can include contractual arrangements that hide the true legal status of the employment relationship and/or contractual arrangements that have the effect of depriving workers of the protection they are due.

ESMS that will allow them to operate in a manner consistent with the requirements of the IDB Invest Sustainability Policy. The client needs to make reasonable efforts to ensure that contractual arrangements and working conditions meet the requirements of Performance Standard 2. Access to a grievance mechanism must be ensured.

When it comes to workers in the **supply chain**, Performance Standard 2 focuses on risks of child labor or forced labor, and safety issues in the primary supply chain. As a matter of good practice, it may be appropriate for the client to consider broader risk factors beyond workers in the primary supply chain. While such risks falls outside the direct responsibility of the client, they may affect the project in different ways, and it may be in the client's interest to apply influence or leverage to mitigate such risks.¹³²

6.3. Non-Discrimination



Colombia, 2006

Employment should be based on the principle of **equal opportunity and fair treatment**, including in access to wages and benefits, training opportunities,

¹³² See the discussion in the earlier section on Risk Factors, and the discussion of linkage-related risks in Part III, section on Client Management System.

¹³³ Requirements and good practice related to non-discrimination are discussed in Performance Standard 2 and its accompanying Guidance Note. See also IFC (2006), Non-Discrimination and Equal Opportunity.

and promotions. The client should ensure that there is no discrimination in hiring or working conditions. Non-discrimination and fair treatment may include addressing issues such as:¹³³

- Develop a strategy for non-discrimination, linking it with business opportunities and ensuring top management support;
- Ensure recruitment is competence-based;
- Accommodate persons with disabilities;
- Identify and eliminate discriminatory pay practices;
- Implement an anti-harassment policy; and
- Understand and support cultural and religious diversity.

6.4. Labor Influx

The growth and economic opportunity brought by projects may lead to **labor influx**.¹³⁴ This can consist of temporary or permanent settlement of contracted workers, for example when an outside contractor brings in workers from outside the project area, or even from a different country. Labor influx may also involve people moving into the area searching for employment or other benefits. Such in-migration may pose different risks that will need to be assessed and managed. Potential risks include increased pressure on accommodations and services; threats to natural resources; commercial sexual exploitation of children and youth; improper waste disposal or other types of contamination; increased transmission of communicable diseases including sexually transmitted diseases; and tensions and conflicts with host communities.



Colombia, 2013

¹³⁴ For guidance on this topic, see for example World Bank (2016), Managing the Risks of Adverse Impacts on Communities from Temporary Project Induced Labor Influx. [Link](#)

6.5. Gender-Based Violence and Harassment

Labor influx may lead to increases in **gender-based violence**. Gender-based violence relating to workers may take various forms. Internally in the workplace, sexual harassment may take the form of unwanted sexual advances or requests for sexual favors. Labor influx may also lead to increased violence towards local community members, including sexual exploitation of children and youth.¹³⁵

6.6. Freedom of Association

IFC's Performance Standard 2 requires clients to allow workers to form and join workers' organizations of their own choosing in countries where this right is established in national law. Where freedom of association rights are restricted by national law or where national law is silent on the issue, the Performance Standard states that:

The client will not restrict workers from developing alternative mechanisms to express their grievances and protect their rights regarding working conditions and terms of employment. The client should not seek to influence or control these mechanisms.¹³⁶

Clients of IDB Invest should engage with workers to address issues relating to their working conditions and terms of employment. Methods to enable alternative mechanisms where national freedom of association rights are restricted may include recognizing worker committees, and allowing workers to choose their own representatives for dialogue and negotiation.

6.7. Grievance Mechanism

Workers also have the right to a grievance mechanism where they can raise workplace concerns.¹³⁷ This grievance mechanism should be easily accessible, and allow for anonymous complaints to be raised and addressed. Performance Standard 2 summarizes the requirements for workers' grievance mechanisms:

The client will provide a grievance mechanism for workers (and their organizations, where they exist) to raise workplace concerns. The client will inform the workers of the grievance mechanism at the time of recruitment and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides timely feedback to those concerned, without any

¹³⁵ See the definition of gender-based violence in Part I, Environmental and Social Policies and Standards, and the discussion on gender-based violence in the earlier section on Gender.

¹³⁶ Performance Standard 2, para 13.

¹³⁷ For further discussion on grievance mechanism, see the section on Accountability Mechanisms in Part III.

retribution. The mechanism should also allow for anonymous complaints to be raised and addressed. The mechanism should not impede access to other judicial or administrative remedies that might be available under the law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements.¹³⁸

The grievance mechanism should address risks that may be particular to vulnerable groups, such as sexual harassment against women, where the ability to handle complaints may require confidentiality and staff trained in addressing harassment in the workplace.

6.8. Child Labor



Mexico, 1981

¹³⁸ Performance Standard 2, para 20. See also the accompanying Guidance Note, Annex D: Grievances — Principles of Grievance Mechanism.

Performance Standard 2 includes the following requirements on the use of child labor:

The client will not employ children in any manner that is economically exploitative, or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development. The client will identify the presence of all persons under the age of 18. Where national laws have provisions for the employment of minors, the client will follow those laws applicable to the client. Children under the age of 18 will not be employed in hazardous work. All work of persons under the age of 18 will be subject to an appropriate risk assessment and regular monitoring of health, working conditions, and hours of work.¹³⁹

6.9. Forced Labor and Human Trafficking

Forced labor is any work or service not voluntarily performed, that is extracted from an individual under threat of force or penalty.¹⁴⁰ Some labor-contracting arrangements may involve the use of forced labor. There may also be instances of forced labor in a product's supply chain. While clients' direct responsibilities are limited to primary suppliers, it is recommended that clients also assess risks of forced labor elsewhere in a supply chain, particularly in high-risk sectors or settings.¹⁴¹ Recent cases of concern have for instance involved cocoa production and cotton harvesting.

Clients need to avoid any type of physical or psychological coercion of workers, such as unnecessary restrictions on movement or physical punishment that create a situation whereby the worker feels compelled to work on a non-voluntary basis.

Human trafficking is a particular concern. The IDB Invest Sustainability Policy states that:

IDB Invest requires that its clients do not employ trafficked persons.¹⁴²

The Performance Standards define trafficking as follows:

Human trafficking is the recruitment, transportation, transfer, harboring, or receipt of persons, by means of the threat or use of force or other forms of coercion, abduction, fraud, deception, abuse of power, or of a position of vulnerability, or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation.¹⁴³

¹³⁹ Performance Standard 2, para 21. See also the accompanying Guidance Note, paras GN61-64.

¹⁴⁰ Performance Standard 2, para 22.

¹⁴¹ See the discussion on associated and linkage-related risks in Part III, Client Management System.

¹⁴² Sustainability Policy, para 24.

¹⁴³ Performance Standard 2, Guidance Note GN65.

Women and children are particularly vulnerable to trafficking practices. Clients must make all reasonable efforts to ensure that these practices do not only occur with their directly contracted workers, but also when engaging with contractors and third parties who supply labor.

6.10. Employment, Demobilization and Retrenchment

In the engagement and consultations with local communities there is often local enthusiasm about the prospect of jobs, and the ‘social license’ to operate may be based on misunderstandings or exaggerated promises in this regard. Failure to provide jobs may lead to tensions or conflict. It is therefore important that the client does not give the wrong impression or contribute to false expectations about employment opportunities. Communications with actual and potential workers should be managed respectfully and transparently, and local communities should be informed that employment of workers for a project, whether through locally recruited labor or contracted workers brought in from outside, is generally for a fixed term and not open-ended.

Closure of a project is also likely to have impacts both on the workers and on local communities. For the workers, it generally means demobilization of the workforce. For local communities, closure may mean loss of employment opportunities or reduction or loss in access to services. This may happen in stages — large infrastructure projects may have a large construction workforce, but only a small group of skilled workers to operate the project.

These transitions need to be managed carefully. The process should be discussed with workers and local communities, to manage the transition as well as possible, and the company should look for ways to support alternative opportunities for those affected. Similar principles apply to other types of reductions in the workforce, such as **retrenchment**.¹⁴⁴ Companies should consider how job losses can be avoided and what the alternatives are:

*Prior to implementing any collective dismissals, the client will carry out an analysis of alternatives to retrenchment. If the analysis does not identify viable alternatives to retrenchment, a retrenchment plan will be developed and implemented to reduce the adverse impacts of retrenchment on workers.*¹⁴⁵

The analysis of closure, retrenchment or demobilization should involve consultation with workers, and community impacts should be discussed with

¹⁴⁴ For a detailed discussion of retrenchment, see IFC (2005) Good Practice Note Managing Retrenchment, and

¹⁴⁵ Performance Standard 2, para 18.

local communities. For workers, the discussion and analysis of alternatives may include reduction in hours, productivity improvements, temporary layoffs, and retraining of workers for other opportunities. The client should be transparent about selection criteria and timetables for dismissals. Retrenchment should not be based on personal characteristics unrelated to inherent job requirements. This includes ensuring that there is no discrimination of women, disabled workers, or others in the process. For local communities, a transition should be discussed and planned with sufficient time to offer alternatives, for example capacity building so community members are in a better position to find new employment, or discussing with local authorities about improvements in service delivery.

7. HEALTH AND SAFETY



This section summarizes requirements related to health and safety, both for communities (Performance Standard 4), and occupational health and safety criteria for project workers (Performance Standard 2). It includes a discussion on the use of security personnel in project settings.

Selected references and resources:

IFC (2012). Performance Standard 4. Community Health, Safety, and Security [Link](#)

World Bank Group. Environmental, Health and Safety Guidelines. [Link](#)

IFC (2017). Use of Security Forces: Assessing and Managing Risks and Impacts. [Link](#)

Health and safety issues should be considered from both an environmental and social perspective. Project activities can cause or contribute to increased exposure to health and safety risks, and existing risks such as those related to climate change and natural disasters can be exacerbated through project activities. It is therefore important to assess and manage health and safety-related risks, both to project workers and to local communities. The principles and requirements related to health and safety are contained in Performance Standard 2 (Labor and Working Conditions), and in Performance Standard 4 (Community Health, Safety and Security).

7.1. Workers' Health and Safety

Performance Standard 2 states that:

The client will provide a safe and healthy work environment, taking into account inherent risks in its particular sector and specific classes of hazards in the client's work areas, including physical, chemical, biological, and radiological hazards, and specific threats to women. The client will take steps to prevent accidents, injury, and disease arising from, associated with, or occurring in the course of work by minimizing, as far as reasonably practicable, the causes of hazards.¹⁴⁶

Occupational health and safety (OHS) covers regulations, good practices, and other initiatives to protect workers. This may be from injury in the workplace, illness, or exposure to hazards such as chemical or biological substances. It also covers working conditions including excessive hours of work, high temperatures, or use of inadequate tools. It could also cover ergonomic and psychosocial risks to the health and working environment, including harassment of some categories of workers.¹⁴⁷

As a general principle, sources of hazards should be eliminated. If it is clearly documented that this is not feasible, for example when the hazard is inherent to the project activity, appropriate measures such as ventilation systems and the use of personal protective equipment (PPE) at no cost to the workers must be taken.¹⁴⁸



Colombia, 2013

¹⁴⁶ Performance Standard 2, para 23.

¹⁴⁷ See the earlier section on Gender for a discussion of gender-based violence and harassment.

As a general principle, sources of hazards should be eliminated. If it is clearly documented that this is not feasible, for example when the hazard is inherent to the project activity, appropriate measures such as ventilation systems and the use of personal protective equipment (PPE) at no cost to the workers must be taken.¹⁴⁸

Health and safety related issues may affect different types of workers differently. Men and women may have different requirements or exposure to hazards, and workers with disabilities may require special safety measures. Working conditions under COVID-19 or in situations of fragility, conflict and violence may pose additional risks to project workers. These risks should be given careful attention, including ensuring that workers are not being forced to work under unsafe conditions, and that appropriate equipment and safety measures are provided.

IDB Invest requires clients to apply the World Bank Group's Environmental, Health and Safety, EHS, Guidelines.¹⁴⁹ These are technical reference documents with general and industry-specific examples of good international industry practice, and are generally considered to be achievable in new facilities at reasonable costs by existing technology. The guidelines for OHS cover topics such as general facility design and operation; various types of hazards (physical, chemical, biological, radiological), and personal protective equipment, PPE.

7.2. Community Health and Safety

Projects may affect the health, safety and security of local communities. Adverse health-related risks from a project could include release of pollutants and harmful dust, contamination of drinking water, high noise levels, exposure to hazardous materials, and increases in traffic accidents and fatalities.

Quality and safety should be essential considerations in the design and construction of any infrastructure, and in the overall project management process. For example, project vehicles should meet safety standards such as enforced compliance with speed limits, use of seat belts, and helmets for motorcycle riders.

These risks should be assessed through the environmental and social assessment process, and local communities should be consulted about how to avoid or mitigate any adverse impact. Communities are likely to experience health and safety issues not just as technical issues, but also in how they relate to local social and cultural norms.

Distributional aspects of potential adverse impacts need to be considered.

¹⁴⁸ See PS2's accompanying Guidance Note, para GN78. Worker safety under the pandemic COVID-19 is a particular concern. IDB Invest has developed practical guidance for different sectors, such as agriculture [Link](#) and infrastructure [Link](#).

¹⁴⁹ See the section on EHS Guidelines in Part I.

As with working conditions, different groups in local communities may be affected differently. Women may be most affected by contaminated water, and children may be most vulnerable to traffic safety issues.



Brazil, 2007

Communities are not homogeneous, and there can be differentiated impacts within groups, including vulnerable groups, of women, men, the young, the elderly, and persons with disabilities, which should be taken into account. The breadth, depth, and type of analysis should be proportionate to the nature and scale of the proposed project's risks to and potential impacts on the health and safety of the local community.¹⁵⁰

Performance Standard 4 covers topics such as infrastructure and equipment design and safety; hazardous materials management and safety; ecosystems services; community exposure to disease; and emergency preparedness and response. This includes establishing quality requirements for contractors and sub-contractors.¹⁵¹

Clients are required to establish emergency preparedness and response mechanisms. In many cases, this will involve engagement with local communities and other parties:

The client will document its emergency preparedness and response activities, resources, and responsibilities, and will disclose appropriate information to Affected Communities, relevant government agencies, or other relevant parties.¹⁵²

¹⁵⁰ Guidance Note to Performance Standard 4, para GN1.

¹⁵¹ See the discussion in Part III, Contractor and Sub-Contractor Management.

¹⁵² Performance Standard 4, Para 11. See also the section on Natural Disasters.

7.3. Use of Security Forces

Security considerations apply to all projects, whether it is protection against burglary to security of personnel in conflict settings. In many situations, a project may be required to have security personnel and various arrangements to protect employees, facilities, and operations. The range of measures taken



Haiti, 2010

to ensure security can range from simple fencing or sign-posting, to hiring security personnel. This may entail a combination of watchmen or other personnel hired directly by the project, and use of more specialized security forces where the risks are deemed to be high. In some cases this can include collaboration with public security forces such as police or military personnel.

While the main purpose of security forces is to protect the project and its employees from outside threats, including damage and theft, experience has shown that the presence of security forces can cause adverse impacts to local communities. This is particularly the case in situations where there is a history of tensions or fragility, conflict and violence, or human rights abuses. Impacts on local communities may include use of excessive force when dispersing a group of people protesting, as well as more indirect impacts such as physical barriers impeding access to water or other natural resources. Women may be subjected to harassment or sexual violence.

IDB Invest's Sustainability Framework therefore requires clients to assess these and other risks posed by security arrangements. This may include the following steps:

1. Identify potential security risks, whether from political, economic, civil or social factors.
2. Understand root causes of conflict, and assess the potential for violence relating to the project.
3. Consider human rights records of key actors and stakeholders, especially security forces and local law enforcement.
4. Ensure that the stakeholder and community engagement process fosters mutual respect and understanding between the project and local communities.
5. Assess accountability mechanisms, such as respect for the rule of law, including the judiciary's independence, oversight and ability to hold individuals and groups responsible for violence accountable. This should include ensuring that the project's Grievance Redress Mechanism is capable of dealing with concerns related to security.¹⁵³
6. Ensure that responsible personnel are familiar with and apply principles of proportional responses, using force for defensive and preventive purposes only, and that this is established through a code of conduct and appropriate training.

No use of force, either by direct or contracted workers or others providing support to a project, should be approved except for preventive and defensive purposes. Local communities should be informed and consulted about security arrangements. A principle of proportionality applies, wherein the intensity of any security response should correspond to the nature and gravity of the threat or offense.¹⁵⁴

Security personnel should be appropriately trained in the proportionate use of force and appropriate conduct towards project workers, local communities, and others. Consideration should be given to implementing the Voluntary Principles on Security and Human Rights in project settings and worksites. Careful due diligence should be undertaken by clients to ensure that security companies hired have a good track record, including respectful engagement with local communities:

The conduct of security personnel should be based on the principle that providing security and respecting human rights can and should be consistent. For example, if community members decide to associate, assemble, and speak out in opposition to the project, the client and any security personnel who interact with them should respect the right of the local communities to do so. The instructions for security personnel should also make clear that arbitrary or abusive use of force is prohibited.¹⁵⁵

¹⁵³ See the section on Accountability Mechanisms in Part III.

¹⁵⁴ Good practice standards in the area of security and human rights have been established by a coalition of companies, governments and NGOs called the Voluntary Principles on Security and Human Rights. [Link](#) See also the 2017 IFC good practice handbook Use of Security Forces: Assessing and Managing Risks and Impacts. [Link](#)

¹⁵⁵ Performance Standard 4, GN30.

8. CULTURAL HERITAGE



This section highlights key requirements related to cultural heritage. It defines tangible and intangible cultural heritage, and discusses requirements to protect cultural heritage, such as through chance finds procedures.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy, in particular paragraph 25 (ii). [Link](#)

IFC (2012). Performance Standard 8. Cultural Heritage. [Link](#)

UNESCO. World Heritage List. [Link](#)



Peru, 2008

Latin America and the Caribbean is a region with an exceptionally rich cultural heritage, which must be considered in project planning and implementation. This should be done both to protect cultural heritage from any adverse impacts, and to enhance the recognition and support to cultural heritage as an integral part of sustainable development. This involves meaningful consultation with local communities and other stakeholders about cultural heritage, and promotion of local opportunities and equitable benefit sharing from the use of cultural heritage.

Cultural heritage may be a source of local development and income, for example from tourism. A project can also provide positive benefits by positively supporting the protection and restoration of cultural heritage. But a project may also pose risks of adverse impacts to cultural heritage. Such opportunities and risks should be considered as early as possible during the Environmental and Social Impact Assessment process. Relevant aspects and methods to address cultural heritage may include consultations with relevant stakeholder groups including responsible authorities; analysis of legal and regulatory frameworks; maps and surveys; and consideration of internationally recognized cultural heritage sites.¹⁵⁶



¹⁵⁶ See for example [UNESCO's World Heritage List](#).

Infrastructure projects in particular pose risks to cultural heritage, through excavations or other work changing the landscape of the project area. Most countries have comprehensive legal frameworks and national authorities responsible for cultural heritage. Risk management in the context of a project supported by IDB Invest may therefore in many cases focus on ensuring that national law is followed and using the country's own systems, although in some cases, this may need to be supplemented by the requirements and guidance in IFC Performance Standard 8, Cultural Heritage.

Cultural heritage encompasses both tangible, or physical, and intangible heritage:

- **Tangible cultural heritage** includes built heritage, objects, and sites that have archaeological, historical, religious or other cultural value and significance. It can include natural features and landscapes, such as sacred groves or mountains.
- **Intangible cultural heritage** refers to practices and expressions that groups value as part of their identity and culture. It may include expressions and knowledge, art forms, oral history, rituals, or other elements that are inherited from one generation to the next. Performance Standard 8 applies to intangible cultural heritage when proposed used for commercial purposes.

In some cases, cultural heritage may not be sufficiently recognized or protected. This may for example be the case when local communities consider a site or intangible aspects of cultural heritage to be important, without it being legally recognized and protected. In other cases, sites, objects or rituals may be considered not only sacred but also secret, and their location or content should not be divulged to outsiders, but managed by religious or traditional authorities. It is therefore important to ensure that the consultation process with local stakeholders considers such a possibility, and in a tactful and respectful manner discusses what aspects of cultural heritage are considered important by local communities.

A **chance finds** procedure, which is a project procedure to be followed if previously unknown cultural heritage is encountered during project activities, should be included in all civil works contracts to ensure that national law and the requirements in Performance Standard 8 are followed when artifacts are uncovered.

If a project temporarily **restricts access** to cultural heritage, alternative means of access should be found for communities and other stakeholders who make use of the site or resources.

9. BIODIVERSITY AND NATURAL RESOURCES



This section discusses ecosystem services, biodiversity including forestry, and living natural resources.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy, in particular paragraph 14. [Link](#)

IFC (2012). Performance Standard 6. Biodiversity Conservation and Sustainable Management of Living Natural Resources. [Link](#)

IBAT Alliance. Integrated Biodiversity Assessment Tool. [Link](#)

Global Forest Watch Pro. [Link](#)

Understanding and practice related to biodiversity and ecosystem services have advanced a great deal in recent years.¹⁵⁷ Projects supported by IDB Invest are expected to achieve the following objectives:¹⁵⁸

- To protect and conserve biodiversity;
- To maintain the benefits from ecosystem services; and
- To promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities.

As with other risk factors, a management approach to biodiversity and natural resources requires that clients avoid any adverse impacts where possible, and minimize or mitigate risks through project design and implementation. The principle of a risk mitigation hierarchy is described in more detail in Part III, in the section on Client Management System.

A major area of focus related to biodiversity and natural resources is the consideration of the larger landscape scale. Performance Standard 6 emphasizes the importance of assessing and where possible mitigating adverse impacts projects may cause or contribute to on an ecologically relevant scale. Risks to the larger landscape and ecosystem services may go beyond the boundary of a concession or management area, and clients should consider how the project area is associated with the broader area. In terms of management responsibility, Performance Standard 6 establishes that its requirements apply to projects:

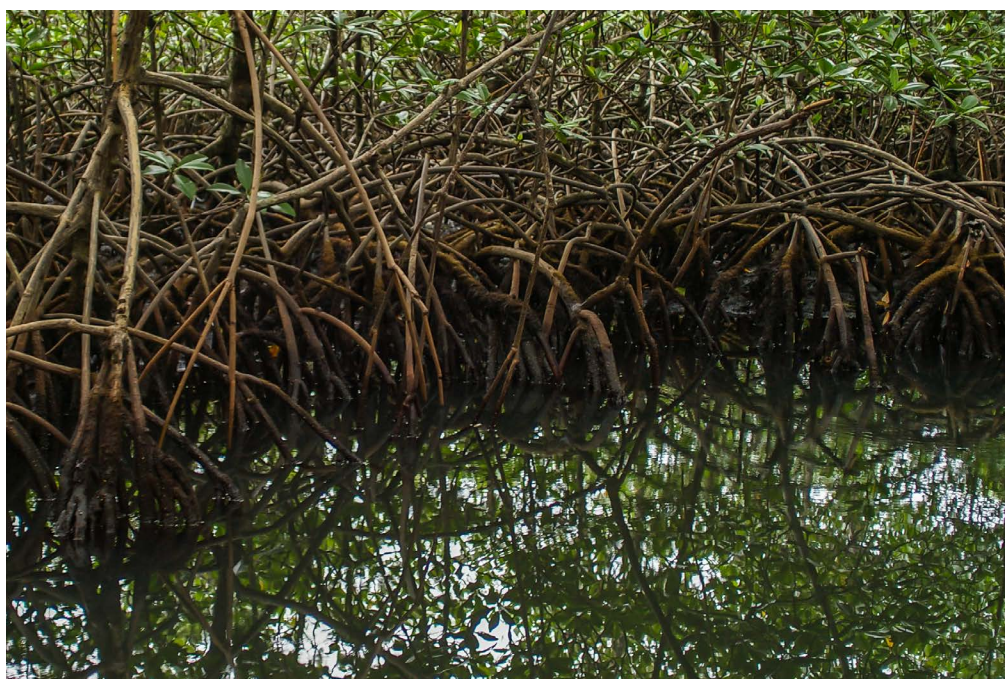
*that potentially impact on or are dependent on ecosystem services over which the client has direct management control or significant influence.*¹⁵⁹

¹⁵⁷ Biodiversity is the variability among living organisms in different ecosystems, and the ecological complexes within and between species. Ecosystem services are the benefits that people, including businesses, derive from ecosystems. Projects may adversely affect ecosystem services that communities depend on, or ecosystem services may be of importance to a project's operation.

¹⁵⁸ Performance Standard 6, Objectives.

¹⁵⁹ Performance Standard 6, para 5.

Ecosystem services are benefits that people and companies obtain from ecosystems. These are both environmental and social in nature, and include provisioning services such as water, forests, and agricultural products; regulating services such as climate regulation and natural hazard mitigation; cultural services such as spiritual and sacred sites; and supporting services are processes that maintain other services, such as nutrient capture and recycling.



Panama, 2008

Performance Standard 6 notes that clients should assess potential adverse impacts from a project to ecosystem services as well as those services on which a project is directly dependent for its operations, such as water.¹⁶⁰

Performance Standard 6 applies to projects in natural, modified or critical habitats. Both natural and modified habitats can be considered critical, with high biodiversity value, including habitats of importance to endangered species or habitats supporting significant concentrations of migratory species. The risk assessment and management also cover production of living natural resources such as agriculture, animal husbandry, fisheries, and forestry. Among the potential risks to biodiversity and natural resources are habitat loss, degradation or fragmentation of habitats, invasive alien species, and pollution.

Examples of important tools for understanding biodiversity issues and potential risks in a project area include the Integrated Biodiversity Assessment

¹⁶⁰ Performance Standard 6, para 24.

Tool, IBAT. This is a comprehensive set of biodiversity data developed and maintained by several UN and civil society organizations.¹⁶¹ As of July 2020, the data sets available cover more than 235,000 protected areas; over 112,000 IUCN Red List species (species threatened with extinction), and more than 16,000 key biodiversity areas. IBAT offers tailored reports and visual screening for biodiversity issues, and is a valuable tool for clients in identifying risks related to their projects. Another tool is the Global Forest Watch Pro for the forestry sector.¹⁶² It addresses deforestation risk in commodity supply chains by monitoring conditions at farms or jurisdictions and tracking changes over time; demonstrating compliance with policy requirements, and providing data and information to assess risks in specific investment locations.

If there are potential adverse impacts on biodiversity, clients are required to apply the mitigation hierarchy by first seeking to avoid impacts, and when this is not possible, to apply measures to minimize impacts and to restore biodiversity and ecosystem services. Impacts may be compensated for by other development through the planning process, for example by designating a different area as a protected area. However, biodiversity offsets should only be considered as a last resort. The intention is to ensure no net loss, and ideally an overall biodiversity gain:

For the protection and conservation of biodiversity, the mitigation hierarchy includes biodiversity offsets, which may be considered only after appropriate avoidance, minimization, and restoration measures have been applied. A biodiversity offset should be designed and implemented to achieve measurable conservation outcomes that can reasonably be expected to result in no net loss and preferably a net gain of biodiversity; however, a net gain is required in critical habitats.¹⁶³



Panama, 2008

¹⁶¹ Birdlife International, Conservation International, IUCN, and the UN Environment Programme World Conservation Monitoring Centre.

¹⁶² Global Forest Watch Pro has been designed with companies and financial institutions to translate geospatial data into actionable insights. [Link](#)

¹⁶³ Performance Standard 6, para 10.

Additional requirements for the use of offsets are designed to ensure their effectiveness. International best practice includes, importantly, a governance structure and funding that will maintain the offset in the long term. Performance Standard 6 states that:

The design of a biodiversity offset must adhere to the “like-for-like or better” principle 4 and must be carried out in alignment with best available information and current practices.¹⁶⁴

In addition to abiding by local and national laws, clients are expected to implement sustainable management practices, and to apply international standards and recognized conventions related to biodiversity and living natural resources. Some of these include:

- The UN Convention on Biological Diversity (1992) [Link](#);
- The Cartagena Protocol on Biosafety to the Convention on Biological Diversity (2000) [Link](#);
- The Convention on International Trade in Endangered Species of Wild Flora and Fauna, CITES (1975) [Link](#); and
- The Convention on Wetlands of International Importance especially as Waterfowl Habitat, 1971 (Ramsar Convention). [Link](#)

In addition to national law, sustainable management practices of living natural resources can in many cases be guided by global, regional or national standards. These standards should be demonstrated by independent verification or certification. Such standards include those developed by the Forest Stewardship Council (FSC) [Link](#), Fair Trade [Link](#), the Sustainable Agriculture Network (SAN) [Link](#), the Roundtable on Sustainable Palm Oil (RSPO) [Link](#), and Rainforest Alliance / UTZ in the area of coffee, cocoa, and tea [Link](#). Where there is no relevant or credible standard, clients should commit to applying good international industry operating principles, and support the development of national standards where relevant.¹⁶⁵ IDB and other Development Finance Institutions have also published helpful guidance material. A good overview of key issues is contained in a joint publication by the Multilateral Financing Institutions Biodiversity Working Group.¹⁶⁶

¹⁶⁴ Performance Standard 6, para 10.

¹⁶⁵ See Performance Standard 6, para 29.

¹⁶⁶ IDB and others (2015) Good Practices for Biodiversity Inclusive Impact Assessment and Management Planning. [Link](#)

10. NATURAL DISASTERS



This section discusses risks of natural disasters, which constitute significant contextual risk factors in Latin America and the Caribbean.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy, in particular paragraph 15. [Link](#)

IDB. Disaster Risk Indicators. [Link](#)

IDB. Disaster Risk Management Policy. [Link](#)



Haiti, 2010

Natural disasters are common in the Latin America and Caribbean region, and have on many occasions caused severe environmental and social damage. They may include floods and droughts, earthquakes, storms and hurricanes, volcanic eruptions, or other hazards. These types of disasters represent contextual risk factors for projects. They frequently disproportionately affect poor and vulnerable groups, and may exacerbate any project-related adverse environmental or social impacts.

As part of the project's overall environmental and social assessment process,

clients should identify if the project has exposure to different types of risk including natural hazards, and what types of vulnerabilities may exist in the natural environment or among affected communities.¹⁶⁷ These should be addressed through appropriate emergency preparedness and response mechanisms.¹⁶⁸ Natural disasters may be exacerbated by climate change, which is discussed in the next section.

11. CLIMATE CHANGE



This section refers to IDB Invest's commitment to climate friendly investments, addressing climate resilience and adaptation with particular reference to energy efficiency and use of resources. This includes a description of the climate screening tools used by IDB Invest.

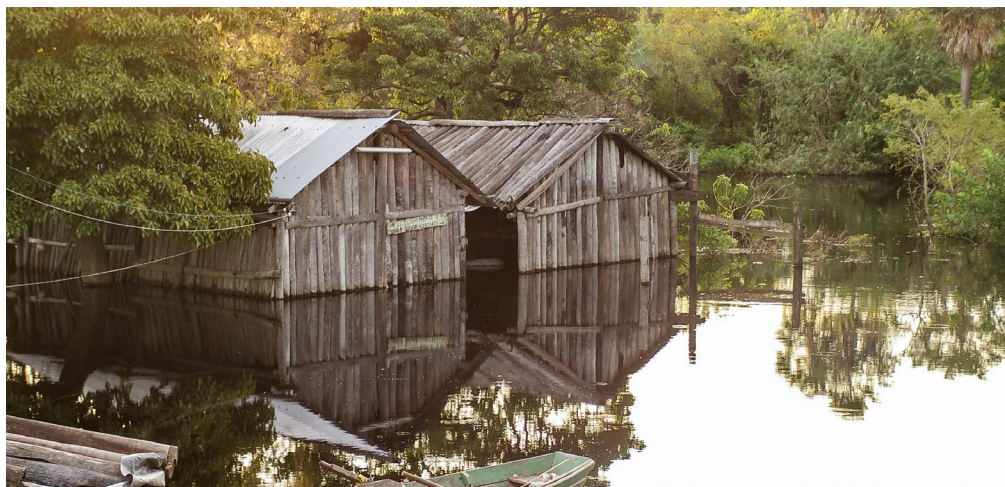
Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy, in particular paragraphs 10-13. [Link](#)

IFC (2012). Performance Standard 3. Resource Efficiency and Pollution Prevention. [Link](#)

Task Force on Climate-Related Financial Disclosure. [Link](#)

Climate change including changes in temperature, droughts and rainfall, sea levels, and the patterns of storms and natural disasters is a significant development challenge. It disproportionately affects poor countries and the more vulnerable populations within those countries:



Paraguay, 2007

¹⁶⁷ See the section on Environmental and Social Assessment in Part III.

¹⁶⁸ See the section on Emergency Preparedness and Response in Part III.

IDB Invest acknowledges the threat posed by climate change, especially to vulnerable populations, and the urgent need for both mitigation and adaptation across the region.¹⁶⁹

IDB Invest supports the objectives of the Paris Agreement on climate change, and is committed to resilient and low-carbon development. The institution has joined with other financial institution to disclose information related to climate change, support green bonds, and increase the share of renewable energy projects in its portfolio. In November 2019, IDB Invest announced its support of the Task Force on Climate-related Financial Disclosures, TCFD, joining more than 800 entities involved in identifying and mitigating the financial risk related to climate change.¹⁷⁰

As of 2019, climate finance accounted for 35 percent of IDB Invest's operations. This included many large-scale renewable energy projects. IDB Invest is also using innovative approaches and incentives, such as concessional financing, to increase private investment in clean energy and provide technical assistance to encourage climate adaptation measures.¹⁷¹

The IDB Invest Sustainability Framework strongly emphasizes the need to address climate change, and the urgent need for both mitigation and adaptation in the region:

Changing weather patterns due to climate change, including climate variability and extremes, may affect projects in a variety of ways, including physical risks arising from damage associated with significant climatologic events, such as storms or floods, but also including impacts associated with availability of natural resources such as water or other ecosystem services, and potential effects on the supply chain (e.g., increasing costs of raw materials), as well as on operations or working practices of the projects. Other potential effects associated with change in climatic conditions are related to possible changing patterns in demand for goods and services provided by the projects to be financed.¹⁷²

While addressing impacts related to climate change is complex due to their global nature, clients are required to consider their projects' potential contribution to climate change and how climate change may affect the project. The expectation is that the client will adapt to climate change impacts on the project along with building resilience to natural disasters, and work to mitigate the effects the project may have on the climate:

¹⁶⁹ Sustainability Policy, para 10.

¹⁷⁰ The TCFD has developed recommendations for voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear, and efficient, and provide decision-useful information to lenders, insurers, and investors. [Link](#)

¹⁷¹ Climate adaptation is the process of adjusting to actual or expected climate and its effects, both to moderate harm and to take advantage of positive opportunities, for example by building resilient infrastructure using nature-based solutions such as mangroves.

¹⁷² Performance Standard 1, Guidance Note GN32.

The risks and impacts identification process will consider the emissions of greenhouse gases, the relevant risks associated with a changing climate and the adaptation opportunities, and potential transboundary effects, such as pollution of air, or use or pollution of international waterways.¹⁷³

Clients working with IDB Invest are required to quantify and report on both direct and indirect emissions of greenhouse gases, GHG, in projects that exceed 25,000 metric tons CO₂ per year.¹⁷⁴ IDB Invest assists its clients in applying the appropriate methodology for measurement and quantification. IDB Invest also works with clients to improve energy efficiency and reduce emissions, both directly and in the clients' supply chains. Greater energy and resource efficiency help reduce the intensity of emissions, and can also contribute to more cost-effective operations.

The institution has developed a methodology for Climate Risk Assessment, CRA. This consists of a three-stage process of screening, analyzing and managing identified climate-related risks. Specialists from IDB work with clients to apply this methodology during the environmental and social due diligence of a project.¹⁷⁵ Beyond the individual projects, IDB Invest also assesses sector and policy-based risk exposure to climate change. Appropriate adaptation and mitigation measures are included in the project's Environmental and Social Action Plan, ESAP, and monitored by IDB Invest for compliance during project implementation.¹⁷⁶

Beyond addressing climate change in individual projects, IDB Invest provides technical assistance and investment support to facilitate green solutions related to low-emission projects which are more resilient to climate change, with reduced environmental and social impacts on affected populations.

12. RESOURCE EFFICIENCY AND POLLUTION PREVENTION



This section discusses issues related to pollution prevention and management, and to resource efficiency with an emphasis on water and energy. It references the EHS Guidelines which provide guidance and acceptable performance levels related to resource use and has best to avoid adverse impacts on people and the environment.

¹⁷³ Performance Standard 1, para 7.

¹⁷⁴ Carbon dioxide, CO₂, is the largest contributor to climate change of the greenhouse gases. CO₂ emissions predominantly stem from fossil fuel combustion but CO₂ emissions also arise from deforestation and decay of biomass, soil conversion and from certain industrial processes. Other GHGs of concern include methane, nitrous oxide, and others.

¹⁷⁵ See the discussion on Due Diligence and Quality Assurance in Part III.

¹⁷⁶ See the section on the Transaction Cycle in Part III.

Selected references and resources:

IDB Invest (2020). Environmental and Social Sustainability Policy, in particular paragraph 9. [Link](#)

IFC (2012). Performance Standard 3. Resource Efficiency and Pollution Prevention. [Link](#)

World Bank Group. Environmental, Health and Safety Guidelines. [Link](#)

IDB Invest requires clients to adopt good industry practice and resource efficiency strategies to minimize waste and pollution, including greenhouse gas emissions, resulting from the projects it finances. Performance Standard 3 addresses these issues with a strong emphasis on application of the mitigation hierarchy. Potential adverse impacts are to be identified and minimized to the extent possible, to reduce the need for cleaning up pollution or treating waste. The objectives of Performance Standard 3 are:¹⁷⁷

- To avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities;
- To promote more sustainable use of resources, including energy and water; and
- To reduce project-related GHG emissions.



Jamaica, 2006

Clients should assess and incorporate environmental and social impacts of resource use. Performance Standard 3 states that:

¹⁷⁷ Performance Standard 3, Objectives

The client will implement technically and financially feasible and cost effective measures for improving efficiency in its consumption of energy, water, as well as other resources and material inputs, with a focus on areas that are considered core business activities. Such measures will integrate the principles of cleaner production into product design and production processes with the objective of conserving raw materials, energy, and water.¹⁷⁸

In addition to assessing and managing project-induced impacts related to energy and resource use, the assessment should consider existing conditions prior to the project, both natural and social. Handling the challenges requires not only technical solutions, but also a recognition of the social dimensions and impacts on communities and society. This includes conditions and characteristics of local communities, and how sensitive the natural and social environment are to resources such as water.

When addressing these issues the project cannot be looked at in isolation; potential cumulative impacts should also be considered.¹⁷⁹ Sector-specific guidance on aspects related to resource use and acceptable performance levels can be found in the World Bank Group Environmental, Health, and Safety (EHS) Guidelines.¹⁸⁰ In addition to industry-specific guidelines for chemicals production, forestry, general manufacturing, infrastructure and other sectors, relevant EHS Guidelines are available on general topics including:

- Air Emissions and Ambient Air Quality
- Energy Conservation
- Water Conservation
- Waste Management
- Noise
- Water Quality and Availability
- Emergency Preparedness and Response

Water use is of particular concern. A project may cause significant harm to the environment and local communities through its water use. If a project may be a significant consumer of water, clients are required to adopt measures that reduce water use and encourage reuse. This shall include engaging with local communities in discussing such issues as siting of a project, potential for reduction in water use, and ensuring continued access to water for local communities in sufficient quantity and quality. Performance Standard 3 also addresses waste management:

¹⁷⁸ Performance Standard 3, para 6.

¹⁷⁹ For guidance on cumulative impacts, see IFC (2013). Cumulative Impact Assessment and Management: Guidance for the Private Sector in Emerging Markets. [Link](#)

¹⁸⁰ The EHS Guidelines are available in English, French, Spanish, Russian, Chinese and Arabic on IFC's website. See also the section on EHS Guidelines in Part I of this manual.

The client will avoid the generation of hazardous and non-hazardous waste materials. Where waste generation cannot be avoided, the client will reduce the generation of waste, and recover and reuse waste in a manner that is safe for human health and the environment. Where waste cannot be recovered or reused, the client will treat, destroy, or dispose of it in an environmentally sound manner that includes the appropriate control of emissions and residues resulting from the handling and processing of the waste material.¹⁸¹

PART III

POLICY DELIVERY AND ACCOUNTABILITY

Part II described key environmental and social issues that risk assessments should take into account, including stakeholder engagement. Part III focuses on how this should be done, discussing the management aspects of the IDB Invest Sustainability Framework. It describes how organizational structures, decision-making, procedures and documentation, and accountability mechanisms are structured with the aim of achieving the Framework's objectives and meeting its requirements. The discussion of policy delivery and accountability covers both IDB Invest and its clients.

1. ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM



This section provides a brief overview of the principles of an environmental and social management system, ESMS. Later sections describe how this is managed by clients and by IDB Invest.

A well-functioning Environmental and Social Management System, ESMS, is at the core of IDB Invest's Sustainability Framework. This applies both to IDB Invest and its clients. Performance Standard 1 defines the ESMS as containing several elements:¹⁸²

¹⁸¹ Performance Standard 3, para 12.

¹⁸² Performance Standard 1, para 5.

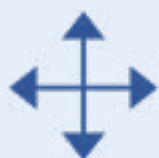
- Policy
- Identification of risks and impacts
- Management programs
- Organizational capacity and competency
- Emergency preparedness and response
- Stakeholder engagement
- Monitoring and review

Key elements of an Environmental and Social Management System are described in detail in Performance Standard 1, which makes it clear that the ESMS does not just refer to having formal rules to manage environmental and social issues. The ESMS is a comprehensive system that refers to the institution as a whole, and depends on management support, resources, capacity, and established procedures of decision-making and documentation. Environmental and social issues should be considered a shared responsibility within the institution, supported by trained and committed people to make it work, with clear roles and responsibilities.

This is consistent with how the International Organization for Standardization, ISO, defines risk management. ISO 31000 defines organizational risk management as consisting of a set of principles and a framework; robust processes; and decision-making at all levels of an organization that reflect the principles and objectives of the risk management.¹⁸³

IDB Invest has established a robust system reflecting these principles. This system is dynamic and evolving. There are always new lessons learned that are reflected on and incorporated into the way environmental and social issues are handled, both internally and in the requirements and guidance for clients. This is discussed in more detail in the section IDB Invest Management System. Client responsibilities relating to the ESMS are discussed in the section Client Management System.

2. PROPORTIONALITY AND FLEXIBILITY



This section describes the principle of proportionality, where requirements and expected effort are commensurate with project risk, scale, and complexity, and allows for flexibility and judgment. This flexibility is also reflected in how technical and financial feasibility are defined, and in the incremental or progressive nature of gradually achieving the Sustainability Framework objectives over time.

¹⁸³ For an overview of ISO 31000 (2019) and other ISO standards, see [Link](#)

The IDB Invest Sustainability Framework is a flexible framework that aims to achieve no net environmental or social harm, and ideally net positive gain, through assessment and management of project-related risks and impacts. The emphasis is on principles and outcomes. While processes and procedures are important to ensure consistency and quality, procedural requirements are seen as a means to achieve positive outcomes, rather than as an end in themselves. The guiding principle is one of proportionality. Efforts and requirements are commensurate with each project's unique characteristics, where projects are assessed in relation to their likely risks, scale, and complexity.

This approach is reflected in IFC's Performance Standard 1, which states that the assessment and management process to identify and mitigate environmental and social risks should be proportionate to the nature and scale of the project, and to the risks identified. Clients should:

.. establish and maintain an ESMS appropriate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impacts.¹⁸⁴

Similarly,

IFC expects that each client will employ methods best suited to its business to meet the requirements of the Performance Standards.¹⁸⁵

The principle of proportionality means that in higher risk circumstances, more careful documentation, studies, and plans are likely to be required of the client than otherwise, and the consultation process with stakeholders will be more systematic. The efforts needed may take more time, be more costly, and need higher levels of technical competence than lower risk and simpler projects. If projects are unlikely to have adverse environmental or social impacts, they can be prepared and implemented with a minimum of requirements. These variations in efforts and requirements are described in several parts of IDB Invest's Sustainability Framework, such as:

The extent and degree of engagement required by the consultation process should be commensurate with the project's risks and adverse impacts and with the concerns raised by the Affected Communities.¹⁸⁶

For projects posing potentially significant adverse impacts or where technically complex issues are involved, clients may be required to involve external experts to assist in the risks and impacts identification process.¹⁸⁷

In limited high risk circumstances, it may be appropriate for the client to complement its environmental and social risks and impacts identification process with specific human rights due diligence as relevant to the particular business.¹⁸⁸

¹⁸⁴ Performance Standard 1, para 5.

¹⁸⁵ Introduction to Performance Standards Guidance Notes, para 2.

¹⁸⁶ Performance Standard 1, para 20.

¹⁸⁷ Performance Standard 1, para 19.

¹⁸⁸ Performance Standard 1, footnote 12.

It may be necessary for the client to commission an external completion audit of the Resettlement Action Plan or Livelihood Restoration Plan to assess whether the provisions have been met, depending on the scale and/or complexity of physical and economic displacement associated with a project.¹⁸⁹

Timing and sequencing. The flexibility built into the Sustainability Framework also applies to timing. Not everything needs to be done before approving a project. Studies, mitigation plans and integration of environmental and social issues can be sequenced throughout the project cycle as long as appropriate actions are taken prior to civil works or other project activities that may cause environmental or social harm.

It is unrealistic to suggest specific time frames or budgets for different types of projects, given the large number of variables that must be taken into account, including contextual and performance-related risks. Capacity is one such variable: If clients have a robust ESMS and extensive experience, they are likely to prepare and implement projects faster, better, and cheaper than clients with limited or no experience in environmental and social risk management.

Feasibility. Efforts are not expected to be unreasonably costly or complex. Rather, the Sustainability Framework stipulates that actions taken by clients should be financially and technically feasible:

Technical feasibility is based on whether the proposed measures and actions can be implemented with commercially available skills, equipment, and materials, taking into consideration prevailing local factors such as climate, geography, infrastructure, security, governance, capacity and operational reliability. Financial feasibility is based on commercial considerations, including relative magnitude of the incremental cost of adopting such measures and actions compared to the project's investment, operating, and maintenance costs.¹⁹⁰

Incremental achievement of objectives. Another important aspect of the Sustainability Framework which allows for flexibility is the recognition that achieving the objectives of the Performance Standards and other policies under the Framework is not seen as a binary, either-or issue. It usually consists of an incremental and gradual or progressive realization of objectives over time. The Sustainability Policy states that:

IDB Invest will only finance operations that are expected to meet the Sustainability Policy's environmental and social requirements within a reasonable time frame. In certain cases, a project may not be in full compliance at the time of signing the legal agreement with IDB Invest, in which case approval of financing will be linked with the contractual obligation of achieving compliance within a designated timeframe.¹⁹¹

The 'designated timeframe' referred to in the Policy will be decided on a case

¹⁸⁹ Performance Standard 5, para 15.

¹⁹⁰ Performance Standard 3, footnote 3.

¹⁹¹ Sustainability Policy, para 29.

to case basis. Some actions, such as those relating to health and safety, may require immediate attention. Other issues, such as restoring livelihoods in cases of displacement, may take longer to achieve and be more of a gradual process. To ensure that there is clarity and agreement on what needs doing when, the specific actions and timeframes are agreed on between IDB Invest and its clients as part of a project's approval process, and form part of the loan agreement. This allowance for 'incrementalism' is also described in the Performance Standards:

The management programs will establish environmental and social Action Plans, which will define desired outcomes and actions to address the issues raised in the risks and impacts identification process, as measurable events to the extent possible, with elements such as performance indicators, targets, or acceptance criteria that can be tracked over defined time periods, and with estimates of the resources and responsibilities for implementation.¹⁹²

Challenges. While the principles-based and gradual approach to assessing and managing environmental and social risk proportionate to risk provides flexibility, it also poses challenges. In this approach, there is no simple, indicative list of what is required when. It may be perceived as more ambiguous and less clear than a simpler, more rigid rules-based approach. Judgment must be applied in individual project settings, since the risk-based approach of the Sustainability Framework takes different factors into consideration. As discussed earlier, these factors include not only direct impacts of a project, but also broader contextual risks, and considerations of client capacity.¹⁹³ Basically, flexibility requires judgment, and judgment requires capacity and experience. Successful application of the IDB Invest Sustainability Framework may therefore require enhanced support and capacity building for clients with low capacity or limited experience in environmental and social risk management.¹⁹⁴

Compliance. The dynamic and flexible principle of achieving objectives over time also means that 'compliance' at a given time may mean being on a clear path towards full compliance within a specified time frame, rather than 'completed'. Assessing compliance against the Sustainability Framework will involve assessing satisfactory performance and progress, and whether clients are making reasonable and good faith efforts to identify and address environmental and social risks and impacts, with a plan for continued improvement as needed to reach full compliance.

The principle of effort being proportionate to risk also applies to IDB Invest. More resources, oversight and client support are allocated to higher risk projects. For direct investments, the Sustainability Policy states that:

The extent of IDB Invest's environmental and social due diligence is commensurate with the nature, scale, and stage of the business activity, and with the level of environmental and social risks and impacts identified in a proposed investment.¹⁹⁵

¹⁹² Performance Standard 1, para 16.

¹⁹³ See the discussion on Risk Factors in Part II of this Manual.

¹⁹⁴ See the section on Continued Engagement, Listening and Learning.

¹⁹⁵ Sustainability Policy, para 31.

IDB Invest uses a number of ways to ensure that appropriate resources are applied in its due diligence, supervision, and client support. These are discussed in the section IDB Invest Management System.

3. CLIENT MANAGEMENT SYSTEM



This section describes how clients of IDB Invest are expected to achieve the objectives and meet the requirements of the Sustainability Framework. Clients are expected to establish an Environmental and Social Management System, ESMS, based on the applicable policies and standards described in Part I of this Manual, to enable them to identify and manage environmental and social risks. The client does so by undertaking an environmental and social assessment process which includes stakeholder engagement. Based on the assessment and consultations the client applies a mitigation hierarchy to avoid, minimize, and mitigate potential and actual adverse impacts, and seeks to maximize development opportunities and benefits. Some of the elements of the client's ESMS are described in this section.

3.1. The Project Cycle

As noted in the previous section, applying the IDB Invest Sustainability Framework cannot be done on the basis of a simple check-list approach or blueprint. Different approaches will be appropriate in different project settings, and the degree of effort will be proportionate to project risk, scale, and complexity. Nevertheless, projects typically go through common stages or phases of concept and identification; preparation; approval (including by the IDB Invest Board of Executive Directors when IDB Invest support is sought; implementation; and completion and closure. Key elements normally required for environmental and social assessment and management generally include the following¹⁹⁶:

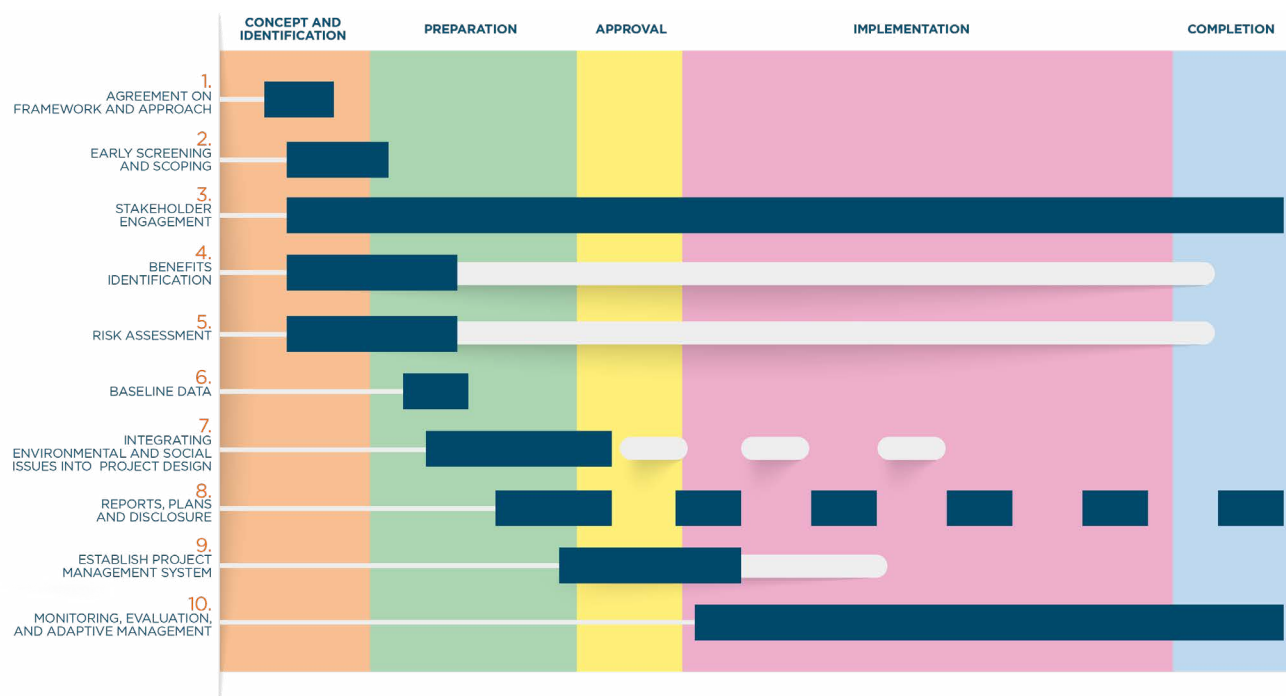
1. Agreement on a **framework and approach**, where prospective clients are advised about IDB Invest's policies and standards, and agree to meet the requirements.
2. Early **screening and scoping** of a proposed project and its setting, where an initial assessment is made of likely project risks; a preliminary risk categorization is assigned; and agreement on likely assessment methodologies, most critical issues to study, and the expected scope of stakeholder consultation is established.

¹⁹⁶ These elements are not unique to projects supported by IDB Invest. While procedures and terminology may vary, most Development Finance Institutions use a similar approach.

3. Ongoing and meaningful **stakeholder engagement** from the early stages of project preparation throughout the lifetime of the project.
4. Identification of environmental and social **benefits and sustainability opportunities** that can be expected in the project.
5. **Risk identification**, identifying potential adverse environmental or social impacts the project may cause or contribute to, or be associated with.
6. Collection of **baseline data**, determination of **targets and benchmarks** related to environmental and social issues, and definition of indicators **and monitoring** regimes.
7. Integration of environmental and social considerations in project **design and planned implementation**, with the objective of maximizing benefits and avoiding or mitigating risks of adverse impacts.
8. Finalization and disclosure of environmental and social **studies and action plans**.
9. Integration of environmental and social considerations into project **management systems and decision-making** processes.
10. Implementation of environmental and social action plans with **monitoring and evaluations**, and **adaptive management** mechanisms that are responsive to delays, unforeseen challenges, and changing circumstances.

These ten elements have analytical, participatory, and management dimensions. They are interrelated and partly overlapping in time, as the simplified illustration on the next page illustrates.

Figure 8: Assessing and Managing Environmental and Social Issues in a Project Cycle



While there is flexibility in the process depending on circumstances, this figure illustrates that a number of elements must be completed or at a minimum initiated before a project can be approved. The degree of effort required under each element will be proportionate to project risk levels.

The following sections describe key aspects of how environmental and social considerations are reflected in the client management system.¹⁹⁷

3.2. Environmental and Social Assessment

Environmental and social risks and opportunities are identified by undertaking a process of environmental and social assessment, ESA.¹⁹⁸ The ESA process is part of a company's or project's overall Environmental and Social Management System, ESMS. IFC's Performance Guidance Note to Performance Standard 1 describes the ESA process:

The process of identifying environmental and social risks and impacts addresses, in an integrated manner, the full scope of risks and impacts (including environmental, social, labor, health, safety, and security) associated with the project to be financed.¹⁹⁹

¹⁹⁷ For a detailed description of these elements with a focus on social issues, see for example IDB (2018). Social Impact Assessment: Integrating Social Issues in Development Projects. [Link](#)

¹⁹⁸ For an overview discussion of different risk clusters or categories, see the section Risk Factors in Part II, Key Environmental and Social Issues.

¹⁹⁹ Performance Standard 1, Guidance Note 16.



Argentina, 2008

The ESA is a process which, depending on the project and local context, has specific milestones and deliverables at different times. It is worth stressing the process aspect of the ESA, since it is not unusual that the ESA is seen as a study with a report at a single point in time. Rather, the ESA may be described as a process which is both analytical and participatory in nature, and which generally has certain deliverables, or products such as reports and action plans, at different times. These form the basis for management decisions related to overall project design and implementation.

In terms of content, the ESA process may be thought of as an ‘umbrella’, under which specific topics and issues are assessed and managed. Some key elements of the ESA process include:

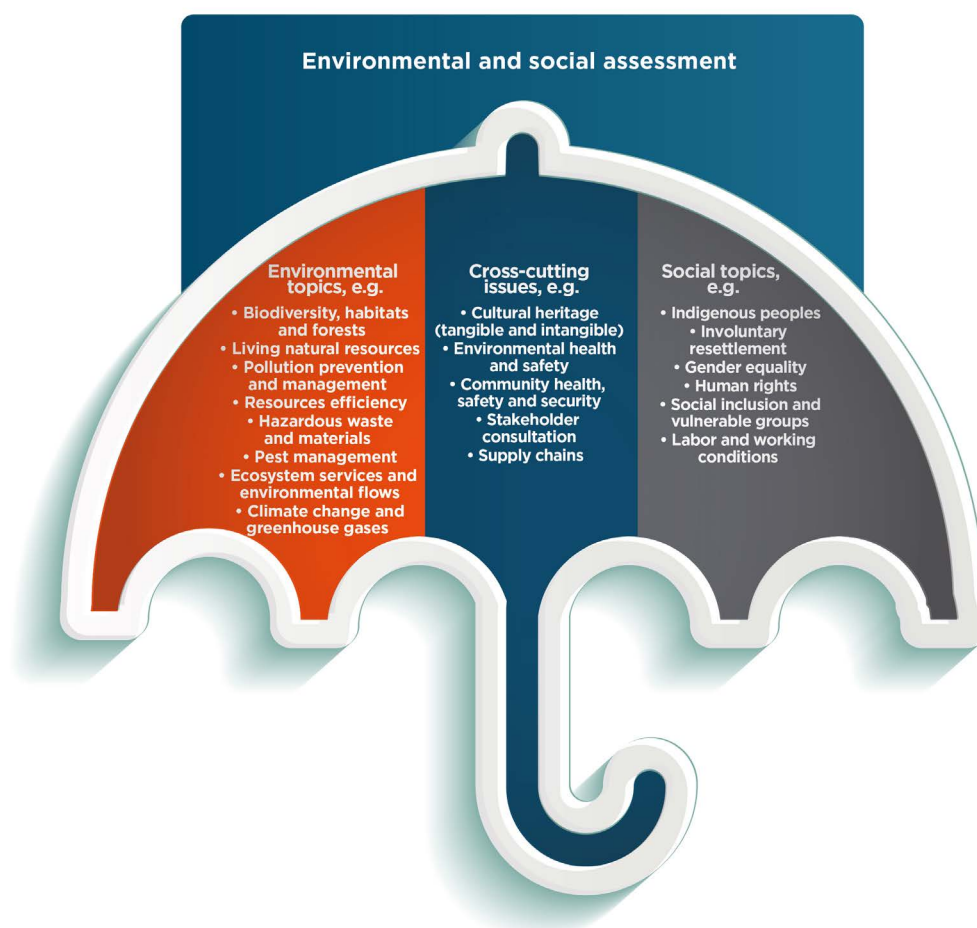
- Environmental and social risk factors are identified and relevant reports are produced, discussed and disseminated;
- Different stakeholder categories, in particular vulnerable groups and those who may be adversely affected by the project, are identified and consulted in appropriate manners;
- Inputs for project design and implementation to avoid harm and enhance benefits, both to people and the natural environment, are agreed on and carried out;
- Specific in-depth studies, mitigation and action plans are prepared and implemented as appropriate in the project setting;²⁰⁰ and

²⁰⁰ Mitigation and action plans may include resettlement action plans, biodiversity management plans, Indigenous Peoples plans, and others.

- The ESA process provides the basis for establishing project-level grievance mechanisms.²⁰¹

The ESA is also expected to provide an overview of existing, contextual risks in the operating environment, such as weak governance structures, or conflict, fragility, and violence. The nature of the process as an ‘umbrella’, and some of the topics that may be relevant in a project setting, can be illustrated:²⁰²

Figure 9: Environmental and Social Assessment Topics.



²⁰¹ See the later section on Accountability Mechanisms.

²⁰² Source: IDB (2018), Social Impact Assessment [Link](#). Note that terminology may vary — the Performance Standards refer to the process as an ESA, while other documents and guidance sometimes use the term Environmental and Social Impact Assessment, ESIA.

The topics listed in the figure above are an indicative list and not exhaustive, and should be used as examples only.²⁰³ Not all these environmental or social issues will be of relevance in a specific project setting. Indigenous Peoples may be present in some locations and not in others, and some projects may require land acquisition and involuntary resettlement, while others do not involve physical or economic displacement. Early screening and scoping done and under the ESA process should be able to identify relevant risks and opportunities applicable to the project in question, and to determine if more in-depth or specialized studies and discussions may be required in some areas, for example related to labor standards, gender based violence, human rights, or biodiversity. Depending on the project, specific studies and / or action plans may be required to cover relevant topics such as:²⁰⁴

- Labor management procedures
- Stakeholder engagement
- Resettlement
- Indigenous Peoples
- Biodiversity management
- Emergency and evacuation
- Risk assessment and action plan for gender-based violence

Roles and responsibilities for the ESA process need to be made clear, and consideration of environmental and social issues need to be well integrated with other project aspects, including technical and financial considerations. This is an ongoing, iterative process. For example, in a highway project initial plans and designs will provide the basis for how potential impact areas should be studied, and how local communities and other stakeholders along the proposed alignment are consulted. The analysis and consultations around environmental and social issues will then provide information about topics such as cultural heritage sites to be avoided where possible, and how to minimize the need for land acquisition and displacement. This information should then be factored into how the highway route and alignment are chosen, and in how engineering designs are finalized.²⁰⁵

The ESA process also provides the information needed to allocate appropriate levels of financial and human resources to manage the environmental and social issues, adjusted as necessary through monitoring and adaptive management.²⁰⁶

A risk assessment should not be seen as a static or one-time exercise. Risks change over time, and should be monitored regularly. Planned mitigation actions may need to be revised during the lifetime of the project.

²⁰³ Some of these topics are discussed in more detail in Part II, Key Environmental and Social Issues.

²⁰⁴ This manual does not contain formats or templates for individual studies or reports, since these will vary depending on the project and context. IDB Invest advises clients on specific studies, plans and suggested formats that may be needed in individual projects.

²⁰⁵ This is illustrated in the next section, Risk Mitigation Hierarchy.

²⁰⁶ See the later subsection on Monitoring, Reporting and Adaptive Management.

It is beyond the scope of this manual to describe the types of skills and experience required of people undertaking and guiding ESA processes. However, a mistake commonly made is to underestimate the need for capacity and experience in this area. In complex or high-risk circumstances it is unlikely that one person has sufficient knowledge of the issues to identify and manage them appropriately, and a multidisciplinary team may be needed.

3.3. Risk Mitigation Hierarchy

Once environmental and social risks have been identified through the Environmental and Social Assessment process including stakeholder consultations and engagement, the project is required to take steps to avoid, minimize, or compensate for any adverse impacts. This is referred to as applying a mitigation hierarchy. Performance Standard 1 lists one of its objectives as:

To adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks and impacts to workers, Affected Communities, and the environment.²⁰⁷

Applying a mitigation hierarchy as required by the IDB Invest Sustainability Framework means that environmental and social issues cannot be dealt with as separate from other project components, such as physical designs and engineering. Consideration of environmental and social issues needs to be embedded into the project's overall decision-making process.

The practical steps involved in applying a risk mitigation hierarchy are:²⁰⁸

1. Identify and anticipate risks of potential adverse impacts, through analysis and stakeholder engagement.
2. Avoid potential adverse impacts, applying an alternatives analysis including a no-project scenario.²⁰⁹
3. Minimize or reduce the impacts, for example by reducing the physical footprint of a project through changes in design of civil works.
4. Restore or rehabilitate where possible, for example by providing alternative access to water sources that have been cut off by a project.
5. Compensate or offset remaining and unavoidable impacts, for example by providing resettlement assistance to displaced populations.

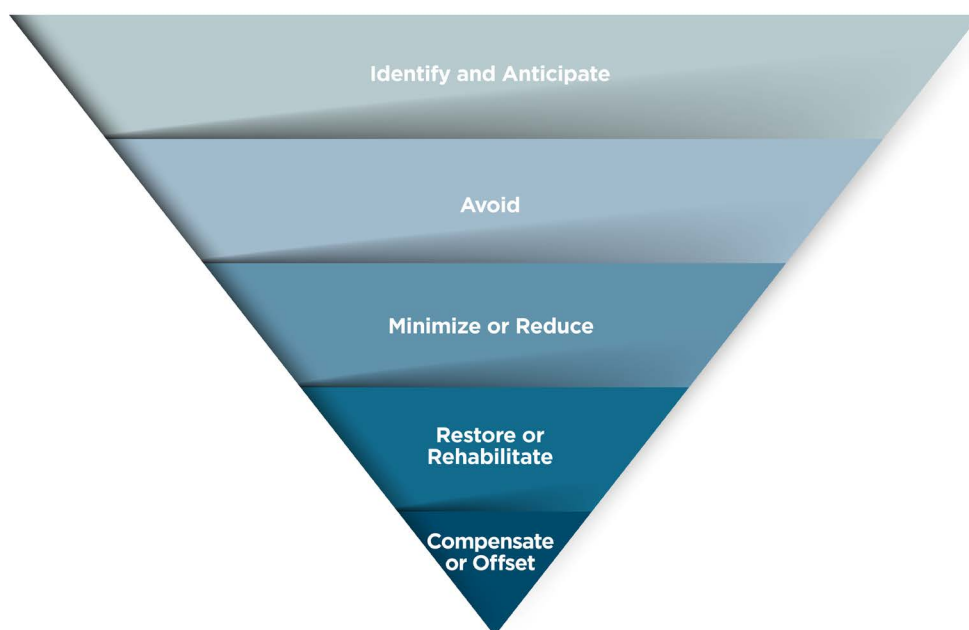
²⁰⁷ Performance Standard 1, Objectives.

²⁰⁸ The terminology used by different institution to describe steps in the risk mitigation hierarchy may vary, but the overall principles are used by most development finance institutions.

²⁰⁹ A common mistake is to not assess and document alternatives to a proposed project and its design. Performance Standard 1 requires an examination of alternatives in projects with the potential to generate potential significant environmental or social impacts. (See Performance Standard 1, footnote 11.)

Going through these stages of the risk mitigation hierarchy, the risks of adverse impacts get successively reduced or eliminated, with the objective of no net harm resulting from the project within a reasonable timeframe. The mitigation hierarchy can be shown in an inverted pyramid, as in the figure below:²¹⁰

Figure 10: Mitigation Hierarchy



The environmental and social assessment and management process should document how these stages are being addressed, and eventually confirm the successful compensation, assistance, or offset of any remaining adverse impacts after reasonable efforts have been made to avoid or minimize risks. Where possible, the documentation should quantify the degree to which adverse impacts have been avoided, e.g. that displacement has been reduced by 80 percent through alternative designs or other measures.

3.4. Responsibilities in Relation to Different Risk Categories

Clients' control over environmental and social risks vary somewhat depending on what the nature of the risk category is.²¹¹ First, for risks of potential adverse impacts that are **caused by and attributable to the project**, the client is expected to apply the mitigation hierarchy described in the previous

²¹⁰Adapted from IDB (2018). Social Impact Assessment. [Link](#)

²¹¹ See the section Risk Factors in Part II. Note that the description here of risk categories and corresponding responsibilities is not explicitly described using these terms in the IFC Performance Standards, but represents a synthesis and interpretation based on good practice. As noted earlier, specific policy language in the IDB Invest Sustainability Framework should be applied in case of doubt.

section in full. The assumption is that the client is responsible for making every reasonable effort to achieve no net loss within a reasonable time, using resources under control of the project. An example of this is displacement and involuntary resettlement caused by the project, or adverse impacts on Indigenous Peoples' rights caused by a project.

This can be illustrated with the simple figure on the left, showing a direct relationship between the project and adverse impacts such as displacement:

Figure 11: Causality



Second, there are risks that a project may **contribute** to adverse impacts, where other factors and third parties outside the project's direct control are also contributing factors. This may include cumulative impacts, risks related to associated facilities, or to supply chains of goods and services. It may also relate to labor conditions in the case of contractors and sub-contractors, where the client has less direct control. This category of risks may be considered **risks of contribution** rather than direct causality. This may be illustrated with the figure on the next page, where the adverse impact is partially caused by the project, and partially by actions of third parties:

Risks of poor working conditions such as child labor or forced labor in a supply chain are examples of such risks of contribution, where the project may not have full control or leverage over the situation, and may not be in a position to mitigate all aspects of the risks.²¹² In such cases, the client is expected to do the following:

²¹² Performance Standards 2 and 6 require clients to consider risks and impacts associated with primary supply chains. See also the discussion related to child labor in Part II.

Figure 12: Contribution



1. Assess the risks of contributing to adverse impacts;
2. Take necessary steps to prevent the project's contribution to adverse impacts, by applying the mitigation hierarchy in full to those activities under the project's control;
3. Make good faith efforts and apply leverage to influence relevant third parties with the objective of minimizing or avoiding the overall adverse impacts the project is associated with; and
4. Where there is limited leverage or influence over third parties, consider ways in which leverage may be increased.

Third, a project may be **associated** with a high-risk situation it has neither caused nor contributed to directly. This may be because of business relationships with others who may be involved in activities that cause environmental or social harm. Risks through **linkage** with situations causing harm may be illustrated by the figure on the next page, where the dotted line represents linkage; association or relationship with the actors more directly causing or contributing to adverse impacts.²¹³

Contextual risks represent a fourth category of risks. This may involve situations such as pre-existing conditions of fragility, vulnerability or social exclusion of some groups, a history of human rights abuses, or weak governance such as high levels of corruption. These conditions exist prior to the project, and the client is not responsible for them.²¹⁴ However, their presence in the project setting may exacerbate risks of adverse impacts the project causes or contributes to, which the client is responsible for. Environmental or social

²¹³ See the United Nations Guiding Principles on Business and Human Rights for a discussion of client responsibilities in cases of cause, contribution and linkage in relation to human rights. [Link](#)

²¹⁴ For an example of a contextual risk assessment methodology, see for example the World Bank's Risk and Resilience Assessment methodology. [Link](#)

Figure 13: Linkage



impacts related to the project may be more severe if the natural environment is more fragile, or if people are vulnerable and have less resilience to project-related impacts. Corruption or weak institutional capacity may make it harder to design or implement the project in accordance with the IDB Invest Sustainability Framework. In such circumstances, the client should (i) assess how such associated or contextual risks affect the project; and (ii) factor such risk factors into how the project is designed and implemented.

Finally, **performance-related** factors of weak capacity or commitment, or insufficient resources to manage environmental and social issues, may constitute risks to project. IDB Invest assesses client capacity and commitment to meet the requirements of the Sustainability Framework as one of the primary aspects of project appraisal.²¹⁵ This is discussed in the section IDB Invest Management System. Clients are required to establish the requisite Environmental and Social Management System appropriate to the project or portfolio. This is discussed in the next sub-section.

3.5. The Client's Environmental and Social Management System

For a management system applying the IDB Invest Sustainability Framework to function effectively and efficiently, it needs to be integrated with other aspects of a company's activities and not operate in isolation. Unless the institutional culture sees environmental and social risk management as an integral part of the institution's core business, the overall ESMS will not be fully effective. Its implementation needs to be done by trained and committed people, supported by management. Performance Standard 1 states that:

²¹⁵ Sustainability Policy, para 28.

Sufficient management sponsorship and human and financial resources will be provided on an ongoing basis to achieve effective and continuous environmental and social performance.²¹⁶

The role of management in establishing and supporting a well-functioning ESMS would include:

- Adoption of institution-wide policies and procedures for environmental and social risk management;
- Creation and support of a positive atmosphere for this agenda;²¹⁷
- Communication from management that environmental and social risk management is an institution-wide responsibility, not just the responsibility of the unit tasked with managing the agenda;
- Integration of environmental and social issues in the institution's overall priorities and decision-making processes, balanced with other aspects such as financial and technical considerations;²¹⁸
- Recruitment of personnel with technical capacity and experience to support this agenda; and
- Allocation of sufficient time and resources to identify and manage environmental and social risks.

IDB Invest clients need to establish appropriate internal capacity to coordinate the environmental and social assessment process, facilitate stakeholder engagement and consultations, and advise management on key risks that should be considered in project design and implementation. While all employees should be familiar with the basic principles of the ESMS, most companies applying the Sustainability Framework will need to have one or more persons with relevant capacity and experience in environmental and social issues to coordinate the work and take responsibility for essential functions. Performance Standard 1 stipulates that:

Personnel within the client's organization with direct responsibility for the project's environmental and social performance will have the knowledge, skills, and experience necessary to perform their work, including current knowledge of the host country's regulatory requirements and the applicable requirements of Performance Standards 1 through 8. Personnel will also possess the knowledge, skills, and experience to implement the specific measures and actions required under the ESMS and the methods required to perform the actions in a competent and efficient manner.²¹⁹

²¹⁶ Performance Standard 1, para 17.

²¹⁷ In some cases, meeting environmental and social requirements has been perceived as a transaction cost that delays or prevents processing and delivery of projects. For the Sustainability Framework to be effective it is important that management and staff understand and communicate that environmental and social sustainability is part of the institution's value proposition.

²¹⁸ This may require an explicit process for balancing and resolving real or perceived conflicts between social, environmental, and other business objectives and priorities. Since different staff and employees within a company are likely to have different backgrounds, training, and priorities, it is not unusual that there may be different opinions about these issues. It is therefore important that management at senior levels are familiar with the environmental and social considerations, and are able to weigh the different factors in making decisions.

²¹⁹ Performance Standard 1, para 18.

The size and resources of a dedicated unit or team should be commensurate with the levels of risk or complexity of the company and relevant project activities:

The level of detail and complexity of the social and environment management system and the resources devoted to it should depend on the level of impacts and risks of the project to be financed, and the size and nature of the client's organization.²²⁰

Few individuals have expertise in the full range of issues covered by the Sustainability Framework. Depending on the type of project, it may be advisable to have a multidisciplinary team with professionals from environmental sciences, health and safety, and social sciences. This team would be responsible for facilitating and coordinating the assessment process; engaging with affected communities and other key stakeholders; ensuring that environmental and social issues are considered in project planning and implementation; and monitoring and reporting on environmental and social issues. They should work closely with other parts of the company such as contracts and purchasing, and human resources. They should also act as focal points and organizers of training programs in risk management within the company.

3.6. Consultants and External Experts

For tasks of limited duration it may not be cost-effective or necessary for the client to have the work done by company staff. It may be more cost-effective to hire one or more external consultants to undertake the specific tasks. Clients may also need to involve external experts in areas where the company lacks in-house expertise in a particular area related to environmental and social risk management:

For projects posing potentially significant adverse impacts or where technically complex issues are involved, clients may be required to involve external experts to assist in the risks and impacts identification process.²²¹

External experts may be needed if there are specific topics that require unique, in-depth technical expertise, such as particular aspects of biodiversity, safety issues, addressing gender-based violence, or conducting specialized studies such as a health impact assessment. In some cases, use of external experts is an explicit requirement under the Performance Standards:

²²⁰ Performance Standard 1, Guidance Note GN7.

²²¹ Performance Standard 1, para 19.

When structural elements or components, such as dams, tailings dams, or ash ponds are situated in high-risk locations, and their failure or malfunction may threaten the safety of communities, the client will engage one or more external experts with relevant and recognized experience in similar projects, separate from those responsible for the design and construction, to conduct a review as early as possible in project development and throughout the stages of project design, construction, operation, and decommissioning.²²²

The completion audit of the Resettlement Action Plan and/or Livelihood Restoration Plan, will be undertaken by external resettlement experts once the agreed monitoring period is concluded.²²³

For projects with significant impacts, the client will retain external experts to verify its monitoring information.²²⁴

The client may also need to use external experts or neutral parties as part of the project grievance mechanism.²²⁵ It may also be appropriate to collaborate with reputable third parties for assistance with particular topics, such as local civil society organizations which may assist in the stakeholder engagement process, or international organizations such as ILO to advise on labor standards.

Recruitment of external advisors or consultants should not be done uncritically. Not all practitioners in environmental and social assessment, for example, are familiar with the full content and requirements of the Sustainability Framework. And the use of external expertise should not lead to an abrogation of responsibility within the company: Consultants' work and recommendations will need to be evaluated as to quality and relevance, and integrated into company decision-making as needed. As discussed earlier, this requires basic familiarity with the core content of the Sustainability Framework within the company, including by senior management.

3.7. Contractor and Subcontractor Management

Clients of IDB Invest often hire contractors to design or implement their projects. The actions of these contractors are key to managing environmental and social issues, since the contractors are the ones implementing work and activities on the ground and interacting directly with local communities and other stakeholders.

Contractors are not considered 'third parties'. The objectives and requirements of the Sustainability Framework apply fully to them:

²²² Performance Standard 4, para 6.

²²³ Performance Standard 5, footnote 18.

²²⁴ Performance Standard 1, para 22 (Monitoring and Review).

²²⁵ See the section on Accountability Mechanisms.

Contractors retained by, or acting on behalf of the client(s), are considered to be under direct control of the client and not considered third parties for the purposes of this Performance Standard.²²⁶

The client is responsible for ensuring that environmental and social issues are appropriately managed by contractors engaged on the project. The IFC Performance Standards and the World Bank Group Environmental, Health and Safety Guidelines apply as appropriate to the nature and location of the project. The client must therefore undertake a process of selecting and managing contractors that incorporates clear criteria for how the contractors will manage the environmental and social issues in the project. This may include, but not be limited to:²²⁷

- Occupational Health and Safety (OHS);
- Community health and safety, including sexual exploitation and abuse and gender-based violence;
- Labor standards and working conditions, including accommodations for workers and access to first aid and medical assistance in cases of injuries;
- Specific environmental or social issues such as resettlement, cultural heritage, and biodiversity; and
- Stakeholder engagement, including engagement with Indigenous Peoples where relevant.

To ensure that contractors are selected and managed appropriately, the client needs to incorporate environmental and social issues from the beginning of the process, starting with the bidding process. Issues to consider include:

- Incorporate relevant environmental and social considerations into the **bidding process** through specific clauses and requirements in tender documents;
- During proposal evaluation and contractor selection, ensure that contractors have the appropriate **capacity** to manage environmental and social risks, for example by reviewing their track record;
- Include environmental and social requirements for contractors in **legal agreements**, with criteria for remedies in cases of non-compliance;
- Verify that contractors have the appropriate **personnel and resources** to manage environmental and social issues;
- Require contractors to establish a **code** of conduct reflecting environmental and social considerations for their workers and other personnel providing support to the project, such as security forces;

²²⁶ Performance Standard 1, footnote 4.

²²⁷ See Part II for a discussion of some of these issues.

- Agree on criteria for **engaging with third parties** where necessary, if environmental and social issues are not under the direct control of the contractor;
- Ensure that contractors set up appropriate **grievance mechanisms** both for workers and external stakeholders, with clear criteria for who is responsible for different aspects of the grievance process, including case management and reporting;
- **Monitor contractor performance** during the different stages of the project, including mobilization, training of personnel as required, construction phase, and demobilization and site handover; and
- Require contractors to have similar arrangements and requirements with their **subcontractors**.



Bolivia, 2004

The requirements of the Sustainability Framework also apply to subcontractors. It is more difficult for a client to supervise and verify subcontractors' performance on the ground, since the subcontractors' relationship is with the client's contractor and not directly with the client. The client must therefore use the control they have over their contractors to ensure that they, in turn, apply the requirements of the Sustainability Framework to their subcontractors.

In the same way as IDB Invest requires clients to report on their environmental

and social performance, clients should require their contractors to report to them on these issues.²²⁸ The content and frequency of such reporting will vary depending on the nature of the project, but it is good practice to report frequently on environmental and social issues during the construction phase of a project. Reporting may cover issues such as safety (incidents and accidents), works undertaken, progress with achieving the objectives of the Performance Standards and EHS Guidelines, engagement with local communities and other stakeholders, and management of any grievances.

Clients should verify contractor performance and reporting throughout the project lifetime, from mobilization through closure and demobilization. This may include site visits and discussions with project workers and representatives of local communities.

3.8. Supply Chain Management

Supply chains are networks of sites, facilities, and distribution channels that include transformation of natural resources and raw materials through production, assembly, procurement, and delivery of products to customers. Unless appropriately managed, sourcing of products may have direct, adverse impacts on the natural environment. There may also be adverse impacts on people, such as poor working conditions for workers in different parts of the supply chain.

IDB Invest's Sustainability Framework requires clients to assess these risks, and to take appropriate action to avoid, minimize, or mitigate the risks. Performance Standard 6 states that:

*Where a client is purchasing primary production (especially but not exclusively food and fiber commodities) that is known to be produced in regions where there is a risk of significant conversion of natural and/or critical habitats, systems and verification practices will be adopted as part of the client's ESMS to evaluate its primary suppliers.*²²⁹

The responsibility of the client is focused on products provided by primary suppliers, since it is recognized that a client may have very limited control or influence beyond primary suppliers. Primary suppliers are defined as 'those suppliers who, on an ongoing basis, provide the majority of living natural resources, goods, and materials essential for the core business processes of the project.'²³⁰

While the management responsibility is with primary suppliers, it may be in the client's interest to assess other risks in the supply chain. Being linked or associated with harmful practices further out in the supply chain, for example,

²²⁸ See the later subsection on Monitoring, Reporting and Adaptive Management.

²²⁹ Performance Standard 6, para 30.

²³⁰ Performance Standard 6, footnote 21.

may have an adverse impact on a company's reputation, credit worthiness and access to capital, or customer base.

Supply chain risks are both environmental and social. Risks to workers in the supply chain are addressed in Performance Standard 2, which has as one of its objectives to 'protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain.'²³¹ Performance Standard 2 applies to workers engaged by the client's primary suppliers.²³²

Among the potential risks in the supply chain that should be assessed and managed by clients are:

- Conversion and degradation of natural or critical habitats, such as through large-scale industrial agriculture, deforestation, and fragmentation of natural landscapes;
- Child labor, including exposure to hazardous materials such as pesticides, and impediments to children's right to education;
- Safety issues through work place incidents or fatalities. These may be caused by exposure to hazardous agrochemicals, use of unsafe equipment, or limited access to personal protective equipment (PPE); and
- Forced and bonded labor, which may result from company recruitment practices, trafficking, or using illegal migrant workers.

Performance Standards 2 and 6 provide guidance on how to identify these types of risks, and what clients are expected to do to manage supply chain risks responsibly.²³³ This includes establishing traceability and verification practices identifying where supplies are coming from and the habitat of the area. One useful tool in this risk assessment process is the Integrated Biodiversity Assessment Tool, IBAT.²³⁴

Clients should limit procurement to suppliers that operate responsibly from a biodiversity and labor perspective. If there are poor or harmful practices in the suppliers' activities, clients should assess their degree of leverage or control over the suppliers and make a good faith effort to persuade their suppliers to change their practices. Where this is not possible, the primary supply chain should be shifted to suppliers that operate more responsibly. Responsible operations may for example be demonstrated if products are certified through independent schemes.²³⁵

²³¹ Performance Standard 2, Objectives.

²³² Performance Standard 2, para 4.

²³³ See for example IFC's Good Practice Handbook Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain. (2013) [Link](#)

²³⁴ See the earlier discussion of IBAT in the section on Biodiversity and Natural Resources in Part II.

²³⁵ See the section on Biodiversity and Natural Resources in Part II.

3.9. Financial Intermediaries

In addition to financing individual clients and projects, IDB Invest lends to, and invests in, a variety of financial institutions. These may include universal banks, investment banks, private equity funds, microfinance institutions, and insurance companies. These are referred to as Financial Intermediaries, or FIs, since funding from IDB Invest is on-lent by the FI to a variety of clients. This may be for individual investment projects that the FI's clients undertake, or it may be towards a whole asset class with multiple sub-projects and activities, such as microcredit or housing loans to large numbers of customers, or medium and small enterprise finance.

Lending through FIs strengthens domestic capital and financial markets, and provides access to finance in the region. Such lending can have a positive multiplier effect: Through a single transaction, IDB Invest can reach a much larger number of clients and support a whole sector, and have a far greater development impact than through individual projects. IDB Invest seeks to promote sustainability in the financial sector by focusing its FI portfolio in areas of green finance, micro, small and medium-sized enterprises; housing; services; and trade.

Working through FIs, the relationship between IDB Invest and individual projects financed by the FI is an indirect one. It is not realistic, nor is it the intention, for IDB Invest to undertake due diligence and supervision for every project the FI finances. These can run into thousands of individual transactions, clients, or subprojects for each FI. Instead, this responsibility is delegated to the FI. IDB Invest's direct relationship is with the FI, not with the FI's clients and their borrowers or projects. Through its relationship with the FI, IDB Invest seeks to ensure that the FI takes on the responsibility, and has the capacity, to apply the principles and requirements of the Sustainability Framework in its operations. This means that the FI has to monitor environmental and social risks of their portfolio and subprojects, and require its clients to apply relevant aspects of the IFC Performance Standards and World Bank Group EHS Guidelines, where applicable.²³⁶ Similar to other clients, the FI has to establish an Environmental and Social Management System with procedures for assessing and managing risks of the transactions it undertakes.

Application of the IDB Invest Sustainability Framework to an FI will depend on the specific activities being supported. IDB Invest requires its FI clients to develop and operate an ESMS, consistent with Performance Standard 1, in instances where the activities that are supported by the IDB Invest financing present environmental or social risks. The comprehensiveness of the ESMS is determined by the FI categorization and the level of environmental and social risk associated with the asset class supported. If the funding is earmarked for a particular set of activities or a credit line

²³⁶ Application of the IFC Performance Standards and World Bank Group EHS Guidelines is generally restricted to higher risk corporate and project finance on-lending. Lower-risk on-lending, including SME finance, trade, and housing, require the application of local law and the IDB Invest Exclusion List.

for specific lines of business by the FI, the ESMS will apply to the particular targeted end use or asset class agreed on. However, if the IDB Invest financing consists of an equity investment or generalized financial support with no specified end use, the ESMS will apply to the entire portfolio of the FI.²³⁷ For higher risk corporate and project finance on-lending, the FI's ESMS will be expected to apply the relevant IFC Performance Standards in evaluating environmental and social risk when IDB Invest is supporting these activities.²³⁸ IDB Invest uses the IFC's Interpretation Note on Financial Intermediaries in guiding its clients on the function and comprehensiveness of the ESMS required.²³⁹

Many of the transactions and subproject financed by FIs are low risk from an environmental or social perspective. Microcredit, housing loans, student loans, and in many cases loans to small and medium enterprises do not involve risks of significant environmental and social impacts. However, IDB Invest recognizes that some projects financed by FIs, particularly in infrastructure or corporate finance, may have environmental and social impacts that must be mitigated. Environmental and social risks may relate to adverse impacts projects financed by the FI may cause or contribute to, as well as aspects related to labor and working conditions of FI employees, and to health and safety issues. IDB Invest categorizes risks in relation to FI clients as FI-1 (substantial), FI-2 (moderate), and FI-3 (low) risk.²⁴⁰ Different requirements apply to the client depending on the risk categorization, as illustrated in the figure:²⁴¹

²³⁷ This does not apply retroactively; the ESMS applies to new business from the time IDB Invest provides financing to the FI.

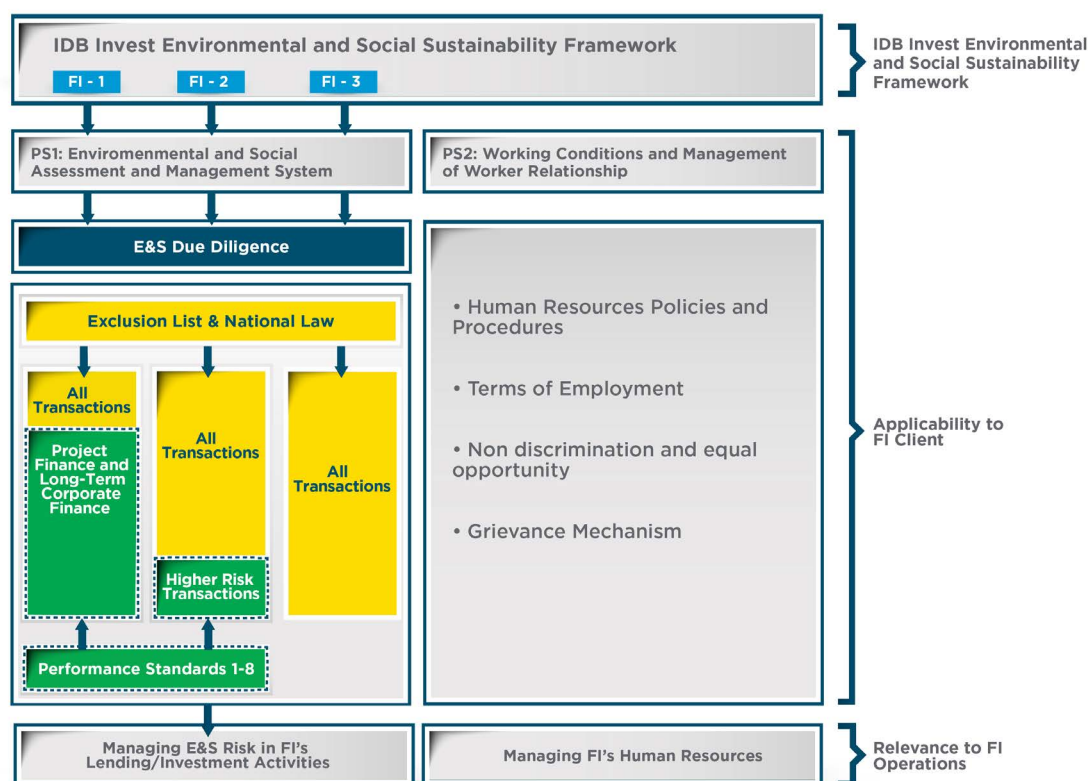
²³⁸ This includes avoidance of potential impacts on, and undesired contact with, Indigenous Peoples "in voluntary isolation" or "in initial contact".

²³⁹ See IFC Interpretation Note on Financial Intermediaries, November 2018. [Link](#)

²⁴⁰ See the section on IDB Invest Management section for a discussion of screening and risk categorization, including criteria for FI risk classification.

²⁴¹ Source: IFC requirements for FI clients.

Figure 14: Overview of requirements for FI clients



IDB Invest seeks to reduce the likelihood of projects financed by FI clients having adverse impacts in different ways:

- IDB Invest's funds cannot be used by the FI to finance projects that are categorized as Category A, significant risk.²⁴² While IDB Invest assesses each FI's capacity to evaluate and manage environmental and social risk within a given asset class, it has decided not to delegate the more complex task of managing Category A projects. The only exception to this is in cases where IDB Invest makes an investment in Strategic Funds that may participate in Category A projects under specific conditions.²⁴³ In such cases, IDB Invest would need to simultaneously co-finance such projects directly and implement the necessary measures to manage the environmental, social and governance-related risks of the Category A projects; and the Strategic Fund will be required to obtain IDB Invest confirmation (or modification) of the risk categorization of each project under consideration as a precondition to the financing of the projects.

²⁴² See the later section on Screening and Risk Categorization. Category A transactions are generally considered to be higher risk transactions within the corporate or project finance asset classes.

²⁴³ IDB Invest aims at supporting, on a selective basis, Strategic Funds which can mobilize resources from domestic and international investors to long-term financing of infrastructure priorities.

- The FI is required to maintain an exclusion list of types of projects and activities it will not finance. This will include, at a minimum, the IDB Group Exclusion List.²⁴⁴
- IDB Invest evaluates the overall and aggregate risks of FI clients' activities, and uses a risk categorization based on the relative magnitude of the environmental and social risks within the asset class supported.²⁴⁵
- IDB Invest focuses in particular on assessing the robustness of the FI's ESMS, including its track record, capacity, and commitment to manage environmental and social risks. The ESMS must be commensurate with the risks in the asset class supported by IDB Invest. Where there is limited capacity, IDB Invest will work with the FI to strengthen it.²⁴⁶
- If an existing FI client has unsatisfactory environmental and social performance, IDB Invest may consider no new financing of new investments with the client.
- FI clients are required to produce annual performance reports, which IDB Invest reviews and verifies. The verification may take the form of supervision visits, including to individual projects. Such field visits are done particularly for higher risk transactions.²⁴⁷

3.10. Monitoring, Reporting and Adaptive Management

The measure of a robust management system for environmental and social issues is not that it guarantees that there will be no adverse impacts — which is impossible — but that the ESMS has the capacity to anticipate and minimize risks; to address issues and challenges appropriately when they arise; and to respond effectively to unforeseen circumstances. As discussed earlier in this manual, the Sustainability Framework does not lend itself to the same type of 'blueprint' approach as for example with engineering designs.²⁴⁸ Every project is different. Even with the best of planning there will always be unknown variables, including related to people's behavior and responses to a project. Plans get delayed, costs go up, circumstances change, and opposition arises. It is therefore important not to confuse plans with outcomes and results. Rather, plans should be considered as living documents that need to be revised and updated in response to changing circumstances. Performance Standard 1 recognizes this:

²⁴⁴ See the later section on Exclusion List.

²⁴⁵ See the later section on Screening and Risk Categorization.

²⁴⁶ See the earlier section on Environmental and Social Management System for a discussion of the various elements necessary for a robust ESMS.

²⁴⁷ Field visits to individual projects financed by the FI is done with the purpose of gathering data points to assess the robustness of the FI's ESMS, rather than as a detailed performance assessment of the individual subprojects.

²⁴⁸ See for example the discussion of IFC's Performance Standards in Part I, and the discussion of Proportionality and Flexibility in Part III.

Recognizing the dynamic nature of the project, the management program will be responsive to changes in circumstances, unforeseen events, and the results of monitoring and review.²⁴⁹

An essential measure of performance is therefore how efficiently and effectively a project responds to unforeseen circumstances. This is done through **adaptive management**, whereby a project establishes a flexible system for learning and adapting, to identify areas where different approaches or more effort may be needed.

An adaptive management approach requires systematic monitoring of the project's environmental and social performance and results, and ongoing consultations with key stakeholder groups. It involves several steps and elements, which may include:

- Determine what the relevant issues are that should be monitored (risks, opportunities, expected outcomes and impacts, and who the relevant stakeholders are);
- Determine what the indicators should be, including through consultations with local stakeholders, and the appropriate mix of quantitative and qualitative indicators;²⁵⁰
- Determine what the units of analysis should be (e.g. species to be monitored; individuals and households, other);
- Determine research methodology to collect data (e.g. rapid assessments, surveys, stakeholder interviews);
- Establish baseline (pre-project) data and benchmarks, to have a point of comparison and clarity on what the project expects to achieve, to be able to judge progress and ultimately document whether adverse environmental or social impacts were avoided or mitigated, and what sustainability benefits were achieved; and
- Regular reporting and public disclosure of analytical work and action plans, stakeholder engagement process, and updates on performance and progress with action plans.

Project monitoring by the client will be based on data collected through this process. It will be verified by IDB Invest through supervision. Robust data will also be the basis for independent evaluations. Monitoring, supervision and evaluation have different purposes, and will generally use different types and levels of indicators, benchmarks, and targets:

- Monitoring is part of a management system, and is the responsibility of the client as an ongoing process. It focuses on the environmental and social aspects of project inputs and activities, and on immediate

²⁴⁹ Performance Standard 1, para 16.

²⁵⁰ Environmental aspects related to for example biodiversity can generally be monitored against quantitative indicators. Social issues are best measured with a mix of quantitative and qualitative indicators.

outputs. Clients of IDB Invest produce regular monitoring reports on progress against targets and benchmarks agreed upon.

- IDB Invest conducts supervision of projects. This is done regularly; the frequency and intensity is proportionate to project risk, scale, and complexity. The supervision serves to verify project performance and results in meeting the objectives and requirements of the Sustainability Framework.²⁵¹
- Evaluations focus on quality and sustainability of higher-level outcomes and impacts, and on whether the project has reached or is reaching its goals. Evaluations are typically done by evaluators who are independent of the project. Such evaluations can be commissioned by the client, or undertaken by the IDB Group's independent Office of Evaluation and Oversight, OVE.²⁵² Evaluations may also be jointly commissioned by IDB Invest and the client.

Performance Standard 1 provides detail on the client's responsibility to monitor its management program and progress on environmental and social issues:

*The client will establish procedures to monitor and measure the effectiveness of the management program, as well as compliance with any related legal and/or contractual obligations and regulatory requirements. Where the government or other third party has responsibility for managing specific risks and impacts and associated mitigation measures, the client will collaborate in establishing and monitoring such mitigation measures. Where appropriate, clients will consider involving representatives from Affected Communities to participate in monitoring activities. The client's monitoring program should be overseen by the appropriate level in the organization.*²⁵³

The monitoring of sustainability issues, both related to risk management ('no net harm' and to documenting positive development outcomes ('net positive gain')) can be illustrated by the figure on the next page.²⁵⁴ This shows the gradual, or progressive, realization of the project's objectives over time.²⁵⁵

²⁵¹ See the section on Transaction Cycle under IDB Invest Management System.

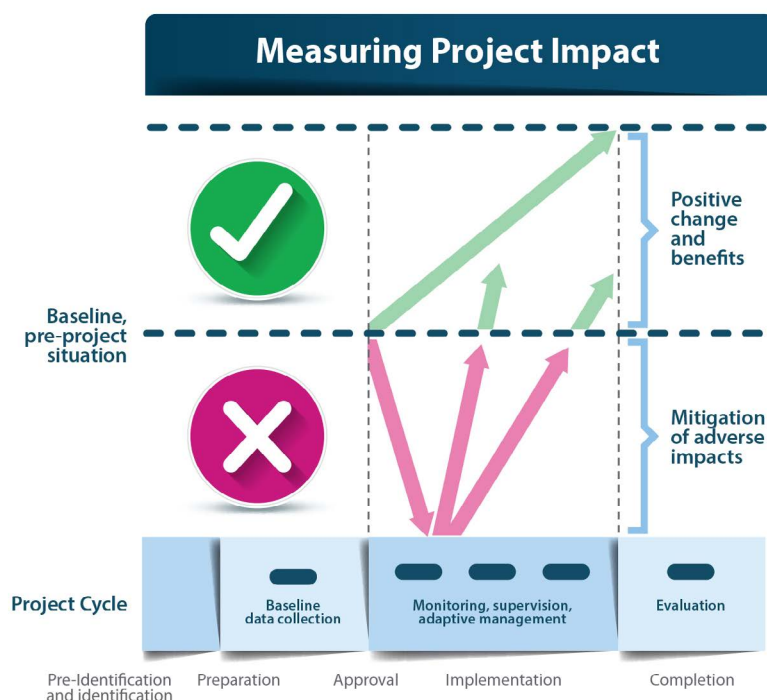
²⁵² See the section on Accountability Mechanisms for a discussion of OVE's role and functions.

²⁵³ Performance Standard 1, para 22.

²⁵⁴ As a risk management approach, the Sustainability Framework has 'no net harm' as its expected outcome in individual projects. 'Net positive gain' is desired but not required, with the exception of areas of critical habitats where net positive gain is required for biodiversity values.

²⁵⁵ Adapted from IDB (2018), Social Impact Assessment. [Link](#)

Figure 15: Monitoring of progress against baseline data.



Clients are required to provide IDB Invest with annual environmental and social monitoring reports showing completion of agreed actions and progress towards expected outcomes. This requirement is part of the legal agreement between IDB Invest and its clients when a project is approved. Part of IDB Invest's supervision role is to verify the information provided by the clients through these monitoring reports.

3.11. Emergency Preparedness and Response

As part of the overall environmental and social assessment process, clients should identify if the project has exposure to different types of risk including natural hazards, and what types of vulnerabilities may exist in the natural environment or among affected communities. Projects are required to have emergency preparedness and response mechanisms in place as part of their Environmental and Social Management System. The client's organizational structure needs to be able to manage unexpected situations, ranging from the implementation adjustments discussed in the previous section, to responding to emergencies and disasters in some projects. Incidents and accidents such as worker injuries or fatalities need to be managed and reported on, and staff need to be trained to deal with emergencies. Performance Standard 1 states that:

Where the project involves specifically identified physical elements, aspects and facilities that are likely to generate impacts, the ESMS will establish and maintain an emergency preparedness and response system so that the client, in collaboration with appropriate and relevant third parties, will be prepared to respond to accidental and emergency situations associated with the project in a manner appropriate to prevent and mitigate any harm to people and/or the environment.²⁵⁶

IDB Invest's Sustainability Policy also states that it 'requires its clients to carry out appropriate disaster risk assessments and to adopt the necessary response measures.'²⁵⁷

Depending on the project and its setting, emergency preparedness and response should cover contingencies that may affect personnel or facilities of the project; health and safety considerations for project workers; and health and safety of affected communities.²⁵⁸

The emergency preparedness and response should also cover identification and management of potential risks related to natural hazards and disasters.²⁵⁹ This should include responses to communicable diseases such as the COVID-19 pandemic. In appraising projects, IDB Invest screens for disaster risks using the Climate Risk Assessment (CRA) methodology discussed previously.²⁶⁰ This looks at natural disaster hazards and climate change scenarios which may exacerbate existing disaster hazards.

To address emergencies, clients should identify possible scenarios; specify response procedures and responsibilities; and provide appropriate training to workers. Clients should also establish procedures for engaging with and supporting government and local authorities, and communication with affected communities. Mitigation and enhanced resilience also require involvement of local affected communities in establishing emergency preparedness and response procedures.

²⁵⁶ Performance Standard 1, para 20.

²⁵⁷ Sustainability Policy, para 15.

²⁵⁸ Specific requirements and considerations are discussed in the World Bank Group Environmental, Health and Safety Guidelines, which form part of the IDB Invest Sustainability Framework.

²⁵⁹ See the section on Natural Disasters in Part II.

²⁶⁰ See the section on Climate Resilience in Part II.

4. IDB INVEST MANAGEMENT SYSTEM



This section provides an overview of how IDB Invest works to achieve the objectives of the Sustainability Framework. It gives a brief description of organization and staffing, and discusses key investment and lending types. The section describes how IDB Invest provides oversight and support to clients through processes of screening and risk categorization, documentation and disclosure, and supervision during project implementation. The section also discusses how IDB Invest provides capacity building to clients, and aspects of incentives and sanctions related to client performance. This is a simplified overview of IDB Invest's environmental and social management system, and does not go into details on procedural aspects.

4.1. Sustainability Considerations in IDB Invest's Portfolio

As discussed earlier, IDB Invest's activities include several financial and non-financial products supporting the private sector in Latin America and the Caribbean.²⁶¹ The institution supports projects and activities in sectors such as infrastructure, water and sanitation, health and education, transport, and energy. Lending may be limited to a single project, or it may be corporate finance; the financing of the company's general activities involving current and future projects. In corporate finance, the IDB Invest financial support is not earmarked for specific projects, and the Sustainability Framework applies to all project investments made by the client. This is also the requirement when IDB Invest invests in ownership of a company and becomes a minority share owner, known as taking a minority equity stake.²⁶²

When the client is a Financial Intermediary (FI), IDB Invest categorizes risks based on the product, tenor, and average sub-loan within the asset class that IDB Invest is financing. When IDB Invest takes equity in an FI, the risk is based on the entire FI's portfolio.²⁶³ The Sustainability Framework requires that FIs mitigate this risk through a well-functioning Environmental and Social Management System, ESMS, that includes internal capacity, commensurate with the risk identified. The client requirements and other aspects of FIs are discussed in the subsection on Financial Intermediaries in the previous section, Client Management System.

As a development finance institution, the expectation is that all IDB Invest's activities and support to clients have both a financial and a development

²⁶¹ See the section IDB Invest Support to the Private Sector, in Part I.

²⁶² Details about different types of financial products, distribution among sectors, and other information may be found in IDB Invest's Annual Reports.

²⁶³ See the section below on Screening and Risk Categorization.

objective. The institution has a stated goal of adding value beyond financing, and tracks and documents how various products and activities align with the UN Sustainable Development Goals, SDGs. In 2019, the top five SDGs in terms of percentage of transactions in the active portfolio were:²⁶⁴

1. SDG 8 (Decent work and economic growth): 94.3%
2. SDG 9 (Industry, Innovation and Infrastructure): 70.5%
3. SDG 12 (Responsible consumption and production): 46.3%
4. SDG 17 (Partnership for the goals): 43.9%
5. SDG 10 (Reduced inequalities): 27.9%

The goal of promoting responsible growth and development is supported by application of the principles and requirements in the Sustainability Framework, with strong commitment and endorsement from senior management:

*We can't shy away from projects with complex environmental, social and corporate governance (ESG) issues. Instead, we manage them proactively by selecting clients completely committed to sustainability. We aspire to ESG practices that are best-in-class.*²⁶⁵

Strategic priorities for IDB Invest that support sustainability and ESG practices include key development challenges and cross-cutting considerations identified in the IDB Invest Corporate Results Framework 2020-2030:²⁶⁶

- Social inclusion and equality
- Gender equality and diversity
- Climate change and environmental sustainability

The institution has developed a set of key priorities and indicators to measure and document how progress is made towards meeting these and other development challenges. Some examples of indicators that address topics under the Sustainability Framework include:

- Poverty headcount rate
- Gini coefficient
- Social progress index
- Global gender gap index
- CO2 emissions in tons from fuel combustion
- Forest area as a proportion of total land area

²⁶⁴ Source: IDB Invest Annual Report 2019. [Link](#)

²⁶⁵ Statement by the CEO, James P. Scriven, in IDB Invest's Annual Report 2019.

²⁶⁶ Corporate Results Framework [Link](#)

- Annual reported economic losses from natural disasters
- Voice and accountability indicators

The Corporate Results Framework provides baseline data and targets for these different indicators.

4.2. Due Diligence and Quality Review

The IDB Invest environmental and social due diligence process is based on the requirements of the Sustainability Framework.²⁶⁷ Where there are potential adverse environmental or social impacts associated with the business activity under consideration, IDB Invest will work with its client to determine the appropriate application of the mitigation hierarchy, including remediation where needed. The expectation in projects financed by IDB Invest is that any potential or actual adverse impacts should be identified. Once identified, adverse impacts should be avoided or reduced, and mitigated in different ways when they are unavoidable. Following the application of mitigation and compensation measures, the natural environment and affected individuals and groups should not be worse off than before. Ideally, there should be net positive benefits for both the social and physical environment.²⁶⁸

In reviewing and selecting projects in which to invest, IDB Invest applies a rigorous fact-based scoring system to assess the development impact potential of the project. Called the DELTA, for Development Effectiveness Learning, Tracking and Assessment tool, it analyzes aspects such as: ²⁶⁹

- How well does the project align with the IDB Group's development and country priorities?
 - What are the economic benefits of the project for society?
 - Which stakeholders will benefit from the project and how?
- How can its development impact be accurately measured and evaluated?

Embedded within the DELTA project score is an approximation of the economic and social rate of return (monetization) of each investment, complemented by a stakeholder analysis to ensure that the most important direct and indirect effects are considered, a sustainability assessment, and an assessment of the additionality that IDB Invest brings to the project. As an example, the factors considered under contribution to social and economic development include:

²⁶⁷ The term 'due diligence' refers to a review and appraisal process in relation to a prospective client or project to establish the robustness of the client's management system, and the potential risks involved in the financing activity under consideration. It involves systematic identification of potential risks, and helps identify mitigation measures that may be needed.

²⁶⁸ See the earlier discussion on the Risk Mitigation Hierarchy.

²⁶⁹ See description of the DELTA in "Managing a Portfolio for Impact: IDB Invest's Impact Management Framework. [Link](#)

- Magnitude of reach and access (number of beneficiaries, geographical coverage);
- Improved quality of goods and services, including benefits for regions with a high incidence of poverty or economic vulnerability;
- Promotion of gender equality and/or women's empowerment;
- Specific benefits for excluded populations; and
- Prevention or reduction of GHG emissions.

As part of this assessment, specific consideration is given to the Sustainability Framework. The assessment documents how the project meets, or is expected to meet, environmental, social and corporate governance requirements.²⁷⁰ Beyond risk management, the assessment also measures IDB Invest ESG additionality; the enhanced development benefits or opportunities the project contributes to due to the support of IDB Invest. This includes broader topics such as:

- Project contribution to improvements in environmental and/or social standards;
- Tangible, verifiable and lasting improvements on gender equality; and
- Improved client or executing agency capabilities, including corporate governance.

The due diligence process is commensurate with the risks, scale and complexity of the proposed transaction, where projects with higher risks will receive more supervision and support than lower risk projects.²⁷¹ With direct loans and investments, clients have to apply the IFC Performance Standards and World Bank Group EHS Guidelines to the projects being financed throughout a normal project cycle. This generally includes discussion and agreement between IDB Invest and the client on initial concept, scoping and screening, analysis and assessment of environmental and social risks during the preparation phase, disclosure of information and stakeholder engagement, and management of risks through application of the mitigation hierarchy and appropriate mitigation plans, monitoring, and adaptive management.²⁷²

The due diligence process may be undertaken using different methods, such as:

- Review of information, records and documentation related to the expected environmental and social risks and impacts of the proposed transaction;
- Site inspections and interviews of client management and staff, and

²⁷⁰ See the later section on Corporate Governance.

²⁷¹ See the section on Proportionality and Flexibility for a discussion of how requirements and efforts are commensurate with risk.

²⁷² See the previous section, Client Management System, for details on the various aspects of how clients are expected to achieve the objectives and meet the requirements of the Sustainability Framework.

other relevant stakeholders as relevant, including representatives of affected communities;

- In cases of significant or high risk, undertake in-depth review and if necessary independent expert verification of the client's processes and performance;²⁷³
- Review of past environmental and social performance of client activities; and
- Identification of any gaps between client performance and capacity, and the requirements of the Sustainability Framework.

Assessing performance-related risks is an important part of the IDB Invest due diligence process. If it is determined that client performance may jeopardize how a project manages the requirements under the Sustainability Framework, IDB Invest will work with the client to advise on appropriate resources needed for environmental and social risk management, and to help strengthen capacity and build up relevant skills. This engagement with clients may take several forms. Each of the specialists spends time when meeting with clients to explain core concepts and requirements under the Sustainability Framework.²⁷⁴ Depending on the likely risks and impacts of the project under consideration, guidance material and resources are provided, such as the recent guidance on Gender Risk Assessment.²⁷⁵



This environmental and social review process has different steps and milestones during the transaction cycle. The next subsection summarizes elements of this process.

4.3. Transaction Cycle

Key milestones and actions related to IDB Invest's environmental and social due diligence process are structured around a normal project cycle as illustrated in the figure on the next page:

²⁷³ This may for example include situations requiring Free, Prior and Informed Consent (FPIC) of Indigenous Peoples.

²⁷⁴ See the section on Continued Engagement, Listening and Learning.

²⁷⁵ IDB Invest (2020). Gender Risk Assessment Tool. [Link](#). See also the later section on Client Capacity Building.

Figure 16: Project selection, tracking and reporting



The steps involved are:

1. Client Engagement. During initial discussions with a prospective client, the client receives information about the objectives and requirements of the Sustainability Framework. This includes a copy of the Sustainability Policy, with references to the IFC Performance Standards and other relevant policies and guidelines.

2. Environmental and Social Appraisal. Specialists from SEG conduct the environmental and social due diligence process. This includes:

- Obtaining information about the proposed project and the client's assets and structure, including the existing ESMS;
- Assigning a project categorization based on environmental and social risk;²⁷⁶
- With some projects, especially those entailing higher risk, specialists will conduct a site visit to the proposed project area. This includes meetings and discussions with the company and relevant stakeholders, including representatives of likely affected communities;
- Assessing the project against the Sustainability Framework's requirements and identifying any gaps;

²⁷⁶ See the next subsection on Screening and Risk Categorization.

- Agreeing with the client on an Environmental and Social Action Plan (ESAP) containing measures to meet the objectives and requirements of the Sustainability Framework within a reasonable timeframe; and
- Preparing an Environmental and Social Review Summary (ESRS) describing the project's risks of adverse environmental and social impacts, and mitigation measures reflected in the ESAP.

3. Consultation and Disclosure. Requirements at this stage for the client and IDB Invest are:

- The client is expected to engage in a stakeholder consultation process, disclose information about environmental and social issues locally, and maintain an ongoing dialogue with project-affected communities throughout the lifetime of the project.
- IDB Invest discloses key documents to the public on its website 30 days prior to IDB Invest Management or Board Approval. This includes the Investment Summary, the ESRS, and the ESAP. Higher risk projects will disclose information earlier in the process.²⁷⁷

4. Financial Closure and Disbursement. The legal agreement includes standard E&S conditions and specific ESAP requirements tied to specific milestones. During project implementation, IDB Invest verifies that environmental and social conditions have been met in advance of each disbursement.

5. Supervision. The client produces an annual Environmental and Social Compliance Report, ESCR, on the status of the ESAP. The IDB Invest environmental and social specialists supervise the client's performance and compliance with environmental and social requirements regularly. This includes progress with implementation of the ESAP.²⁷⁸

When engaging with clients during the transaction cycle, IDB Invest monitors and documents information about the project and its development effectiveness through the DELTA tool described in the previous subsection. Projects are evaluated on the basis of how relevant, effective, efficient, and sustainable they are, and how IDB Invest adds value to the project. When analyzed, this data provides valuable information and inputs to institutional learning not just by looking at individual projects, but also at aggregate data illustrating trends over time. This shows both strengths and weaknesses of how the portfolio meets the objectives of the Sustainability Framework, and provides the data needed to identify gaps and areas that need strengthening.

²⁷⁷ IDB Invest's disclosure requirements are described in the Access to Information Policy, with guidance on how to request documents and information about projects. [Link](#)

²⁷⁸ IDB Invest is developing a supervision risk rating, that will be updated on a regular basis through supervision. In addition to environmental and social risk factors, the supervision risk rating will track issues such as client performance and continued stakeholder engagement.

4.4. Screening and Risk Categorization

IDB Invest categorizes risk levels in projects as Category A, B, and C. The Policy describes these as follows:²⁷⁹

- **Category A projects** could result in potentially significant environmental and/or social risks and impacts, which are diverse, irreversible, or unprecedented that may extend beyond the boundaries of the actual project site or facilities. In principle, Category A includes projects which have significant impacts on protected or sensitive areas and/or vulnerable groups.
- **Category B projects** have potential environmental and/or social impacts and risks that are less adverse than those of a Category A and which are generally limited to the project site, largely reversible and can be mitigated via measures that are readily available and feasible to implement in the context of the operation.
- **Category C projects** are those that are likely to result in very limited or no adverse environmental or social impacts or risks.

IDB Invest does not use an indicative list of projects that are considered high, moderate, or low risk. Rather, the risk classification is determined on a case by case basis, since the Sustainability Policy refers to type, location, scale, a sector's inherent risks, vulnerability of affected populations, contextual risk in the operating environment, and other issues, including the client's capacity and commitment to addressing environmental and social issues.²⁸⁰

If the transaction relates to a Financial Institution (FI), the risk categorization is different from standard investment projects.²⁸¹ Financial support to FIs is categorized based on the relative magnitude of aggregated environmental and social risks in the FI portfolio, considering issues such as the type, size, sector exposure, and contextual risks in the operating environment. This includes looking at the adequacy of national environmental and social legislation.²⁸² The risk categorizes used for FIs are FI-1, FI-2, or FI-3.²⁸³

- **FI-1 operations** are those where the risk potential is high: the FI's current or future portfolio financed as part of IDB Invest investment includes or is expected to include exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented.²⁸⁴

²⁷⁹ Sustainability Policy, paragraphs 41-43

²⁸⁰ See the section on Risk Factors in Part II.

²⁸¹ See the subsection Financial Intermediaries in the earlier section on Client Management System.

²⁸² See the section on Risk Factors in Part II.

²⁸³ Sustainability Policy, paras 46-49.

²⁸⁴ The term "portfolio" refers to the portfolio of subprojects, financed through an IDB Invest investment, unless the IDB Invest investment is not to be used for subprojects, but rather for other general uses, such as institutional improvements. In the latter case, the term "portfolio" refers to the FI's overall portfolio.

- **FI-2 operations** are those where the risk potential is considered medium: the FI's current or future portfolio consists of or is expected to consist of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.

- **FI-3 operations** are those where the risk potential is considered low: the FI's current or future portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

4.5. Exclusion List

While the Sustainability Framework is intended to help clients identify and manage environmental and social risks in projects, and most risks can be mitigated with appropriate measures, there are some activities that IDB Invest has decided it will not support. They are unacceptable from a policy and strategy perspective, or they involve activities that are prohibited through international agreements. These types of products, substances or activities constitute the IDB Invest Environmental and Social Exclusion List. See Annex A for the full Exclusion List.

The prohibited activities on the Exclusion List fall into three categories:

1. **Prohibited activities.** These are illegal activities, either under host country laws or under ratified conventions and agreements. They include particular pharmaceuticals and pesticides; Persistent Organic Pollutants; endangered wildlife or wildlife products; and the use of lead in paint, among other activities.

2. **Other activities.** These are activities that the IDB Group has determined are unacceptable, since they may generate particularly significant adverse impacts on people and / or the environment.²⁸⁵ They include financing of weapons, ammunitions, and other military goods or technology; tobacco; gambling and casinos; radioactive materials; asbestos; and certain forms of drift net fishing.

3. **Incompatibility with strategic development priorities.** The IDB Group continues to assess its development priorities, and will not finance activities that are inconsistent with its goals of promoting environmental and social sustainability, including efforts to address climate change.

²⁸⁵ See the discussion in Part II on Risk Factors, describing how some risks are unacceptable because of the severity of impact and the probability of the impact occurring.

Prohibited activities under this category include thermal coal mining or coal-fired power generation and associated facilities; and upstream oil and gas exploration other than in exceptional circumstances and on a case-by-case basis.

As part of the screening process, specialists from IDB Invest review the proposed project activities for compliance with the exclusions described above. In the case of FI investments, the exclusion list is included in the legal agreement, specifying that clients are prohibited from using IDB Invest financing for activities included in the list.

4.6. Structure, Staffing and Resources

To undertake the activities described in the previous subsections and to ensure that appropriate attention is paid to environmental and social issues both by IDB Invest and by its clients, IDB Invest has established the technical competencies and capacities required of a well-functioning Environmental and Social Management System, ESMS. The functions under the ESMS form part of a comprehensive organizational structure where different parts of the institution has different responsibilities. The Environmental, Social and Corporate Governance Division, SEG, is central to these functions, and is responsible for due diligence, technical assistance, and general supervision to meet the provisions of the Sustainability Policy and its related policies and standards.

SEG is staffed by specialists with a background and training in the full range of environmental and social issues covered by the Sustainability Framework, as well as expertise in corporate governance.²⁸⁶ It has specialists based both at Headquarters in Washington, DC, and in country offices.

Specialists in SEG are expected to not only identify environmental and social risks and challenges, but to be practical problem solvers and advise internal and external clients on solutions in different project settings. The SEG division essentially has a dual role:

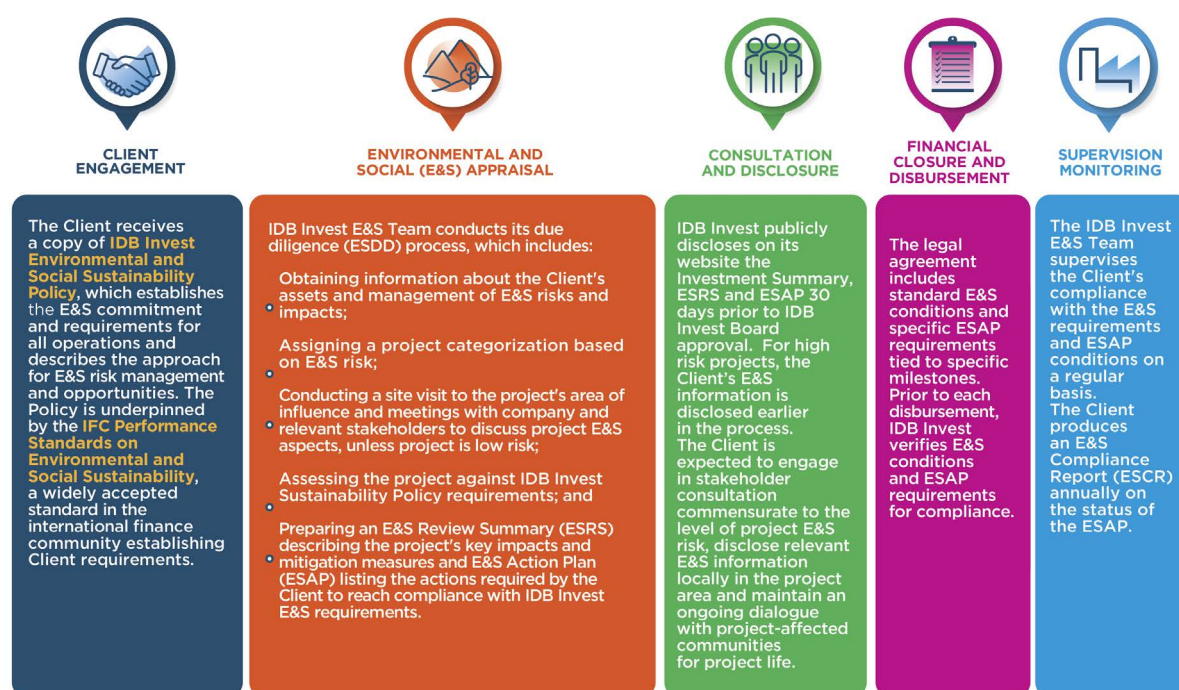
1. On the one hand, the environmental and social specialists participate as **members of project transaction teams**, leading the environmental and social appraisal and supervision process in projects. Specialists in the division advise other team members and clients about potential ways to incorporate environmental and social considerations in project design and implementation, and meet the policy requirements. Every project, whether under preparation or implementation, has a specialist from SEG assigned to it. If the project poses significant challenges in a particular area, other specialists from the SEG division may also contribute operational advice.

²⁸⁶ See the section on Corporate Governance.

2. On the other hand, SEG acts as a necessary mechanism for **checks and balances**, and has a degree of autonomy and independence. Project team leaders from various sectors do not select the SEG team member on their team. The specialists are assigned to teams by SEG management, with the objective of having specialists with the appropriate expertise and experience suited to each project. Once assigned to a project, the SEG officer on the project team has the authority to determine the environmental and social risk categorization, which again determines elements of client requirements as well as IDB Invest efforts and resources allocated to the project.²⁸⁷ It is also the responsibility of SEG to advise management in cases where the specialists determine that a project is unlikely to meet its E&S requirements in the time frame agreed on. SEG provides its recommendations to the IDB Invest Investment Decision Meeting before projects are submitted to the IDB Invest Board for approval. Subsequently SEG provides clearance prior to each disbursement after the legal agreement with the client is signed. SEG in collaboration with other areas within IDB Invest is also responsible for liaising with and responding to dispute resolution or compliance investigations conducted by IDB Group's Independent Consultation and Investigation Mechanism, ICIM.²⁸⁸

An overview of the environmental and social review process is summarized in the chart below:

Figure 17: IDB Invest Environmental and Social Review Process



²⁸⁷ See the earlier section on Screening and Risk Categorization.

²⁸⁸ See the section on Accountability Mechanisms.

While the SEG division is the responsible unit for overseeing and advising on the Sustainability Framework, IDB Invest has defined sustainability as a corporate responsibility for all staff. New hires are given training on environmental and social risk management issues as part of their onboarding process. Conveying key corporate requirements to potential and actual clients is also the responsibility of project team leaders as the main ‘relationship managers’, not just of the environmental and social specialist(s) on the team.

4.7. Incentives and Sanctions Related to Client Performance

Current and potential clients of IDB Invest request finance and technical assistance from the institution knowing that this involves attention to development outcomes and sustainability. The engagement with IDB Invest helps clients focus on these issues. The business case for sustainability and incentives for clients are discussed in Part I, in the section Sustainable Business Practices and Risk Management.

If, during supervision of a project, there is evidence of non-compliance with the requirements stipulated in the legal agreement and ESAP, IDB Invest can take different measures to help clients improve on their performance. Normally, IDB Invest will work closely with the client to improve performance. This may be done through more frequent supervision and advisory work, and targeted training on particular topics that are proving challenging. This can include strengthening of the project’s Grievance Mechanism to be more responsive to concerns of local communities and other stakeholders.²⁸⁹

If performance remains unsatisfactory despite dialogue and attempts from IDB Invest to help the client improve, IDB Invest may exercise remedies under the financing documentation which, depending on the type of financing product, may include suspension or cancellation of disbursements, prepayment and acceleration. However, these remedies are last resort solutions. Withdrawal from the project by IDB Invest is unlikely to improve the situation on the ground related to impacts on the environment or local communities, and may even worsen the situation.

4.8. Corporate Governance

Corporate governance is an important part of IDB Invest risk management. Corporate governance can be defined as the structures and processes by which companies are controlled and managed. It is about ensuring that decisions are made in ways that reflect accountability, transparency, responsibility and equitable treatment. Good corporate governance brings a number of benefits to a company, including greater transparency, attention to shareholder rights, and long-term sustainability. It can improve productivity

²⁸⁹ See the section on Accountability Mechanisms.

and provide increased access to capital and new investments, and enhance customer loyalty and reputation.²⁹⁰

IDB Invest works with clients to assess firms' corporate governance practices and provide advice on how to improve them. This may include issues related to board effectiveness, representation of women and minority groups on company boards and in leadership positions, the control and accountability environment of a company, or engagement with different business partners. Customers and investors look at how companies manage environmental, social and governance aspects in an integrated fashion, and strong firms establish their internal Environmental, Social and Governance (ESG) units. At IDB Invest, the Corporate Governance team is part of the SEG Division, where it works to strengthen institutional aspects of clients' environmental and social management systems and promote good corporate governance. Good practice in this area includes companies addressing topics such as:

- Written policies addressing and publicly disclosing commitment to ESG issues;
- Application of an internal code of conduct reflected in organizational culture where ESG issues are known and applied throughout the organization;
- Establishment of designated staff responsible for ESG standards;
- Company board members discuss and provide oversight on ESG issues, for example through the establishment of specialized committees responsible for these issues;
- ESG issues are part of how the company defines its risk appetite;
- Reporting and disclosure follow international good practice standards such as the Global Reporting Initiative (GRI) or the Extractive Industries Transparency Initiative (EITI);²⁹¹
- Engagement with external stakeholders is done systematically and transparently; and
- The company has established HR policies and procedures that include grievance mechanisms for workers where issues are discussed and resolved with participation by worker representatives.

4.9. Synergies Within the IDB Group

Within the larger IDB Group, IDB Invest coordinates closely with the public sector part of the group, IDB. The IDB Group has a single institutional strategy and coordinates country strategies and other initiatives. The two

²⁹⁰ See the Corporate Governance Development Framework [Link](#).

²⁹¹ GRI [Link](#) and EITI [Link](#)

organizations share a common exclusion list for projects that are ineligible for financing, and make use of each other's knowledge products. A recent example was when both organizations co-published a good practice note on stakeholder engagement, along with a number of other Multilateral Finance Institutions.²⁹²

Both IDB Invest and IDB have recently undergone processes of updating their environmental and social policies. However, given the different characteristics of clients in the private and public sectors, it was decided to have somewhat different policy frameworks for the two organizations. IDB Invest made the decision to retain the IFC Performance Standards as they are, along with the WBG EHS Guidelines. As noted earlier, this approach was endorsed by the recent OVE evaluation and by the Board. In September 2020, the Board of Executive Directors for IDB approved a new policy framework based largely on the IFC Performance Standards, but with some modifications.

This harmonization of policies has aligned the public and private sector parts of the IDB Group more closely. It will also facilitate co-financing and common approaches with other development finance institutions working in the region, such as the IFC and the World Bank.

The two parts of the institution also collaborate on client engagement at the country level. In each of the 26 country offices in the region, the IDB Group has a single country representative for both the public and private sectors, coordinating work between IDB Invest and IDB. Overall, about one quarter of employees are located in country offices, and the plan is to increase this proportion to be closer to clients and other local stakeholders such as civil society organizations.

IDB Invest and IDB collaborate in managing and implementing technical cooperation (TC) funds for research and dissemination to enhance both private and public sector stakeholders' capacity for sustainable development and risk management. Some examples include:

- There is a joint technical cooperation initiative focusing on managing environmental and social risks, which addresses both private sector projects and standard setting at the country and market level. This will finance and support flagship initiatives to strengthen private sector initiatives and promote demonstration effects to establish standards and build broader capacity. The initiative focuses on key sectors such as infrastructure, small and medium enterprises, and financial intermediaries.
- In Argentina, the IDB Group supported a good practice guide for the wind energy sector where private sector companies worked with the government. The guidance focuses on building awareness and capacity and addressing regulatory gaps in wind energy and its impacts on biodiversity, looking particularly at birds and bats.

²⁹² Meaningful Stakeholder Engagement (2019) [Link](#)

- In Paraguay, the IDB Group supported a national initiative for sustainable finance, jointly with the Netherlands development bank FMO. The initiative facilitated a national dialogue on sustainability and environmental and social risk management in the financial sector, and provided practical support through satellite monitoring of illegal deforestation. This type of initiative builds national capacity and a ‘level playing field’ where lending and investments by commercial banks, supported by the national financial regulator, adhere to international good practice standards.

Going forward, IDB Invest and IDB will continue to coordinate how the two institutions work. IDB engages with governments, and can support public sector reforms, capacity, and institution building in environmental and social risk management. IDB therefore has the potential to contribute to improvements in the authorizing environment where IDB Invest’s clients operate, by engaging at a more systemic, strategic level than what IDB Invest can do through individual clients and transactions. Country frameworks that are more closely aligned with international good practice standards make it easier for private sector companies to operate and meet the requirements of the Sustainability Framework. Supportive country frameworks are not limited to policies, laws and regulations. This strengthening also applies to implementation capacity at national, subnational and sector levels, and to the presence of strong and transparent accountability mechanisms. Working together, the two parts of the IDB Group can support greater synergy and coordination between the public and private sector, and contribute to better development outcomes.

5. ACCOUNTABILITY MECHANISMS



This section summarizes some mechanisms used by IDB Invest and its clients in providing oversight, ways in which stakeholders can submit grievances and seek to have their concerns addressed; and independent reviews of projects’ environmental and social performance. It also discusses how IDB Invest as an institution seeks to learn from experiences and continue to improve in the areas of sustainability and risk management, both for the institution and in its support to clients and other stakeholders.

Grievance and accountability mechanisms are organizational arrangements that receive and address concerns and complaints. Affected stakeholders, whether individuals or groups, should have access to a transparent, fair, and equitable mechanism that seeks to resolve their concerns. Taken together, such mechanisms should ideally serve four purposes:

1. Inform decision-making related to project design, development, and implementation, as part of a project management system;
2. Serve as a mechanism for timely resolution of an issue and prevent escalation of problems into social conflict;
3. Serve as an accountability mechanism where people can seek remedy when needed; and
4. Be embedded in a project's monitoring and evaluation process, and contribute to institutional learning.

The following sections discuss different accountability mechanisms established by IDB Invest and its clients. These serve different purposes, and may operate in parallel.

5.1. Project-Level Grievance Mechanisms

5.1.1. Client-Managed Grievance Mechanisms for Affected Communities

The IDB Invest Sustainability Framework requires clients to establish a grievance mechanism for affected individuals and communities. IFC's Performance Standards has as one of their objectives:



Colombia, 2014

To ensure that grievances from Affected Communities and external communications from other stakeholders are responded to and managed appropriately.²⁹³

Performance Standard 1 specifies this further:

Where there are Affected Communities, the client will establish a grievance mechanism to receive and facilitate resolution of Affected Communities' concerns and grievances about the client's environmental and social performance. The grievance mechanism should be scaled to the risks and adverse impacts of the project and have Affected Communities as its primary user. It should seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate and readily accessible, and at no cost and without retribution to the party that originated the issue or concern. The mechanism should not impede access to judicial or administrative remedies. The client will inform the Affected Communities about the mechanism in the course of the stakeholder engagement process.²⁹⁴

Grievance mechanisms are part of a robust and meaningful stakeholder engagement process, where affected stakeholders, whether individuals or groups, have access to a transparent, fair, and equitable mechanism that seeks to resolve their concerns. As discussed in Part II, stakeholder engagement is an ongoing process of consultation and dialogue with affected communities and other stakeholders. It includes transparent feedback and responsiveness to stakeholder concerns. It is important that this be built into project design from the start: Unless appropriately and promptly addressed, questions from stakeholders can become concerns; concerns can become complaints; and complaints can evolve into conflict.

A project-specific grievance mechanism should be characterized by:

- Accessibility, where project affected individuals and groups know about the grievance mechanism and have easy access to it;
- Transparency, where the procedures and process involved are predictable and known to the public; and
- Fairness and independence, where those responsible for the grievance mechanism are trusted and bound by clear rules and standards.²⁹⁵

Since all affected stakeholders should have easy access to the grievance mechanism, consideration should be given to which mechanism works best for different types of projects. For example, in projects covering a large area with various sub-components in different locations, it may be necessary to have several points of contact.

²⁹³ Performance Standard 1, objectives.

²⁹⁴ Performance Standard 1, para 35.

²⁹⁵ Companies should designate responsibility for managing the grievance mechanism to experienced and qualified personnel with the company, separate from those in charge of the business activities.

It will be important to assess country legislation and existing mechanisms for access to dispute resolution and grievance redress, to ensure that the project grievance mechanisms are designed to be consistent with country mechanisms. The Sustainability Framework establishes that affected individuals and communities must have access to national grievance mechanisms, independently from the project grievance mechanism:

Clients should be aware of judicial and administrative mechanisms available in the country for resolution of disputes, and should not impede access to these mechanisms.²⁹⁶

To bring legitimacy and credibility to the process, it is recommended that the structure and functioning of the grievance mechanism be discussed with concerned local stakeholder groups. It may be possible to involve existing local dispute resolution mechanisms, whether they are formal or informal. The project grievance mechanism could collaborate with village councils or elders in the community, or seek advice and inputs from a more official ombudsman mechanism where it exists. Local civil society organizations and religious institutions could also be involved if they are considered credible and acceptable to community members.²⁹⁷



Colombia, 2014

²⁹⁶ Performance Standard 1, Guidance Note para GN 110.

²⁹⁷ However, an assessment should be made of whether existing local dispute resolution mechanisms are equitable and provide fair access for all, not just for more powerful members of the community.

Policy statements related to the grievance mechanism should be available to all potential users, in a language understood by all. Procedures to submit grievances should be kept simple and easy to understand. Different methods for submitting grievances should be established, such as in person, by phone, in writing, by email, etc. The mechanism should seek to resolve concerns promptly at no cost to complainants or others using the mechanism.

Once a grievance has been submitted, those who have submitted the grievance should be informed about the process and likely timeline for response and, where possible, resolution to the grievance. Potential and actual complainants should be assured that grievances will be treated confidentially. It is essential that there be no pressure or retribution against complainants.²⁹⁸

5.1.2. Client-Managed Grievance Mechanisms for Project Workers

Clients are also required to establish a grievance mechanism for project workers, separate from the mechanism available to affected communities:

*The client will provide a grievance mechanism for workers (and their organizations, where they exist) to raise workplace concerns. The client will inform the workers of the grievance mechanism at the time of recruitment and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides timely feedback to those concerned, without any retribution.*²⁹⁹

This access to a workers' grievance mechanism must be provided to all workers, irrespective of whether they have a collective bargaining agreement or not. The policy and procedures for the grievance mechanism should be communicated to management and all workers in a clear and understandable manner. Workers should be allowed to file anonymous complaints.

5.1.3. IDB Invest Management-led Grievance Mechanism

For project-affected individuals or groups or other stakeholders who may be concerned that a project supported by the institution causes or contributes to adverse environmental and social impacts, and that these impacts are not being adequately addressed in accordance with the IDB Invest Sustainability Policy, the recommended approach for stakeholders is to make use of the project-level grievance mechanism discussed in the previous subsection. It remains a client responsibility to assess and mitigate adverse environmental and social impacts of a project, including compensation to affected populations where required by the Sustainability Framework.

While IDB Invest is not liable for compensation to affected populations, the institution recognizes that there may be situations where local communities feel their concerns are not being satisfactorily addressed at the project level.

²⁹⁸ See the earlier discussion on Protection against Violence and Reprisals in Part II.

²⁹⁹ Performance Standard 2, para 20.

This may be due to different factors, such as tensions or distrust of the company or local government, or people being dissatisfied with the effectiveness and responsiveness of the project-level grievance mechanism. IDB Invest has therefore developed a stakeholder engagement and response platform where affected communities and other stakeholders may submit their concerns and complaints related to a project. Submissions of complaints may be made in different forms, such as through its website, in person, by mail or email, or in other ways. Once a complaint has been received, the institution will provide initial confirmation of receipt to the complainant, and consider the nature and eligibility of the submission. Depending on the nature of the complaint, it will be referred to the correct division within IDB Invest, since the institution has several offices and departments dealing with stakeholder concerns in relation to how the institution conducts its business. These include the Office of Ethics in cases of complaints about IDB Group officials; and the Office of Institutional Integrity in cases of corruption or fraud.

If the complaint relates to environmental and social performance and possible non-compliance with the Sustainability Framework, it is handled by the Management-led Grievance Mechanism, MGM. This is a dedicated team within the SEG division, which is independent from the project team. Typically, they will involve IDB Invest staff in country offices to help address complaints and engage with complainants where appropriate. Having a separate team helps allocate additional resources and expertise to resolve problems on the ground, and provides a degree of independence and management oversight in relation to the project teams working directly with clients.

When a case has been assigned to the MGM, the team will review the complaint and start a fact-finding process to collect information and investigate the complaint. During this process the team may contact the complainant to get more information, and also other parties and stakeholders including the client. The MGM team will attempt to resolve the issues stakeholders are concerned with through a Proposed Response Course of Action, PRCA. This will be discussed with the complainant. The PRCA may suggest different actions, such as local-level dispute resolution. It may also suggest that the client provide additional support or compensation to affected individuals or groups if warranted.

5.2 Independent Accountability Mechanisms

In addition to client-led and management-led grievance mechanisms discussed above, the IDB Group has established accountability and evaluation mechanisms that are independent of Management and the President of the IDB and Chairperson of the Board of IDB Invest. These mechanisms report directly to the Board of Executive Directors. They are the Independent Consultation and Investigation Mechanism, and the Office of Evaluation and Oversight.

5.2.1. Independent Consultation and Investigation Mechanism, ICIM

Most Development Finance Institutions have established independent accountability mechanisms to ensure that the institutions comply with their own environmental and social policies and procedures. IDB Invest established an Independent Consultation and Investigation Mechanism, ICIM or MICI in Spanish, in 2015.³⁰⁰ It is independent from the management structure at IDB Invest, and reports directly to the Board of Executive Directors of IDB Invest.

The ICIM's objectives as stated in their 2015 Policy applicable to IDB Invest are to:³⁰¹

- Provide a mechanism and process independent of Management in order to investigate allegations by Requesters of Harm produced by the IDB Invest's failure to comply with its Relevant Operational Policies in IDB Invest-Financed Operations;
- Provide information to the Board regarding such investigations; and
- Be a last-resort mechanism for addressing the concerns of Requesters, after reasonable attempts to bring such allegations to the attention of Management have been made.

Complainants are expected to demonstrate that they have attempted to engage with IDB Invest before they can file a complaint with ICIM:

*The Request describes the efforts that the Requesters have made to address the issues in the Request with Management and includes a description of the results of those efforts, or an explanation of why contacting Management was not possible.*³⁰²

This prior engagement with Management may involve, but does not require, filing a complaint with the IDB Invest Management-led Grievance Mechanism. If there are cases of fear of reprisals no prior contact with Management is required. ICIM can also consider cases if complainants are not satisfied with Management's response, or if a reasonable time has passed and no response has been received.

The ICIM's objectives are fulfilled through the following two phases to be selected by the Requesters, allowing the selection of the approach that best addresses the Requests:

- **Consultation Phase:** This phase provides an opportunity for the Parties to address the issues raised in the Request in a voluntary, flexible and collaborative manner.

³⁰⁰ICIM is an accountability mechanism for the IDB Group. There are two separate policies for the public sector part of the group (IDB), and for IDB Invest. ([Link](#) to ICIM Policy for IDB Invest)

³⁰¹The Policy was adopted when IDB Invest was called the Inter-American Investment Corporation, IIC. IIC remains the legal name but it changed its commercial name to IDB Invest in 2017. [Link](#)

³⁰²ICIM 2105 Policy, para 22 d.

- **Compliance Review Phase:** This phase offers an investigative process related to the issues raised in the Request to establish whether IDB Invest has failed to comply with any of its Relevant Operational Policies and whether that has caused Harm to the Requesters. In cases of a compliance review, IDB Invest Management will cooperate fully and proactively with the ICIM.

Complainants to ICIM can choose whether they want to go through Consultation, Compliance, or both. If they choose to do both, the Consultation Phase precedes the Compliance Review Phase.

In cases of a compliance review, ICIM will investigate the case and submit a public report to the Board of Executive Directors. IDB Invest management may propose remedial actions and corrections to the project. The final decision on such measures and Management's proposed action plan is made by the Board of Executive Directors.

Project-specific remedial actions remain the responsibility of the client. However, IDB Invest will work with the client and advise on how necessary remedial actions should be implemented. Required actions may also arise as the responsibility of IDB Invest Management, for example additional measures at the institutional level to assess and address environmental and social issues. In cases of continued poor performance or non-compliance on the part of clients with the requirements of the Sustainability Framework, IDB Invest may apply remedies as established in the Sustainability Policy and contractual arrangements with the client.

5.2.2. Office of Evaluation and Oversight, OVE

Along with the other accountability mechanisms discussed in this section the office of Evaluation and Oversight, OVE, is also part of how IDB Invest is accountable to its stakeholders and reflects on lessons learned. Like ICIM, OVE is independent of Management and reports directly to the IDB Group Board of Executive Directors. OVE evaluates the performance and development effectiveness of the activities of the IDB Group, based on criteria jointly established by peer institutions through the Evaluation Cooperation Group of the Multilateral Development Banks. The evaluations seek to strengthen the work of the IDB Group through accountability, transparency, and learning.

The work of OVE covers four areas:

- Country Program Evaluations;
- Sector and Thematic Evaluations;

- Project Evaluations; and
- Corporate Evaluations.

These evaluations help inform the IDB Group Board and management. They provide necessary guidance and course corrections based on lessons learned, both about good practice and in areas where there is room for improvement.

At the corporate level, OVE recently completed an evaluation of the safeguards and sustainability policies and practices of the IDB Group.³⁰³ The evaluation included the following key recommendations for IDB Invest.

1. Revise IDB Invest's E&S sustainability policy.
2. Strengthen safeguards supervision and reporting.
3. Strengthen IDB Invest staff capacities to deal with E&S issues.
4. Continue and expand efforts to strengthen client capacity to manage E&S risks.

IDB Invest agreed with these recommendations. While recommendations two through four above represent ongoing efforts where the institution continues to invest and improve, the recommended revision of the Sustainability Policy has been completed. The institution is strengthening its field-based presence, providing capacity building for clients, and improving the IT systems tracking environmental and social performance and results in operations. It is also providing training for environmental and social specialists as well as for the broader project teams on environmental and social issues. This implementation manual should be considered as part of the effort to build capacity and provide guidance on sustainability issues, consistent with recommendations in the OVE evaluation.

The various initiatives to strengthen the Sustainability Framework and its implementation represent an ongoing process of learning and improving how sustainability considerations are addressed by IDB Invest and its clients. This process of continued learning and improvement is discussed in the next and final section of the manual.

³⁰³ IDB OVE (March 2019), Environmental and Social Safeguards Evaluation. [Link](#)

6. CONTINUED LEARNING, LISTENING, AND ENGAGEMENT



This section discusses IDB Invest's commitment to continued engagement with clients and other stakeholder groups including civil society, and to ongoing learning and internal and external capacity building. Internally this covers core competencies for E&S specialists, specialized topics, and orientation for general staff and management at IDB Invest. Externally, ongoing engagement in individual project contexts as well as targeted capacity building for clients is undertaken, and IDB Invest maintains regular dialogue and collaboration with other development finance institutions to promote common approaches and contribute to good practice in how the private sector addresses sustainability issues.

6.1. IDB Invest Capacity

As discussed throughout this manual, environmental and social sustainability and risk management covers a broad range of topics, and requires judgment and experience. The case practice is constantly evolving. IDB Invest has an ongoing program of knowledge management and continued learning to ensure that the institution and its clients have the right tools and support to assess and manage risks and opportunities in accordance with the Sustainability Framework.

Internally, the SEG Division is the coordinating unit for this work.³⁰⁴ Staff in the division are expected to be familiar with all the standards and policies in the Sustainability Framework as part of their core competencies. New specialists joining the division are usually paired with a more experienced specialist in a mentoring system, and provided guidance as they gain practical knowledge of how IDB Invest operates. Within the division, different staff members act as focal points and resource persons in one or more of three areas:

- **Sectoral:** Different specialists have specialized knowledge in sectors such as infrastructure, energy, or agribusiness, or specific lending instruments such as work with financial intermediaries.
- **Sub-regional:** Different specialists focus on different parts of the Latin America and Caribbean region, determined by prior experience and familiarity as well as language skills. For example, French speakers work in Haiti, while Portuguese speakers work in Brazil.

³⁰⁴ See the discussion about Structure, Staffing and Resources in the earlier section IDB Invest Management System.

- **Thematic:** Different specialists have in-depth technical knowledge of particular topics within the Sustainability Framework, such as biodiversity, gender, and resettlement.

The SEG division emphasizes the need for continued learning and professional growth for their specialists, and there are regular training programs on different topics. This internal training and capacity building for IDB Invest's specialists provides a common platform of knowledge, and helps ensure consistent interpretation and application of the principles in the Sustainability Framework. As of mid 2020, the division has recruited several new environmental and social specialists, to provide better services and advice to internal and external clients.

6.2. Client Support and Capacity Building

The knowledge is also shared with clients: IDB Invest sees client capacity building as a high priority, and maintains an active dialogue with clients and other development partners and stakeholders to contribute to shared learning and common approaches.

Beyond working with individual clients throughout the lifetime of a project, IDB Invest also organizes broader engagement with multiple clients on different topics to exchange experiences and provide knowledge resources. This includes interactive webinars on specific topics; blogs and updated news related to sustainability; and various publications and toolkits.

The SEG unit maintains an online repository of knowledge and learning materials in areas such as environmental and social risk management generally; corporate governance; sustainable finance; supply chains; and stakeholder engagement and grievance redress.³⁰⁵ The site had its origin in an annual training event for clients called Sustainability Week, which has been organized since 1999. Sustainability Week has become a large, annual knowledge event which brings together hundreds of people working on environmental and social sustainability and governance in the region. The 2019 event in Panama had more than 500 participants from 36 countries, with participation from the private and public sectors, and from civil society.

The website contains information about events, news, and publications. Some of the more recent publications provide guidance on topics such as:

- Gender Risk Assessment Tool [link](#)
- Guidance for different sectors on how to manage environmental and social risk under Covid-19:
- Corporate Governance: COVID-19 and the Board of Directors [link](#)

³⁰⁵ [Link to website](#)

- Guidance for Infrastructure Projects on COVID-19: A Rapid Risk Profile and Decision Framework [link](#)
- Guidance for Agriculture Sector on COVID-19: Risks and Response Framework [link](#)
- Virtual Stakeholder Engagement [link](#)
- Health Risk Management and Resiliency in Private Sector Projects [link](#)
- Sustainable finance and climate change [link](#)
- The enabling environment for financial inclusion [link](#)
- Public consultation report from IDB Invest's new Sustainability Policy [link](#)
- Guidance on measuring impacts in relation to the Sustainable Development Goals [link](#)
- Finance and gender equality [link](#)
- Assessing and managing biodiversity issues [link](#)

Through the supervision, monitoring and documentation of operational experience on the ground in individual projects, IDB Invest constantly seeks to reflect on lessons learned, and to synthesize internal and external knowledge on different topics. The lessons learned and constructive criticism and recommendations from accountability mechanisms such as ICIM and OVE constitute valuable inputs to the overall knowledge base and practice of the IDB Invest Environmental and Social Management System, and help improve on the advice provided to clients.

6.3. Partnerships, Coordination, and Continued Learning

As part of continued learning and improvement, IDB Invest also works closely with other development finance institutions. There are regular exchanges of lessons learned, such as through the Multilateral Financial Institutions Group on Environmental and Social Standards.³⁰⁶ This is a forum for those responsible for environmental and social risk management in their respective institutions. The group seeks to harmonize policies, develop common approaches, and share lessons learned and good practice through generation and dissemination of knowledge. One recent example was the 2019 co-publication among several of these institutions of a good practice note on Meaningful Stakeholder Engagement.



³⁰⁶ The group's members include, in addition to IDB and IDB Invest, institutions such as the World Bank, IFC, MIGA, the Asian Development Bank, the African Development Bank, the New Development Bank, the European Bank for Reconstruction and Development, the Nordic Development Bank, and several others.

IDB Invest also benefits from engagement and dialogue with other stakeholder groups, such as civil society and academia. One example of this was the consultation process around the recently updated Sustainability Policy, which received numerous comments from clients and other stakeholders such as CSOs, consultants working on sustainability issues, and academia.³⁰⁷ This engagement not only contributed to improving the policy, but also helped to generate shared understanding among different groups of perspectives and experiences on sustainability issues.

Environmental and social risk management is an evolving area of work. There are topics where standards are only recently being discussed or have not yet been fully established, such as the human rights dimensions of digital data and privacy considerations. The Sustainability Framework does not attempt to anticipate and address every possible circumstance and challenge. As discussed in this manual, the Framework is a principles-oriented and flexible framework, which recognizes that clients may use a variety of approaches to achieve the sustainability objectives.

Going forward, IDB Invest remains committed to working with its clients and other stakeholders, to listen and learn, and to continue to contribute to a shared body of good practice.



³⁰⁷ The recommendations from the policy consultation process as well as feedback on an earlier draft of this implementation manual provided valuable insights and suggestions which helped improve both the policy and manual.

ANNEX A

IDB INVEST EXCLUSION LIST

IDB Invest Environmental and Social Exclusion List

The IDB Invest will not knowingly finance, directly, or indirectly through FIs, projects involved in the production, trade, or use of the products, substances or activities listed below. Additional exclusions may apply in the context of a specific operation.

1. Prohibited Activities

a) Activities that are illegal under host country laws, regulations or rat-ified international conventions and agreements, or subject to in-ternational phase out or bans, such as:

- i. Polychlorinated biphenyl compounds (PCBs).
- ii. Pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans.³⁰⁸
- iii. Persistent Organic Pollutants (POPs).³⁰⁹
- iv. Ozone depleting substances subject to international phase out.³¹⁰
- v. Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora CITES.³¹¹
- vi. Transboundary trade in waste or waste products,³¹² except for non-hazardous waste destined for recycling.
- vii. Lead paint or coatings in the construction of structures and roads.³¹³

³⁰⁸ Reference documents are: Council Regulation (EEC) No 2455/92 of 23 July 1992 Concerning the Export and Import of Certain Dangerous Chemicals, as amended from time to time; United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; World Health Organization Recommended Classification of Pesticides by Hazard, World Health Organization Pharmaceuticals: Restrictions in Use and Availability.

³⁰⁹ Stockholm Convention on Persistent Organic Pollutants (POPs) as amended in 2009

³¹⁰ Ozone Depleting Substances (ODSs) are chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes.' The Montreal Protocol lists ODSs and their target reduction and phase out dates. The chemical compounds regulated by the Montreal Protocol include aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents. (www.unep.org/ozone/montreal.shtml).

³¹¹ www.cites.org

³¹² As defined by the Basel Convention (www.basel.int)

³¹³ Paints or coatings with a total lead concentration great than 90 ppm or the concentration limit set by the host country, whichever is lower.

b) Activities that are illegal under host country laws, regulations or ratified international conventions and agreements relating to the protection of biodiversity resources or cultural heritage.

2. Other Activities

a) Activities that, although consistent with a country's legal and/or regulatory framework, may generate particularly significant adverse impacts on people and/or the environment.

- i. Weapons, ammunitions and other military goods/technology.
- ii. Tobacco.³¹⁴
- iii. Gambling, casinos and equivalent enterprises.³¹⁵
- iv. Radioactive materials.³¹⁶
- v. Unbonded asbestos fibers or asbestos-containing products.
- vi. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

b) Activities that are inconsistent with the IDB Invest's commitment to address the challenges of climate change and promote environmental and social sustainability.

- i. Thermal coal mining or coal-fired power generation and associated facilities.³¹⁷
- ii. Upstream oil exploration and development projects.
- iii. Upstream gas exploration and development projects. Under exceptional circumstances and on a case-by-case basis, consideration will be given to financing upstream gas infrastructure where there is a clear benefit in terms of energy access for the poor and where greenhouse gas (GHG) emissions are minimized, projects are consistent with national goals on climate change, and risks of stranded assets are properly analyzed.

³¹⁴ This does not apply to projects whose primary objective is not related to the production, trade, or use of tobacco.

³¹⁵ This does not apply to projects whose primary objective is not related to the construction and operation of gambling, casinos and equivalent enterprises.

³¹⁶ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where it can be demonstrated that the radioactive source is to be trivial and/or adequately shielded.

³¹⁷ This applies only to associated facilities which primary objective is related to the production, trade or use of coal for power generation or to the transmission of energy generated by a coal-fired power plant (e.g. a dedicated transmission line).

ANNEX B

REFERENCES AND RESOURCES

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RESOURCES FOR CLIENTS WORKING WITH IDB INVEST

Our commitment to sustainable development is actioned by IDB Invest's Environmental and Social Sustainability Policy. Through the implementation of our policy we support our clients in improving the sustainability outcomes for their businesses and the impact to communities around them. We assist in both the identification and management of environmental, social, and governance-risks and impacts as well as in seeking opportunities for sustainable initiatives.

This compilation of resources is intended to serve as technical support for IDB Invest Environmental, Social and Corporate Governance Specialists and for companies seeking financing from IDB Invest. It draws from our policies as well as international best practice. It is not intended to be a comprehensive list.

IDB INVEST ENVIRONMENTAL AND SOCIAL REQUIREMENTS



NEW! ENVIRONMENTAL AND SOCIAL SUSTAINABILITY POLICY

https://idbinvest.org/sites/default/files/2020-05/idb_invest_sustainability_policy_2020_EN.pdf

The new Sustainability Policy was approved on April 10, 2020 and becomes effective on December 15, 2020. Information on the consultation process is available here:

<https://www.idbinvest.org/en/consultation/environmental-and-social-sustainability-policy>

An Implementation Manual is under preparation, it will undergo virtual consultation and will be available once finalized.

IDB
INVEST

Effective
December
15, 2020



ACCESS TO INFORMATION POLICY

<https://www.idbinvest.org/en/download/publication/51713/attachment/7925>

Effective January 2020 – replaces the Disclosure of Information Policy

IDB
INVEST

January 1,
2020



ENVIRONMENTAL AND SOCIAL SUSTAINABILITY POLICY

<https://www.idbinvest.org/en/download/7015>

IDB
INVEST

September
2013



ENVIRONMENTAL AND SOCIAL GUIDANCE DOCUMENT

<https://www.idbinvest.org/en/download/7013>

IDB
INVEST

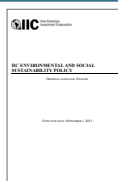


LIST OF EXCLUDED ACTIVITIES

<https://idbinvest.org/en/download/6392>

NOTE: A joint IDB – IDB Invest List of Excluded Activities will be effective in 2021.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT GUIDANCE



IFC PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

https://www.ifc.org/wps/wcm/connect/115482804a0255db96fbfd1a5d13d27/PS_English_2012_Full-Documents.pdf?MOD=AJPERES

IFC

January
2012



IFC GUIDANCE NOTES: PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_gn-2012

IFC

January
2012

Effective January 2020 – replaces the Disclosure of Information Policy



WORLD BANK GROUP ENVIRONMENTAL, HEALTH AND SAFETY (EHS) GUIDELINES

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines

WBG

April
2007



WORLD BANK GROUP ENVIRONMENTAL, HEALTH AND SAFETY (EHS) INDUSTRY SECTOR GUIDELINES

https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/EHS-Guidelines/
Includes various different industry sectors and should be consulted when applying the IFC Performance Standards

WBG

Various

STAKEHOLDER ENGAGEMENT AND CONSULTATION



IDB INVEST GUIDANCE ON VIRTUAL STAKEHOLDER ENGAGEMENT

<https://idbinvest.org/en/download/publication/53635/attachment/11557>

IDB
Invest

October
2020



MEANINGFUL STAKEHOLDER ENGAGEMENT

<https://publications.iadb.org/en/meaningful-stakeholder-engagement-joint-publication-mfi-working-group-environmental-and-social>

IDB – MFI
Group
on E&S
Standards

November
2019



IDB MEANINGFUL STAKEHOLDER CONSULTATION

<https://publications.iadb.org/bitstream/handle/11319/8454/Meaningful-Stakeholder-Consultation.pdf?sequence=3&isAllowed=y>

IDB

2017



STAKEHOLDER ENGAGEMENT: A GOOD PRACTICE HANDBOOK FOR COMPANIES DOING BUSINESS IN EMERGING MARKETS

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_stakeholderengagement_wci_1319577185063

IFC

May
2007



ADDRESSING GRIEVANCES FROM PROJECT-AFFECTED COMMUNITIES

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_grievances

IFC

September
2009

SOCIAL IMPACTS



SOCIAL IMPACT ASSESSMENT - INTEGRATING SOCIAL ISSUES IN DEVELOPMENT PROJECTS

https://publications.iadb.org/publications/english/document/Social_Impact_Assessment_Integrating_Social_Issues_in_Development_Projects.pdf

IDB
Invest

2018



SOCIAL IMPACT ASSESSMENT: GUIDANCE FOR ASSESSING AND MANAGING THE SOCIAL IMPACTS OF PROJECTS

<https://www.commdv.org/publications/social-impact-assessment-guidance-for-assessing-and-managing-the-social-impacts-of-projects/>

IAIA

April
2015



PROJECTS AND PEOPLE: A HANDBOOK FOR ADDRESSING PROJECT-INDUCED IN-MIGRATION

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_inmigration

IFC

September
2009

GENDER



GENDER RISK ASSESSMENT TOOL

<https://idbinvest.org/en/download/publication/52215/attachment/9838>

IDB
Invest

May
2020



IFC TOOLKIT FOR ACTIONS AND STRATEGIES FOR OIL, GAS, AND MINING COMPANIES

https://www.commdv.org/pdf/publications/Unlocking_Opportunities_for_Women_and_Business_IFC-2.pdf

IFC

May
2018



GENDER TOOLKIT: MATRIX 1

<https://www.ebrd.com/cs/Satellite?c=Content&cid=1395241747328&pagename=EBRD%2FContent%2FDownloadDocument>

EBRD

Undated








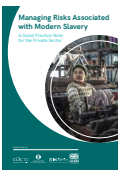
GENDER TOOLKIT: MATRIX 2 ISSUES RELEVANT TO SECTOR

<https://www.ebrd.com/cs/Satellite?c=Content&cid=1395241728963&pagename=EBRD%2FContent%2FDownloadDocument>

EBRD

Undated

MANAGEMENT SYSTEMS

	<p>ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS) IMPLEMENTATION HANDBOOK - GENERAL</p> <p>https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_esms-general</p>	IFC	March 2015
	<p>ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM IMPLEMENTATION HANDBOOK - CONSTRUCTION</p> <p>https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/esms_implementation_handbook-construction</p>	IFC	June 2014
	<p>GOOD PRACTICE NOTE: MANAGING CONTRACTORS' ENVIRONMENTAL AND SOCIAL PERFORMANCE</p> <p>https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_escontractormanagement</p>	IFC	October 2017
	<p>GOOD PRACTICE HANDBOOK: USE OF SECURITY FORCES: ASSESSING AND MANAGING RISKS AND IMPACTS</p> <p>https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_securityforces</p>	IFC	March 2017
	<p>EBRD MITIGATION GENDER TRAFFIC LIGHT</p> <p>https://www.ebrd.com/documents/gender/gender-and-mitigation-tool.pdf</p>	IFC and EBRD	August 2009
	<p>GOOD PRACTICE NOTE: MANAGING RISKS ASSOCIATED WITH MODERN SLAVERY</p> <p>https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_modernslavery</p>	IFC, CDC Group Plc, EBRD, DFID	December 2018

BIODIVERSITY



GOOD PRACTICES FOR THE COLLECTION OF BIODIVERSITY BASELINE DATA

<https://www.idbinvest.org/en/download/6393>

IDB
Invest

July
2015



GOOD PRACTICES FOR BIODIVERSITY INCLUSIVE IMPACT ASSESSMENT AND MANAGEMENT PLANNING

<https://www.idbinvest.org/en/download/7012>

IDB
Invest

July
2015



GUÍA DE BUENAS PRÁCTICAS PARA EL DESARROLLO EÓLICO EN ARGENTINA: GESTIÓN DE IMPACTOS EN AVES Y MURCIÉLAGOS

<https://www.idbinvest.org/es/download/9028>

IDB
Invest,
IFC

December
2019



BIRD AND BAT COLLISION RISK & WIND ENERGY FACILITIES

<https://publications.iadb.org/bitstream/handle/11319/6518/Bird%20and%20Bat%20Collision%20Risks%20%20Wind%20Energy%20Facilities.pdf?sequence=1>

IDB
Invest

December
2012

FINANCIAL INTERMEDIARIES AND SME'S



THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM: A BUSINESS OPPORTUNITY

<https://cursos.iadb.org/en/index/environmental-and-social-management-system-business-opportunity>

IDB
Invest

2019



SUSTAINABILITY TRAINING AND E-LEARNING PROGRAM

<https://olc.worldbank.org/content/sustainability-training-and-e-learning-program-step-self-paced>

IFC

Undated



GLOBAL PROGRESS REPORT OF THE SUSTAINABLE BANKING NETWORK

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_2019+globalprogressreport

SBN-IFC

October
2019



FINANCIAL INSTITUTIONS: RESOURCES, SOLUTIONS AND TOOLS - FIRST FOR SUSTAINABILITY

<https://firstforsustainability.org/>

IFC



INTERPRETATION NOTE ON FINANCIAL INTERMEDIARIES

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_interpretationnote-fi

IFC

November
2018



INTERPRETATION NOTE ON SMALL AND MEDIUM ENTERPRISES

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_interpretationnote-sme

IFC

January
2012

CUMULATIVE IMPACTS



CUMULATIVE IMPACT ASSESSMENT AND MANAGEMENT: GUIDANCE FOR THE PRIVATE SECTOR IN EMERGING MARKETS

https://www.ifc.org/wps/wcm/connect/58fb524c-3f82-462b-918f-0ca1af135334/IFC_GoodPracticeHandbook_CumulativeImpactAssessment.pdf?MOD=AJPERES&CVID=kbnYgl5

IFC

January 2012

INDUSTRY-SPECIFIC GUIDANCE



IDB BIOFUELS SCORECARD

<https://publications.iadb.org/handle/11319/5453>

IDB

August 2009



IDB SUSTAINABLE TOURISM SCORECARD

<https://publications.iadb.org/handle/11319/5439>

IDB

March 2011



GOOD PRACTICE NOTE ON ENVIRONMENTAL, HEALTH, AND SAFETY APPROACHES FOR HYDROPOWER PROJECTS

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_eshhydropwer

IFC

March 2018



GOOD PRACTICE HANDBOOK ON ENVIRONMENTAL FLOWS FOR HYDROPOWER PROJECTS

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_eflows

IFC

March 2018



LESSONS FROM 4 DECADES OF INFRASTRUCTURE PROJECT RELATED CONFLICTS IN LATIN AMERICA AND THE CARIBBEAN

https://publications.iadb.org/bitstream/handle/11319/8502/Four_decades_of_infrastructure_project-related_conflicts.pdf?sequence=4&isAllowed=y&pdf?MOD=AJPERES

IFC

2017


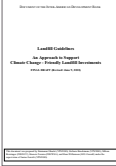


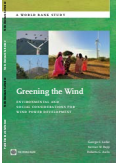




WHAT IS SUSTAINABLE INFRASTRUCTURE? A FRAMEWORK TO GUIDE SUSTAINABILITY ACROSS THE PROJECT CYCLE

<https://publications.iadb.org/en/what-sustainable-infrastructure-framework-guide-sustainability-across-project-cycle>

IDB

May 2019

	CEMENT MANUFACTURING GUIDELINES: AN APPROACH TO RECONCILING THE FINANCING OF CEMENT MANUFACTURING PLANTS WITH CLIMATE CHANGE OBJECTIVES	IDB	August 2010
	LANDFILL GUIDELINES: AN APPROACH TO SUPPORT CLIMATE CHANGE - FRIENDLY LANDFILL INVESTMENTS	IDB	June 2010
	COAL FIRED POWER PLANT GUIDELINES	IFC	June 2009
	LIQUID AND GASEOUS FOSSIL FUEL PLANT GUIDELINES	IFC	August 2012
	GREENING THE WIND: ENVIRONMENTAL AND SOCIAL CONSIDERATIONS FOR WIND PROJECT DEVELOPMENT	Work Bank	2011
	GOOD PRACTICE HANDBOOK: ASSESSING AND MANAGING ENVIRONMENTAL AND SOCIAL RISKS IN AN AGRO-COMMODITY SUPPLY CHAIN	IFC	August 2013
	EXTRACTIVE INDUSTRIES: BREAKING THROUGH SMART STRATEGIES FOR SOCIAL IMPACT, ENVIRONMENTAL PRESERVATION, AND ECONOMIC PROGRESS	IFC	February 2015

	GOOD PRACTICE NOTE: IMPROVING ANIMAL WELFARE IN LIVESTOCK OPERATIONS https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_animalwelfare_2014	IFC	December 2014
	TECHNICAL NOTE: TROPICAL RACE 4 OF PANAMA DISEASE IN BANANA FARMING https://www.idbinvest.org/en/download/10910	IDB	August 2020
	CÓDIGO INTERNACIONAL DE CONDUCTA PARA LA GESTIÓN DE PLAGUICIDAS http://www.fao.org/3/a-i3604s.pdf	FAO/OMS	2017
	TREATMENT MANUAL: CHEMICAL TREATMENTS, NON-CHEMICAL TREATMENTS AND RESIDUE MONITORING https://www.aphis.usda.gov/import_export/plants/manuals/ports/downloads/treatment.pdf	USDA	2016
	INTERNATIONAL CODE OF CONDUCT ON PESTICIDE MANAGEMENT: GUIDELINES ON HIGHLY HAZARDOUS PESTICIDES http://www.fao.org/publications/card/en/c/a5347a39-c961-41bf-86a4-975cdf2fd063/	FAO/OMS	2016
	THE KIGALI AMENDMENT TO THE MONTREAL PROTOCOL: HFC PHASE-DOWN https://multimedia.3m.com/mws/media/13659240/unep-fact-sheet-kigali-amendment-to-mp.pdf	UNEP	2016

HEALTH AND SAFETY GUIDANCE



GOOD PRACTICE NOTE: IFC LIFE AND FIRE SAFETY: HOSPITALS

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_lfs-hospitals

IFC

July 2017



INJURIES, ILLNESSES AND FATALITIES

https://www.bls.gov/web/osh/summ1_00.htm

US Bureau of labor Statistics

2018



FORMULAS FOR CALCULATING RATES ON INCIDENTS

<https://www.coursehero.com/file/32094460/FORMULAS-for-CALCULATING-RATES1pdf/>

OSHA

Undated

COVID-19 GUIDANCE



GUIDANCE FOR THE AGRICULTURE SECTOR ON COVID-19: RISKS AND RESPONSE FRAMEWORK

English: <https://idbinvest.org/en/download/9815>

Spanish: <https://idbinvest.org/es/download/9868>

IDB Invest

May 2020



GUIDANCE FOR INFRASTRUCTURE PROJECTS ON COVID-19: A RAPID RISK PROFILE AND DECISION FRAMEWORK

English: <https://idbinvest.org/en/download/9733>

Spanish: <https://idbinvest.org/es/download/9734>

IDB Invest

May 2020



HEALTH RISK MANAGEMENT AND RESILIENCY IN PRIVATE SECTOR PROJECTS

<https://idbinvest.org/en/download/publication/53628/attachment/11646>

IDB Invest

October 2020



GUIDANCE MATERIALS AND RESOURCES PROVIDED BY INTERNATIONAL FINANCIAL INSTITUTIONS

<https://www.ebrd.com/documents/environment/guidance-materials-and-resources-provided-by-multilateral-development-banks.pdf?blobnocache=true>

EBRD

June 2020



A LIST OF WEBSITES PROVIDING INFORMATION ON COVID-19

<https://www.ebrd.com/cs/Satellite?c=Content&cid=1395290147816&pageName=EBRD%2FContent%2FDownloadDocument>

EBRD

July 2020

Additional technical guidance is available from various sources. Please consult with our Environmental and Social team.

IDB INVEST CORPORATE GOVERNANCE RESOURCES



IDB INVEST CORPORATE GOVERNANCE PROCESS

<https://www.idbinvest.org/en/download/7633>

IDB Invest

2018



CORPORATE GOVERNANCE TOOL FOR STATE-OWNED ENTERPRISES

English: <https://www.idbinvest.org/en/download/11506>

Spanish: <https://www.idbinvest.org/en/download/9518>

IDB Invest

2020



CORPORATE GOVERNANCE: COVID-19 AND THE BOARD OF DIRECTORS

English: <https://www.idbinvest.org/en/download/9724>

Spanish: <https://www.idbinvest.org/en/download/9726>

Portugues: <https://www.idbinvest.org/en/download/9776>

IDB Invest

May 2020



INVESTOR PROTECTION AND CORPORATE GOVERNANCE

Firm-level Evidence across Latin America

<https://publications.iadb.org/en/investor-protection-and-corporate-governance-firm-level-evidence-across-latin-america#:~:text=Investor%20Protection%20and%20Corporate%20Governance,on%20firm%20performance%20and%20valuation.&text=By%20and%20large%2C%20those%20firms,thus%20lower%20cost%20of%20capital.>

IDB GROUP

2007

OECD CORPORATE GOVERNANCE

	G20/OECD PRINCIPLES OF CORPORATE GOVERNANCE	OECD	2015
	https://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en		
	STRENGTHENING CORPORATE GOVERNANCE CODES IN LATIN AMERICA	OECD	2016
	https://www.oecd.org/daf/ca/LART-2016-Strengthening-Corporate-Governance-Codes-Latin-America.pdf		
	PRACTICAL GUIDE TO CG: EXPERIENCES FROM LATIN AMERICAN COMPANIES CIRCLE	OECD	2018
	Chapter 5: Governance challenges for family-owned businesses https://www.oecd.org/daf/ca/corporategovernanceprinciples/43654301.pdf		
	OECD GUIDELINES ON CORPORATE GOVERNANCE FOR STATE-OWNED ENTERPRISES	OECD	2015
	https://www.oecd.org/corporate/guidelines-corporate-governance-soes.htm SOE_043019.pdf?MOD=AJPERES&CVID=mGbrfJ5		
	PROFESSIONALISING BOARDS OF DIRECTORS OF STATE-OWNED ENTERPRISES	OECD	2018
	oecd.org/corporate/Professionalising-boards-of-directors-of-SOEs.pdf		
	DUTIES AND RESPONSIBILITIES OF BOARDS IN COMPANY GROUPS	OECD	2020
	https://www.oecd-ilibrary.org/governance/duties-and-responsibilities-of-boards-in-company-groups_859ec8fe-en		



FLEXIBILITY AND PROPORTIONALITY IN CORPORATE GOVERNANCE

OECD 2018

https://www.oecd-ilibrary.org/governance/flexibility-and-proportionality-in-corporate-governance_9789264307490-en



RISK MANAGEMENT BY STATE-OWNED ENTERPRISES AND THEIR OWNERSHIP

OECD 2016

https://www.oecd-ilibrary.org/finance-and-investment/risk-management-by-state-owned-enterprises-and-their-ownership_9789264262249-en



CORPORATE GOVERNANCE OF COMPANY GROUPS IN LATIN AMERICA

OECD 2015

https://www.oecd-ilibrary.org/governance/corporate-governance-of-company-groups-in-latin-america_9789264241725-en

IFC CORPORATE GOVERNANCE PROGRESSION MATRIXES



IFC CG PROGRESSION MATRIX FOR FAMILY OR FOUNDER-OWNED UNLISTED COMPANIES

IFC 2019

https://www.ifc.org/wps/wcm/connect/45f2c52b-4fb5-4921-8398-02f22c1a5122/CG_Progression_Matrix_Family_Owned_050119.pdf?MOD=AJPERES&CVID=mGbqCqs



IFC CG PROGRESSION MATRIX FOR FINANCIAL INSTITUTIONS

IFC 2019

https://www.ifc.org/wps/wcm/connect/14658be1-466f-4ee1-90fe-a95ffce7b456/IFC_CG_Progression_Matrix_Financial_Institutions_043019.pdf?MOD=AJPERES&CVID=mGb09gz



IFC CG PROGRESSION MATRIX FOR SMALL AND MEDIUM ENTERPRISES

IFC 2019

https://www.ifc.org/wps/wcm/connect/bf16179f-e8f1-4261-81ac-2937ee26286f/CG_Progression_Matrix_SME_043019.pdf?MOD=AJPERES&CVID=mGb2MKh



IFC CG PROGRESSION MATRIX FOR STATE-OWNED ENTERPRISES

IFC

2019

https://www.ifc.org/wps/wcm/connect/812fc0d8-d5ca-4cb9-840f-96e9c4f9f4b4/IFC_CG_Progression_Matrix_SOE_043019.pdf?MOD=AJPERES&CVID=mGbrfJ5



IFC CG PROGRESSION MATRIX FOR FUNDS

IFC

2019

https://www.ifc.org/wps/wcm/connect/39fd3481-018c-4cc2-8075-Ocd5936f8050/IFC_Progression_Matrix_Fund_Governance_043019.pdf?MOD=AJPERES&CVID=mGdwMuT

IFC CORPORATE GOVERNANCE MANUALS AND STUDIES



SME Governance Guidebook

IFC

2019

https://www.ifc.org/wps/wcm/connect/253e1374-edba-44f4-8565-5f971fdeb00f/Family_Business_Governance_Handbook_Spanish.pdf?MOD=AJPERES&CVID=mnKgFXw



MANUAL IFC DE GOBIERNO DE EMPRESAS FAMILIARES

IFC

2018

https://www.ifc.org/wps/wcm/connect/253e1374-edba-44f4-8565-5f971fdeb00f/Family_Business_Governance_Handbook_Spanish.pdf?MOD=AJPERES&CVID=mnKgFXw



GOVERNANCE AND PERFORMANCE IN EMERGING MARKETS

IFC

2018

https://www.ifc.org/wps/wcm/connect/9eb97e0b-22b8-4ac7-a2ca-fc501e809f08/Governance_and_Performance_in_Emerging_Markets.pdf?MOD=AJPERES&CVID=mBVyx6P

OTHER CORPORATE GOVERNANCE RESOURCES



GOVERNANÇA CORPORATIVA PARA STARTUPS & SCALE-UPS

IBGC

MARCH
2019

<https://conhecimento.ibgc.org.br/Paginas/Publicacao.aspx?PubId=24050>



A PRIMER ON GOVERNANCE OF THE FAMILY ENTERPRISE

WORLD
ECONOMIC
FORUM

2013

http://www3.weforum.org/docs/WEF_FPC_FamilyEnterpriseGovernance_Report.pdf



GOVERNANCE IN EMERGING MARKET PRIVATE CAPITAL

EMPEA

2019

A practical resource for investors and fund managers

https://www.empea.org/app/uploads/2019/04/EMPEA-Report_Governance-in-Emerging-Market-Private-Capital.pdf

ANNEX C

GLOSSARY OF TERMS

This glossary defines some of the terms and expressions used in the manual. Other terms are defined in relevant sections, either in footnotes or in the main text.

ADAPTIVE MANAGEMENT: A flexible system for learning and adapting a project's implementation based on ongoing monitoring of environmental and social risks and opportunities. This is a core principle of the IDB Invest Sustainability Policy, which requires projects to be responsive to changes in circumstances and unforeseen events.

CHANCE FINDS PROCEDURE: A project procedure to be followed if previously unknown cultural heritage is encountered during project activities. A chance finds procedure should be included in all civil works contracts to ensure that national law and the requirements in Performance Standard 8 are followed when artifacts are uncovered.

CULTURAL HERITAGE: Tangible or intangible resources with which people identify as a reflection and expression of their evolving values, beliefs, knowledge and traditions.

DUE DILIGENCE: A review and appraisal process that IDB Invest undertakes in relation to a prospective client or project to establish the robustness of the client's management system, and the potential risks involved in the financing activity under consideration. It involves systematic identification of potential risks, and helps identify mitigation measures that may be needed.

ECOSYSTEM SERVICES: Benefits that people derive from ecosystems. Ecosystem services are organized into four types: (i) provisioning services, which are the products people obtain from eco-systems and which may include food, freshwater, timbers, fibers, medicinal plants; (ii) regulating services, which are the benefits people obtain from the regulation of ecosystem processes and which may include surface water purification, carbon storage and sequestration, climate regulation, protection from natural hazards; (iii) cultural services, which are the nonmaterial benefits people obtain from ecosystems and which may include natural areas that are sacred sites and areas of importance for recreations and aesthetic enjoyment; and (iv) supporting services, which are the natural processes that maintain the other services and which may include soil formation, nutrient cycling and primary production.

EXCLUSION LIST: The list consists of a detailed description of production, trade, or use of various products, substances or activities that IDB Invest will

not finance. See Annex A for a full list. This list may be updated from time to time.

FORCED EVICTION: The permanent or temporary removal against the will of individuals, families, and/or communities from the homes and/or land which they occupy without the provision of, and access to, appropriate forms of legal and other protection, including all applicable procedures and principles in Performance Standard 5. Forced evictions are not permitted under the IDB Invest Sustainability Policy. Involuntary resettlement will not be considered to be forced eviction providing it complies with the requirements of national law and the provisions of Performance Standard 5, and is conducted in a manner consistent with basic principles of due process (including provision of adequate advance notice, appropriate compensation for lost assets and support to restore livelihoods, meaningful opportunities to lodge grievances and appeals, and avoidance of the use of unnecessary, disproportionate or excessive force).

GBV: Gender Based Violence, used in this manual as an ‘umbrella term’ to cover any harmful act that is perpetrated against a person’s will, and that is based on socially ascribed gender differences. The term covers both physical and non-physical acts of violence, and includes sexual exploitation, abuse, harassment, human trafficking, and denial of resources or opportunities, among other issues.

GIIP, GOOD INTERNATIONAL INDUSTRY PRACTICE: The exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. The outcome of such exercise should be that the project employs the most appropriate technologies in the project-specific circumstances.

INVOLUNTARY RESETTLEMENT: Project-related land acquisition or restrictions on land use may cause physical displacement (relocation, loss of residential land or loss of shelter), economic displacement (loss of land, assets or access to assets, including those that lead to loss of income sources or other means of livelihood), or both. The term “involuntary resettlement” refers to these impacts. Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in displacement.

RISK CLASSIFICATION: A systematic approach to determining a project’s level of environmental and social risk, taking various factors such as direct and indirect impacts, contextual risks, affected populations’ vulnerability, and performance-related risks into account. IDB Invest classifies projects as Category A, B, or C based on their risk levels. Client requirements, and IDB Invest’s due diligence and oversight, will generally be proportionate to project risk. The risk classification may be updated during the project cycle, to reflect

new information or changing circumstances. See the detailed discussion of this in Part III of the manual.

RISK MITIGATION HIERARCHY: A systematic process of identifying and addressing risk whereby clients identify, avoid or minimize where possible, and compensate for adverse impacts projects may cause or contribute to. Application of the risk mitigation hierarchy requires environmental and social considerations to be embedded into a project's overall design, implementation, and decision-making process.

UNIVERSAL ACCESS: Unimpeded access for people of all ages and abilities in different situations and under various circumstances.

VULNERABLE AND DISADVANTAGED GROUPS: Groups who may be differentially or disproportionately affected by a project because of their disadvantaged or vulnerable status. They may be more likely to be adversely affected by negative project impacts, or face barriers in accessing project benefits. They may also face limitations on their ability to participate in project consultation processes. Their disadvantaged or vulnerable status may stem from individuals' or groups' gender or sexual orientation, race, age, religion, literacy, disability, poverty, or other factors. Disadvantage or vulnerability is highly context- and culture specific, and should be assessed in relation to how a project may affect or involve different groups.