

President Luis Alberto Moreno
Inter-American Development Bank
1300 New York Avenue, NW
Washington DC. 20577

Tuesday 8th May

Dear President Moreno,

On behalf of the Blue Ribbon Panel on Environment, I would like to express our appreciation for the opportunity to advise you on sustainability issues through the realignment of the Inter-American Development Bank.

Two years have elapsed since the Panel's original recommendations. Since then the IDB has made a series of important advances in mainstreaming environmental and social sustainability into its current structure. We are pleased to see progress in the areas of standards and harmonization, with the Environment and Safeguards Compliance Policy and the Operational Policy on Indigenous Peoples; innovation with the launching of the sustainable energy and climate change initiative; and reporting on the Bank's progress in the annual sustainability review. Yet, at the same time, it is important to recognize that there is much more still to do, particularly as the IDB enters a new phases in its history.

We especially recognize and appreciate your personal commitment to sustainability as an integral part of the Bank's mission. Your engagement and remarks as well as those of Vice President Zelikow at the recent meeting with representatives of the NGO community were an important signal of your leadership commitment to sustainable development.

Based on these discussions, the Panel would like to focus on three issues that merit your careful consideration: 1) the business case for sustainability; 2) the sustainability functions within the Bank organization; and 3) resources. We believe that by addressing these three issues the IDB can move into a position of sustainability leadership with lasting and sustainable development impact in Latin America and the Caribbean.

Moving along the Continuum from Risk Management to Opportunity

We believe that the Bank should move beyond the present focus on mitigating environmental, social and cultural risks towards a more comprehensive and innovative forward looking perspective on environmental and social problems. The Bank should concomitantly address overall infrastructure development needs in the fields of energy, transportation and sanitation along with poverty alleviation and conservation of ecosystems.

The Bank should go, as you have suggested, beyond providing financing, and move toward providing high-quality advisory services on issues and concerns affecting the region. The Bank needs to deepen its strengths and comparative advantages as a trusted and respected partner in development in the Region, having close relations with the countries, a

financier of both private and public sector projects, and a source of knowledge and experience.

The Camisea project provides an example. In our view, the Bank has played a very positive, if less than perfect, leadership role in the execution of this project. However, an important lesson to be learned is that ad hoc, single project participation is hardly sufficient to assure environmentally appropriate energy development. With the wave of oil and gas projects throughout the continent it will be essential for the Bank to participate more fully in an advisory capacity with governments in regional planning at all scales. It is at this pre-project investment level that the Bank will be able to have the greatest influence and impact on both mitigating and realizing sustainable development opportunities. Given the Bank's unique competitive advantage of providing public private lending, this should be a natural and exciting evolution in the Bank's line of business.

For the IDB to translate its commitment to sustainability into reality it needs to have the structure, processes and resources to enable it to deliver the following services:

- Identify and address medium to long-term strategic issues at the country and regional level, as well as the sectoral level (i.e. trends in biodiversity, climate change, cultural diversity, etc.).
- Engage countries in a convening capacity and bring together the views and expertise of a cross section of stakeholders to identify and address the sustainability issues relevant to key sectors of interest (i.e. mining, oil and gas, energy, etc.).
- Generate analysis and knowledge on the issues and leading-edge solutions.
- Orchestrate synergies between public and private sector investments.
- Mobilize grant resources from donor agencies and international funds (i.e. GEF)
- Upstream sustainability risk identification (before project proposal stage).
- Ensure full compliance with safeguard standards.

Sustainability Functions

In its realignment, the Bank should focus on developing a structure which mainstreams sustainability values and issues into the core operations of the Bank, while establishing and maintaining momentum and strategic direction and learning from evaluations. We therefore recommend that these three areas of attention be included in the realignment in separate areas:

1. Programming and project preparation: Staff trained in environmental, social and cultural sustainability should be incorporated into the Vice Presidencies for Countries, Knowledge and Sectors and Private Sector to facilitate the development of sustainability opportunities in country dialogues and country programming and project development. Project teams in the VP Sectors and Knowledge and VP Private Sector developing infrastructure and other projects with potential environmental, social and cultural impacts should be empowered and accountable for identifying and managing the sustainability risks of the project during the design and execution phase.
2. Policy, strategy and safeguard monitoring: A high-level sustainability function should be established, that cross cuts the four vice presidencies. This group should report to either the President or Executive Vice President for a period of at least 2 to 3 years, to help ensure that the new structure delivers results, after which time its function should be reviewed. Specifically this group would:
 - Identify emerging sustainability issues and development of appropriate Bank response, including development of new standards and policies.

- Facilitate collaboration among relevant divisions in different Vice Presidencies to identify business opportunities and risks early and orchestrate synergistic and complementary investments in sustainability.
- Provide safeguard compliance support and oversight to ensure consistent application of Bank policy and standards.
- Provide training and capacity building.
- Advise on performance measures and management systems.
- Sustainability reporting.

As this group will have to exercise functions of checks and balance, throughout the organization, we suggest that they be empowered with the necessary authority. Furthermore, we suggest that this group be responsible for all Bank Group activities in the area of sustainability to avoid differences in the application of the safeguards.

If the Committee on Environmental and Social Sustainability (CESI) is to continue, we believe that it will need more resources to function effectively. The chair should continue to be someone in a position without a conflict of interest for projects under consideration. If for some reason it is not to continue, then the check and balance function it has played will need to be lodged elsewhere in an effective place, such as the proposed sustainability group, and be given the necessary resources to rigorously review projects.

3. Monitoring and Evaluation: The Bank units responsible for monitoring and evaluation should monitor and evaluate the sustainability impacts of projects.

Resources

In the Panel's original report we set out a series of recommendations calling for increases in, or reassignment of resources and capacity and changes in organization and operational systems to address sustainability at the IDB (see box below).

We recommend: *Comprehensive analysis of resource requirements at central operational department and Country Office levels to fully implement the policy mainstreaming should be completed. We believe additional resources will be required in a number of areas including:*

- Increase in core environmental, social and cultural development staff and capacity at central, country and regional levels;
- Specific professional support in developing operational procedures and risk management processes;
- Specific resources to be applied to the monitoring and supervision of projects during execution;
- Enhanced training to develop new skill sets in existing environmental, social and cultural staff to meet new strategic commitments;
- Development of a sustainability-training program which engages together all the professional groups working on investments within the Institution, so that understanding amongst the teams is consistent and mutually supportive. This program should then be progressively provided to all staff. The IDB should explore the possibility of providing such training in collaboration with private sector financial institutions, some of whom have already expressed an interest in such collaboration;
- Development of a supportive skills network throughout the institution, which can be drawn upon to provide input on specialist issues;
- Flexible consulting resources, which can be deployed to support internal capacity or provide specialist input.

(pp.10 Blue Ribbon Panel on Environment
Report of Recommendations - February 23, 2005)

We reaffirm these recommendations in the belief that it will be essential for the IDB to match resources to the challenge that lies ahead.

We trust you find these recommendations useful as the IDB moves forward with its realignment and we look forward to discussing these and other issues with you over the coming weeks and months.

Sincerely yours,

Bruce Babbitt
Chairman, Blue Ribbon Panel on Environment

Panel Members

Prof. Jose Goldemberg
The Hon. Lynn Holowesko
Ms. Yolanda Kakabadse
Mr. Thomas E. Lovejoy
Mr. Juan Mayr Maldonado
Mr. William Reilly
Mr. Francis Sullivan (replacing Mr. Stephen Green)
Mr. Maurice Strong