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TO: IDB Group, Team in charge of the Institutional Strategy review process

RE: Comments and recommendations for the IDB Group's Institutional Strategy

1. What do you think the IDB Group should do to effectively support and accelerate country and regional development agendas?

The IDB's added value in the development space is to be a leader in sustainability, environmental and social standards, and respect for human rights in its own activities and projects. To achieve this, the IDB must prioritize the implementation of its Environmental and Social Policy Framework (ESPF).

The work of the IDB Group should be centered around the people it aims to benefit, prioritizing the participation, involvement, and inclusion of local communities, marginalized groups, indigenous peoples, Afro-descendants, and traditional communities in its projects. In that vein, the IDB needs to:

- **Improve upstream planning.** This includes the strategic guidelines, legal frameworks, methodologies, institutional arrangements, and decision-making processes that are essential for the design and implementation of robust projects with maximum potential for achieving sustainable development goals, including those related to climate change, biodiversity, and human rights. In short, improved upstream planning is essential for the identification of the “right” projects that promote social and environmental sustainability throughout the project cycle: from policy to planning to implementation.

In this regard, the IDB Group should commit to expanding stakeholder consultations at the level of Country Strategies and other key issues at the national and regional levels (such as climate change action plans, sustainable and inclusive energy transitions and achievement of the SDGs) supporting the active engagement of social movements and other civil society organizations (CSOs). Consultations should address how different tools at the disposal of the IDB Group (including analytical work, technical assistance

and support for stakeholder dialogue and community-level engagement) can be most effective.

The use of upstream planning instruments such as Strategic Environmental Assessments (SEA) with participatory methodologies, including comparative analysis of alternatives, can make enormous contributions to the identification of more robust projects. It is also important to consider the fact that political decisions regarding specific projects to be included in official portfolios presented to the IDB and other financial institutions are frequently made during the elaboration of sectoral plans (e.g., transportation, energy). Therefore, it is vital for the Bank, among other contributions, to support governance arrangements at this level of upstream planning that ensure transparency and effective participation of affected communities, civil society, and other stakeholders.

- **Strengthen ESPF implementation.** The IDB needs to scale up resources for implementation and guarantee a robust budget that allows it to have the expertise in-house to address the new social areas included in the ESPF. It should also have social and environmental experts in the 26 borrowing countries to better support its clients in managing and mitigating environmental and social risks and impacts across the IDB Group's portfolio. The IDB's ESPF is very robust, and if applied and implemented correctly, it would greatly help with effectively mitigating impacts, managing risks, and maximizing benefits for communities. However, participation and consultation with stakeholders and impacted communities is often not done in accordance with the requirements of the ESPF. Thus, projects often begin without the corresponding social license or support, which later can lead to implementation problems or impacted people rejecting the project.
- **Strengthen and improve project supervision and monitoring.** This includes effective oversight of clients and supporting them to apply the ESPF. This also includes generating incentives so that the IDB Group can hold its clients accountable for actions or omissions in its implementation. For certain Category A and some Category B projects (this can be agreed upon in the project concept), the Bank can facilitate opportunities for community or independent third-party monitoring¹.
- **Strengthen the independent accountability mechanism, MICI.** The IDB Group should publicize the mechanism in different levels and spaces. Also, it is important that the IDB Group publicly discuss and incorporate lessons learned from MICI cases.
- **Build a real, effective, continuous, and quality relationship with civil society and project-affected communities.** Foster a relationship where direct dialogue prevails, with the same opportunities for engagement that the Bank has for governments and the private sector. Their comments and recommendations should be analyzed and incorporated in a

¹ It should give priority to the empowerment approach of local actors in the monitoring of projects or programs that occur in their territorial spaces. This is the best way for projects to generate durable or sustainable benefits in a more participatory governance framework.

meaningful manner, beginning with program design upstream and continuing through project design, implementation, and evaluation.

- **Adjust grievance mechanisms at the project or administration level so that they become mechanisms of local social and environmental governance.** This would establish systems for the prevention of socio-environmental conflicts and offer solutions on the ground² that promote community monitoring practices and/or oversight by communities and/or local organizations.³
- **Push for development agendas that contribute to improving social equality.** They should not contribute to the concentration of wealth.
- **Limit exploitation of natural resources to activities that are fully sustainable.** This should be applied both socially and environmentally, in order to contribute to local communities, reduce GHG emissions, and ideally enhance biodiversity. The IDB should push for projects that contribute to a circular economy.
- **Support projects that consider and include the needs of all marginalized groups.** All projects should advance inclusion and diversity, and at a minimum must comply with inclusion and diversity standards.
- **Develop a remedy framework and responsible exit protocols to ensure that those harmed by an IDB Group-funded project have access to remedy.** Accountability must be a core principle for the IDB Group as a leading development bank, so it is critical that it meaningfully address the issue of remedy. It should also recognize and address problems with private sector transparency and accountability, including gaps in disclosure of environmental and social impacts.

Likewise, there is a need for in-depth dialogue between the IDB Group and different actors, including CSOs and impacted communities, about what communities in the region mean by “development” or what type of development they aspire to. In this debate, the multiple dimensions of development should be considered beyond economic (in terms of growth) or financial. They should also consider a holistic dimension such as comprehensive human development, including social, cultural, and spiritual aspects. With this in mind, the Bank's vision of development should be built and guided on the basic consensus of the peoples of the Americas.

Also, it is important that the IDB Group takes into account the [comments and recommendations](#) received in the process of reviewing its Access to Information Policy (AIP) so that the Policy shares basic pillars of transparency and access to information with the new institutional strategy. Once the new AIP is approved, the IDB should make the necessary resources available for its correct and effective implementation, which is a major deficiency in the implementation of the ESPF.

² Since they represent direct contact between the implementing agency and any person affected by the project and/or stakeholders.

³ To achieve this, these mechanisms should be thought of as mechanisms of collaboration with people and built from the community.

2. In your opinion, what characteristics should the IDB Group strengthen to be positioned as the most trusted partner in Latin America and the Caribbean by 2030?

The IDB's new strategy should not simply focus on approving more projects and disbursing more money to countries and territories, but should prioritize doing so better. This means co-designing projects and operations with the people and groups who are supposed to benefit from these projects, and being accountable to them.

While the IDB remains focused on the scale of their investments and playing a catalyzing role in regional sustainable development, it is critical that the IDB Group prioritize quality investments. **An increase in risk requires a proportional increase in the ability to create effective compliance with social and environmental safeguards, something the IDB Group lacks. The IDB can improve the quality of its financing by doubling down on principles of good governance—especially transparency, access to information, and accountability.** This was one of the recommendations from the G20 commissioned report on MDB's capital adequacy frameworks: "create an enabling environment for reform through greater transparency and information." The Bank's development impact can improve with more robust and proactive stakeholder consultation and information disclosure, in addition to systematically reporting out on the impacts of financing. Below, we reiterate relevant recommendations we have previously made in discussions with Bank management:

- The IDB Group needs to apply a human rights-based approach, with environmental and social standards at the center of responsible and sustainable financing.
- The IDB Group must disclose project-level analysis of mitigation and adaptation co-benefits.
- The IDB Group must strengthen and prioritize learning and adaptation functions, so that the IDB constantly incorporates lessons learned, experiences, and recommendations from MICI complaints on Bank projects.
- The IDB Group and its clients should prioritize substantive, systematic, robust, and effective consultations with civil society, impacted communities, and stakeholders throughout the project cycle. Although this is considered in standard 10 of the ESPF, we emphasize the importance of this point because it has historically been a problematic area for the MDBs in general, and the IDB Group is no exception⁴. As civil society, we have plenty of evidence of cases where stakeholder engagement processes are ineffective, resulting in projects that end up being implemented poorly.

⁴ The report "[Lessons from four Decades of Infrastructure Project-Related Conflicts in Latin America and the Caribbean](#)" (2017) prepared by the IDB, which investigates the nature and consequences of conflict in infrastructure projects in Latin America and the Caribbean, identified that the lack of participation of stakeholders and affected parties and adequate consultation, together with poor planning, reduced access to resources, and lack of community benefits were the most important drivers of conflict in the region. In many cases, conflicts escalated because community grievances and concerns accumulated and remained unresolved for many years.

- The IDB, and IDB Invest in particular, should not only disclose information on the development objectives of their investments prior to board approval, but should also report on the status of those objectives upon termination or exit from the investment. The IDB Invest project portal discloses very little information on the rationale for the development of projects, which sometimes can have serious negative impacts on communities and the environment. Investing early in good governance measures can be part of a strategy to maximize the effective use of the Bank's resources. Also, the IDB and IDB Invest should demonstrate how previous deficiencies and failures have influenced better project design, management, and implementation.
- The IDB Group and its clients must be prepared to remediate the environmental and social harm caused by their projects. This will require developing a remedy framework and ensuring availability of resources to address the issue of access to remedy in an effective way.

To be the most trusted partner in Latin America and the Caribbean, the IDB group must strengthen its commitment to the local communities impacted by its investments. This includes improving consultation practices, conducting human rights-based due diligence, respecting the right to Free Prior and Informed Consent (FPIC), and monitoring projects' net impacts. Importantly, this also includes strengthening the IDB Group's accountability mechanisms, namely MICI, and remediating environmental and social harm stemming from IDB projects. In addition to rendering projects unsustainable, unremedied harm poses a reputational risk to the IDB Group and undermines trust in the institution. Of the 206 complaints filed with MICI, only 19 have resulted in any commitments from the IDB Group or its clients to remedy harm. Furthermore, implementation of remedial commitments only occurred in 12 of those 19 cases. This abysmal track record is a large reason why the IDB Group is not a trusted partner for many of the communities the institution is meant to benefit and serve.

The IDB Group has the opportunity to position itself as a regional leader, as long as it does so by strengthening and promoting good environmental and social practices, transparency, engagement, and accountability. However, there is the potential of competition for financing with other related actors leading it to promote a weakening in the implementation of its social and environmental standards and requirements for project approval. If this is the case, it will represent a lost opportunity for the Bank and a departure from the development objectives of the Institution.

3. What kind of knowledge products do you expect from the IDB Group to improve its impact and position itself as the knowledge reference for the Region?

To improve its impact and position itself as a source of knowledge for the region, the IDB should produce informational products that do not principally focus on economic visions of

development. On the contrary, they should more effectively incorporate perspectives and visions of regional development centered on people and human rights. It would also be important for the IDB to develop the following products for IDB staff:

- A product with guides to strengthen environmental and social due diligence processes, understanding that due diligence must be continuous and not only focused on project pre-approval requirements.
- A product with lessons learned to improve consultations at the project level. It would be interesting for the IDB Group to update the 2017 report [“Lessons from four Decades of Infrastructure Project-Related Conflicts in Latin America and the Caribbean”](#) to analyze projects more closely and learn lessons from what worked and what did not.

Furthermore, it would be helpful to systematize the results of successful MICI cases, showing that the Bank's administration has dealt effectively with the MICI grievance and that it has learned lessons for the future.

4. Given the social, fiscal, and growth challenges for the region, what should be the most relevant priorities for the IDB Group over the next 7 years?

The auspicious goal of being a ‘climate bank’ will remain far-fetched without improving the Bank’s approach toward Paris-alignment and the 2030 Agenda. A focus on alignment with client country commitments is insufficient to meet the 1.5 degree target, as few of the country plans do so. Instead, the Bank needs to identify ways it can play an additive role, going beyond aggregate country commitments to meet Paris's goals.

Likewise, given the cross-cutting impacts of climate change and biodiversity loss on sustainable development, addressing the externalities of public and private sector activities (such as greenhouse gasses and other pollution that cause climate change, land degradation, and biodiversity loss) should be an overall priority for the IDB.

Based on the above, we believe that the most relevant priorities for the IDB Group in the following years should be to:

- Promote regional development focused on benefits to people (especially the most marginalized people) and human rights, leaving aside purely economic and market-centered visions and priorities.
- Promote a just and community-centered energy transition in the region; decarbonization of the energy matrix of countries in the region should be a priority, but it should not be done at the expense of the people and the environment.
- Prioritize ending all subsidies to fossil fuels and extractive industries, and support pricing of externalities, including GHG emissions, that reflects their full social cost.
- Include climate risks in road infrastructure loans to prevent negative effects in this sector.

- Promote compliance at national and regional levels with the Sustainable Development Goals (SDGs) and the climate commitments of the Paris Agreement.
- Improve gender equality, inclusion, and diversity in the design, implementation, and monitoring of development projects financed by the institution.
- Promote the informed, effective, and substantial participation of civil society, indigenous peoples, traditional communities, Afro-descendants, people with disabilities, the LGBTIQI+ population, populations impacted by projects, and other relevant actors in society in decision-making on development projects financed by the Bank.
- Substantially improve transparency, access to information, and accountability of the IDB's Group operations, especially for projects with greater social and environmental impacts.

Likewise, the IDB Group must open the debate with civil society and project-affected communities regarding what it considers to be the “challenges for growth in the region,” and define lending instruments and financial strategies aimed to support the needs and demands that people in the region identify. These “growth challenges” are not currently focused purely on the perspective of investments and “economic growth.” This must be a necessary and substantial discussion when setting a new institutional strategy for the Bank.

5. Addressing the region's development challenges requires an active role for governments, civil society, and the private sector. Where do you see the greatest opportunities to generate impact through increased public-private dialogue and the combination of public and private sector solutions?

We broadly agree with the recommendations of the G20 review of the capital adequacy framework and the Bridgetown Agenda. We agree that there must be a significant increase in overall investment to address global challenges to sustainable development. In this regard, **the IDB Group has the ambition to position itself as a leader in mobilizing financing to address regional challenges, including through taking on additional risk. However, a scaling-up and acceleration of IDB Group investments, without consideration of the context of and impacts on the environment and affected communities, is deeply concerning. This is why it must be clear in the IDB Group's institutional strategy that this growth and increase in additional risks should not be at the expense of the most marginalized groups.** For the most marginalized communities to be left to carry that additional risk is contrary to the IDB’s Group development mandate and will undermine its efforts to address the climate crisis and other regional challenges. **The new strategy must put people at the center and be informed by the communities or local populations that are supposed to benefit from IDB projects and operations.**

Public finance is a tool for sustainable development and should always seek to incentivize sustainable economic activities in the broader marketplace. The IDB Group should look at all of its investments, in both the public and private sectors, to understand how these investments can best address regional challenges and shift broader economic activity in a pro-climate, pro-biodiversity direction. They should also emphasize that people who are going to benefit from these investments are prioritized.

While the new institutional strategy may present the combination of public and private sector solutions as an opportunity to address the developmental challenges in the region, it is important to highlight that development priorities and strategies must come from the public sector. The perspectives and priorities of the local populations and communities involved should be taken into account. The private sector should only play a secondary and accompanying role, and should not determine and define the region's development priorities. The private sector will act in a way that produces more positive development outcomes when incentivized or as a collateral benefit of otherwise typical economic activity.

We have pointed out that IDB and IDB Invest projects too often do not meet environmental and social standards. In some cases, they leave communities facing negative impacts even after they have left or closed the project. For all these improvements, **it is essential that they are accompanied by a proportional improvement in the implementation of safeguards. If the IDB really wants to position itself as a leader of sustainable development in the region, it is critical to develop an accountability framework with adequate resources for environmental and social due diligence and oversight.** This includes the implementation of solid policies and procedures, including provision of resources, to provide remedy to those harmed by IDB and IDB Invest activity, and that remedy measures be in consensus and participation with those directly affected.

While effective coordination between the IDB and governments, civil society, and the private sector is key to generating positive impacts on regional development, the Bank's new institutional strategy should reflect a greater balance in considering the participation of these stakeholders in the institution's actions. In general, there is a clear imbalance in the degree of participation in decision-making and in the design and implementation of projects by each of these actors. Governments, and increasingly the private sector, have a much more active and decisive role, to the detriment of civil society and the communities and populations impacted by projects. This is not only reflected in the Bank's actions but also in its operational documents and policies. It is even strikingly reflected in the [Second Update of the Bank's Institutional Strategy](#) document, which clearly highlights the key role that the private sector represents for the institution in said strategy. For example, while the document refers numerous times to the private

sector (the words “private sector” are mentioned more than 20 times), it is striking how little reference there is to civil society (the words “civil society” are only mentioned once) and communities and populations impacted by IDB projects (the words “communities” and “populations” are mentioned only twice). Thus, the Bank's new institutional strategy, as well as its actions in practice, must reflect greater relevance and participation of civil society and the communities and populations involved when defining and implementing development projects financed by the Institution.

At the same time, the IDB must rethink the way in which it engages with civil society, indigenous populations, project-impacted communities, and other relevant stakeholders when receiving inputs and recommendations in relation to policies, action plans, and projects financed by the Bank. Spaces for such engagement are often poorly designed and implemented, proving insufficient and ineffective to adequately receive the perspectives of communities and civil society. Also, in recent times, they have concentrated excessively on virtual spaces that are not suitable for genuine participation, such as the WiConnect platform that the Bank insists on promoting despite questions received regarding the use and security of user data.