

**IDB INVEST**  
ENVIRONMENTAL  
AND SOCIAL  
SUSTAINABILITY  
POLICY



Effective Date: December 15, 2020.



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## ACRONYMS AND ABBREVIATIONS

ASR	Annual Supervision Reports Assessment System
CGDF	Corporate Governance Development Framework
DELTA	Development Effectiveness, Learning, Tracking and Assessment System
DFI	Development Finance Institution
EHS	Environmental, Health and Safety
EIA	Environmental Impact Assessment
ESIA	Environmental & Social Impact Assessment
ESAP	Environmental and Social Action Plan
ESMP	Environmental & Social Management Plan
ESMS	Environmental & Social Management System
FI	Financial Intermediary
ICIM	Independent Consultation and Investigation Mechanism
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IFC	International Finance Corporation
ILO	International Labor Organization
OVE	IDB Office of Evaluation and Oversight
PS	IFC's Performance Standard
TA	Technical Assistance
XSR	Expanded Supervision Report

## I. PURPOSE OF POLICY

1. The Inter-American Investment Corporation (IDB Invest),<sup>1</sup> a member of the Inter-American Development Bank (IDB) Group, is an international organization that promotes the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises in a sustainable way. IDB Invest supports the private sector and state-owned enterprises that do not have a sovereign guarantee, offering loans, equity investments, guarantees, and advisory and training services to clients.<sup>2</sup>
2. The purpose of the IDB Invest Environmental and Social Sustainability Policy (the Sustainability Policy) 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. It also conveys IDB Invest's commitment to sustainable development, as the foundation of its approach to risk management, as well as its development mandate. The Sustainability Policy applies to all activities undertaken and operations financed by IDB Invest, including, among others, direct and indirect financing and technical assistance services.<sup>3</sup> This Sustainability Policy and the Access to Information Policy form part of IDB Invest's Sustainability Framework as described in Annex A.
3. IDB Invest believes that the environmental and social sustainability of the activities it supports is central to achieving positive development outcomes, a strategic goal. The prudent management of environmental, social and health and safety risks and impacts is sound business practice and can improve the long-term sustainability of businesses and projects by reducing waste and generating good will and positive benefits in the communities where the business operates.
4. The IDB Invest Environmental and Social Sustainability Policy is organized as follows:
  - IDB Invest Commitments
  - Client Responsibilities
  - IDB Invest Roles and Responsibilities during Environmental and Social Appraisal and Supervision
  - Collaboration and Liaison with Public and Private Sector Partners
  - Governance
  - Independent Consultation and Investigation Mechanism
  - Related Documents
5. The Sustainability Policy will take effect on December 15, 2020 (“the Effective Date”) and supersedes the Environmental and Social Sustainability Policy of September 2013

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<sup>1</sup>In November 2017, the IIC adopted a new brand and now refers to itself as IDB Invest (in English) and BID Invest (in Spanish, French and Portuguese).

<sup>2</sup>The term “client” is used interchangeably herein to refer to the borrower, beneficiary of a guarantee, investee, or the sponsor of an IDB-Invest-financed transaction.

<sup>3</sup>Technical Assistance (TA) is provided mainly in the form of consultancy services to assist in improving performance, as well as through capacity building and other programs (see section IV, paragraph 37 for more detail).

in its entirety with respect to investments approved after the Effective Date. No later than five (5) years after the Effective Date and each five (5) year period thereafter, IDB Invest will assess the need to revise and update the terms of the Sustainability Policy for purposes of incorporating best practices, international trends on environmental and social sustainability issues and lessons learned during its implementation. The Sustainability Policy is not an express or implied waiver of IDB Invest's privileges and immunities under the Agreement Establishing the IIC, international conventions, or any applicable law, nor does it provide any contractual or other rights to any party.

## II. IDB INVEST COMMITMENTS

6. IDB Invest strives to ensure through its environmental and social appraisal and supervision process that the projects in which it invests<sup>4</sup> and to which it provides technical assistance services are environmentally and socially sustainable and that they are designed, structured and implemented to meet the standards referred to and established in this Policy.
7. IDB Invest assesses potential environmental and social risks and impacts of all projects in which it considers investing for compliance with host country laws and regulations and this Sustainability Policy prior to final approval. This assessment is based on the mitigation hierarchy approach whereby clients should avoid, minimize, or manage environmental, social and health and safety risks and impacts. IDB Invest requires its clients<sup>5</sup> 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"). 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.
8. Recognizing that some issues may require particular attention, IDB Invest includes the following specific areas of focus:

### **Pollution Prevention and Resource Efficiency**

9. IDB Invest promotes good industrial practice and resource efficiency strategies to minimize waste and pollution, including greenhouse gas emissions, resulting from the projects it finances in accordance with PS 3 (Resource Efficiency and Pollution Prevention). When combined with continuous improvement programs, this approach can also result in more efficient production and increased profitability. IDB Invest requires its clients to apply relevant EHS Industry Sector Guidelines to IDB Invest supported investments as benchmarks for good industry practice and to design, implement and operate their projects and activities accordingly.

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<sup>4</sup> The terms "investments" and "financing" as well as the verbs "invest" and "finance" are used interchangeably herein to refer to IDB Invest's financing of an operation. In the case of investments made by financial intermediary clients (FIs) receiving IDB Invest financing, the term "investments" refers to the FI's sub-projects (see section IV, paragraphs 33-35 for approach to investments through financial intermediaries). Furthermore, "investments" covers a variety of financing instruments, such as loans, guarantees, equity and quasi-equity, amongst others.

<sup>5</sup> See section III.

## Climate Change Adaptation, Mitigation and Low Carbon Development

10. 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. IDB Invest considers climate change mitigation and adaptation to be a strategic priority for its investment and technical assistance activities in the region. IDB Invest is committed to low-carbon development and is strategically aligned with the UN Sustainable Development Goals. Through innovative financial products and technical assistance, IDB Invest supports private sector clients in their efforts to avoid and reduce greenhouse gas (GHG) emissions and to enhance their resilience to the effects of climate change and natural disasters. IDB Invest is committed to helping clients measure and manage both physical and transition climate-related risks in their operations, investment decisions and project development.
11. IDB Invest screens and assesses climate-related risks that may affect its investments. The extent of such screening and assessment is commensurate with the potential risks and impacts of the proposed investments. IDB Invest assesses such impacts particularly when an investment is located in an area highly prone to disasters. IDB Invest requires its clients to assess and manage natural hazards and climate change risks as these relate to a given IDB Invest investment, in accordance with PS 1, 3 and 4.
12. In addition to the emergency preparedness and response requirements in PS 1, IDB Invest also requires that clients disclose information on their emergency preparedness and response activities to Affected Communities,<sup>6</sup> relevant government agencies, or other relevant parties in the planning and operational phases and to provide information promptly in the case that an emergency or disaster occurs.
13. Likewise, IDB Invest's investments and technical assistance portfolio focuses on climate-related opportunities. These include renewable energy and energy efficiency projects to foster low carbon development, as well as infrastructure and agricultural resilience projects to adapt to the effects of climate change.

## Biodiversity, Ecosystem Services and Protected Areas

14. IDB Invest is committed to the protection, conservation, management and sustainable use of biodiversity, natural resources and ecosystem services in accordance with PS 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources). In the operations it finances, IDB Invest requires its clients to include measures to safeguard critical habitats and to protect, and where feasible, enhance natural habitats, as well as the biodiversity and corresponding ecosystem services they support. Where relevant,<sup>7</sup> IDB Invest requires its clients to carry out a cumulative impact analysis specific to the proposed operation taking into account direct, indirect and associated impacts to determine potential synergistic and long-term effects of a project and management plans for protecting natural and critical natural habitats in light of other activities in the area in accordance with this Sustainability Policy.

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<sup>6</sup> Communities potentially impacted by business activities that are financed by IDB Invest.

<sup>7</sup> For example, when there are cumulative impacts that result from the incremental impact, on areas or resources used or directly impacted by the Project, from other existing, planned or reasonably defined developments at the time the risks and impacts identification process is conducted.

## Disaster Risk Management

15. IDB Invest is committed to reducing disaster risk and requires its clients to carry out appropriate disaster risk assessments and to adopt the necessary response measures. In addition to the provisions of paragraphs 11 and 12 above:
- If significant risks due to natural hazards are identified, IDB Invest requires its clients to include in the project design and implementation, measures that decrease vulnerability and protect human health and economic assets, to reduce the risk to acceptable levels on the basis of generally accepted standards and practices.
  - IDB Invest may refrain from supporting a proposed investment if it perceives a significant risk or threat to human life, severe human injuries or damage related to natural hazards in connection with such proposed investment.

## Social Aspects

16. IDB Invest is committed to promoting good international practice in the context of all social aspects of the projects it finances with a focus on the following areas:

### Human Rights

17. IDB Invest promotes the responsibility of business to respect human rights.<sup>8</sup> To that end, in accordance with the Sustainability Policy and the Performance Standards incorporated herein, 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 project.

### Stakeholder Engagement

18. 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. As a result, IDB Invest requires clients to undertake the following:
- (i) Stakeholder identification and analysis;
  - (ii) Stakeholder engagement planning;
  - (iii) Disclosure of information highlighting potential risks and impacts that might disproportionately affect vulnerable and disadvantaged groups and describing the differentiated measures taken to avoid and minimize these;
  - (iv) Meaningful stakeholder engagement, disclosure, outreach and communication to affected communities that is ongoing and iterative throughout the project cycle, starting as early as possible, including different stakeholder categories, which is equitable and non-discriminatory, and free of intimidation or coercion. Such disclosure and engagement will be commensurate with the nature of the social risks and impacts and the environmental and social risk category of the project in accordance with PS 1 (Assessment and Management of Environmental and Social Risks and Impacts);

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<sup>8</sup> For purposes of this policy, IDB Invest will be guided by the International Bill of Human Rights and the eight core conventions of the International Labor Organization.

(v) Stakeholder engagement that is inclusive and culturally appropriate and that takes into consideration the feedback provided through such engagement; and

(vi) Responsive approach to addressing grievances.

#### Grievance Mechanisms

19. 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. Stakeholders may submit complaints regarding an IDB Invest investment to the project grievance mechanism or through IDB Invest's Management-led grievance mechanism.

#### Reprisals

20. 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. IDB Invest takes seriously any credible allegations of reprisals. When complaints of this nature are raised, IDB Invest aims to address them within the scope of its mandate. In such instances, concerns are raised directly with the client and/or other relevant party and follow up action is taken, if necessary.

#### Gender Risk Management and Equality

21. IDB Invest is committed to the identification of potential gender-based risks and impacts and requires clients to implement effective measures to avoid, prevent or mitigate such risks and impacts. IDB Invest recognizes that diverse sexual orientations and gender identities may cause people to be excluded and/or become more vulnerable to negative project impacts, often barring them from taking advantage of the opportunities available to other members of the community. Equality includes promoting access to equal opportunities and full participation in society for peoples that face barriers due to their identity.<sup>9</sup> IDB Invest is committed to promoting gender equality and diversity and requires its clients:

(i) to identify and address gender-related risks<sup>10</sup> in IDB Invest-supported investments, including by avoiding gender-based exclusion, gender-based violence, sexual exploitation, human trafficking and sexually transmitted diseases, and including by having the client define and put in place specific measures to prevent and address these risks if the assessment indicates a risk of gender-based violence or other gender-related risks; and

(ii) to ensure the inclusion of all genders in the consultation processes in accordance with the Performance Standards.

For investments with potential gender-based risks and impacts that may disproportionately affect people by their gender or gender identity, IDB Invest carries out a gender risk screening assessment as part of the environmental and social due

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<sup>9</sup> For purposes of this policy, IDB Invest will be guided by the Convention on the Elimination of All Forms of Discrimination against Women.

<sup>10</sup> Gender is an integral aspect that clients will be required to take into account when applying PS 1 (Environmental and Social Assessments); guidance on gender related issues is included in PS 1, PS 2, PS 4, PS 5, PS 6, PS 7 and PS 8.

diligence and will require the client to address these risks and impacts. Through its technical assistance activities, IDB Invest strives to support clients when opportunities are identified to advance gender equality and diversity through their employees, target markets and value chains.

#### Indigenous Peoples and other Vulnerable Groups

22. 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. IDB Invest requires clients to undertake the following:

- (i) participation and inclusion for Indigenous Peoples and other vulnerable<sup>11</sup> groups, prevention or minimization of adverse impacts on Indigenous Peoples, Afro-descendants and other vulnerable groups in accordance with PS 1 and PS 7;<sup>12</sup> and
- (ii) avoidance of potential impacts on Indigenous Peoples “in voluntary isolation” or “in initial contact” as a result of an IDB Invest investments, including: taking appropriate measures to recognize, respect and protect their land and territories, environment, health, avoidance of all undesired contact with them as a consequence of a project, and a commitment of IDB Invest to avoid financing projects that would result in such undesired contact.

Where a proposed project triggers the PS 7 requirement of Free, Prior, and Informed Consent (FPIC) of Indigenous Peoples, IDB Invest reviews the FPIC process conducted by the client as part of the environmental and social due diligence of the project carried out prior to approval.

#### Persons with Disabilities

23. 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<sup>13</sup> and avoidance of all forms of discrimination based on disability.<sup>14</sup>

#### Labor, Health and Safety

24. IDB Invest requires its clients to carry out the following:

- (i) good labor relations and practices, including a worker grievance redress mechanism in accordance with PS 2 (Labor and Working Conditions);<sup>15</sup> and
- (ii) good working conditions and health and safety practices and standards in accordance with PS 2 and the EHS Guidelines.

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

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<sup>11</sup> 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.

<sup>12</sup> IDB Invest will require clients to ensure that indigenous peoples and other vulnerable groups are not disadvantaged in sharing development benefits related to an IDB Invest financed project.

<sup>13</sup> Guided by those rights provided for in the Convention on the Rights of Persons with Disabilities.

<sup>14</sup> Inclusion of persons with disabilities is an integral aspect that clients will be required to take into account when applying the Performance Standards.

<sup>15</sup> PS 2 is guided by the core International Labor Organization (ILO) conventions.

#### Land Acquisition and Involuntary Resettlement and Cultural Heritage

25. IDB Invest requires its clients to carry out the following:

- (i) avoidance of forced eviction and involuntary resettlement as a priority, and where avoidance is not possible, provision of fair compensation and livelihood improvement or restoration to the persons or group(s) that are physically or economically displaced, including those that are displaced by restriction of access to their household, community or source of livelihood, in accordance with PS 1 and PS 5 (Land Acquisition and Involuntary Resettlement); and
- (ii) preservation of Cultural heritage, including both tangible forms of cultural heritage and intangible forms of culture, such as the traditional knowledge of Indigenous Peoples, which clients will be required to protect in accordance with PS 8 (Cultural Heritage).

### **III. CLIENT RESPONSIBILITIES**

26. 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. Clients shall incorporate the identification, management and mitigation of these risks and impacts in the planning, design, and implementation phases of a project and will ensure they have adequate human and economic resources to effectively do so. IDB Invest believes that the application of the Performance Standards and other requirements in this Sustainability Policy help clients manage and improve their environmental and social performance through a risk and outcomes-based approach.

27. IDB Invest requires its clients<sup>16</sup> to comply with the Sustainability Policy, which includes both the requirements specified herein, as well as the following IFC standards and guidelines:

(i) Performance Standards (dated January 2012), which include:

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts;
- Performance Standard 2: Labor and Working Conditions;
- Performance Standard 3: Resource Efficiency and Pollution Prevention;
- Performance Standard 4: Community Health, Safety and Security;
- Performance Standard 5: Land Acquisition and Involuntary Resettlement;
- Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources;
- Performance Standard 7: Indigenous Peoples;
- Performance Standard 8: Cultural Heritage;

(ii) World Bank/IFC General Environmental, Health and Safety (EHS) Guidelines and the Industry Sector EHS Guidelines.

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<sup>16</sup> The IFC's Performance Standards apply to IDB Invest's direct investment clients. IDB Invest's financial intermediary clients are required to apply the Performance Standards to the higher risk subprojects they support (as per section IV, paragraph 33), including avoidance of potential impacts on, and undesired contact with, Indigenous Peoples "in voluntary isolation" or "in initial contact."

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

#### **IV. IDB INVEST'S ROLES AND RESPONSIBILITIES DURING ENVIRONMENTAL AND SOCIAL APPRAISAL AND SUPERVISION**

##### **Approach for Investment Projects**

28. IDB Invest is responsible for implementing this Sustainability Policy through its environmental and social appraisal, supervision, and monitoring procedures. Environmental and social appraisal is an integral part of the IDB Invest appraisal process which covers relevant risks, including among others reputational risk and positive and negative impacts and risks. When carrying out appraisals, IDB Invest considers three primary aspects of a project:
- (i) likely environmental and social risks and impacts, including both positive and negative environmental and social impacts;
  - (ii) client's capacity and commitment to meet the requirements of the Sustainability Policy; and
  - (iii) host country's institutional and regulatory framework.
29. 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. IDB Invest's investment agreements include obligations requiring clients to comply with applicable requirements of the Performance Standards and conditions included in action plans, as well as relevant provisions for environmental and social reporting, and supervision visits by IDB Invest staff or representatives, as appropriate. Persistent delays in meeting these requirements may lead to the exercise of remedies or withdrawal of financial support by IDB Invest, in its discretion.
30. At times, the client's ability to achieve environmental or social outcomes consistent with the requirements of this Sustainability Policy will be dependent on third party actions. A third party may be a government agency in a regulatory or contract capacity, a contractor or primary supplier with whom the business activity has a substantial involvement, or an operator of an associated facility (as defined in Performance Standard 1). As part of its own due diligence process, IDB Invest will review clients' identification of third-party risks. It will determine whether such risks are manageable, and if so under what conditions. Certain risks may require IDB Invest to refrain from supporting the proposed investment.

##### Direct Investments

31. 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. IDB Invest conducts due diligence of all new proposed direct investments that are being considered for

IDB Invest support, whether in the design, construction, or operational stage. In the case that there are significant environmental or social impacts associated with the business activity, including past or present adverse impacts caused by third parties, IDB Invest works with its client to determine possible remediation measures.

32. IDB Invest's environmental and social appraisals for direct investments include the following:<sup>17</sup>

(i) review of available information, records, and documentation, including local sources of knowledge related to the environmental and social risks and impacts, as well as environmental and social risk categorization of the project; if information gaps are identified, request and review of any necessary additional information;

(ii) contextual risk assessment that involves evaluating the risks from the external operating environment and factoring these risks into decision-making and overall risk management;

(iii) a site visit and interviews with client staff and relevant stakeholders, including potentially Affected Communities;

(iv) in cases described below, a review of Informed Consultation and Participation (ICP) and Free, Prior, and Informed Consent of Indigenous Peoples (FPIC), as follows:

- In cases where the business activity to be financed is likely to generate potential significant adverse impacts on Affected Communities or is likely to generate potential adverse impacts on Indigenous Peoples, IDB Invest requires its clients to engage in a process of Informed Consultation and Participation (ICP)<sup>18</sup>.
- In such cases, through its own evaluation, IDB Invest will determine whether the client's community engagement is one that involves ICP and enables the participation of the Affected Communities, leading to Broad Community Support (BCS) for the business activity by Affected Communities. BCS is a collection of expressions by Affected Communities, through individuals or their recognized representatives, in support of the proposed business activity. There may be BCS even if some individuals or groups object to the business activity. After approval of its investment, IDB Invest continues to monitor the client's community engagement process as part of its portfolio supervision. In addition, where a proposed business activity triggers the PS 7 requirement of Free, Prior, and Informed Consent of Indigenous Peoples (FPIC), IDB Invest will undertake a review of the FPIC process conducted by the client as part of its environmental and social due diligence.

(v) evaluation of the project's environmental and social management plans and, if operational, its environmental and social performance in relation to the requirements of the IDB Invest Sustainability Policy and host country regulations;

(vi) identification of gaps to define any areas of non-compliance with the requirements of the IDB Invest Sustainability Policy;

(vii) development of an Environmental and Social Action Plan (ESAP) to close such

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<sup>17</sup> In the case of some low risk investments involving IDB Invest's smallest clients, some elements, such as a site visit and ESAP may not always be necessary.

<sup>18</sup> In accordance with PS 1.

gaps, if any. Once agreed upon with the client, the ESAP along with the project environmental and social management plans form an integral part of the subsequent legal agreements between IDB Invest and the client; and

(viii) disclosure of the Environmental and Social Review Summary (ESRS) prepared by IDB Invest and the ESAP on the IDB Invest website as per the IDB Invest Access to Information Policy.

#### Investments through Financial Intermediaries

33. IDB Invest seeks to build Financial Intermediary (FI) client capacity through the development and implementation of an Environmental and Social Management System (ESMS). The objective of the ESMS is to enable the FI to identify, assess, manage and monitor the environmental and social risks of the sub-projects it finances. IDB Invest's requirements and the scope of their application depend on the investment type, the use of proceeds, the tenor, the level of risk associated with the FI's portfolio and/or asset class, and the FI's categorization.<sup>19</sup> In particular:

- FI clients are required to develop and operate an ESMS that is commensurate with the level of environmental and social risks in their portfolio, and prospective business activities. The ESMS should incorporate relevant principles of PS 1;
- FI clients are required to apply relevant aspects of PS 2;
- FIs are required to apply the IDB Invest Exclusion List and follow applicable legislation; and
- FIs with portfolio and/or prospective business activities that present moderate to high environmental or social risks (i.e. Category FI-1 and FI-2) will require that those clients apply relevant requirements of the Performance Standards to the higher risk business activities<sup>20</sup> they support.

34. IDB Invest's appraisal procedure for FI investments involves:

- (i) a review of the FI's portfolio, sector exposure, and contextual risks to identify the main environmental and social risks to which the FI could be exposed as a result of the FI's business activity;
- (ii) categorization of the FI investment based on potential environmental and social risk (see section IV, paragraphs 45 to 49);
- (iii) assessment of the FI's ESMS and capacity to identify gaps, and agreement on an environmental and social action plan to address such gaps;
- (iv) preparation of an Environmental and Social Review Summary that provides an assessment of the FI's ESMS, its capacity, and actions agreed to address gaps identified.

35. When IDB Invest provides financing to an FI for a specific asset class, IDB Invest requirements specified in paragraph 33 will apply to the FI's lending activities in such asset class. In instances where IDB Invest makes an equity investment in an FI or provides financial support of a general purpose, the FI will be required to apply the requirements specified in paragraph 33 across its entire portfolio. IDB Invest will

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<sup>19</sup> See Environmental and Social Risk Categorization below.

<sup>20</sup> Higher risk sub-projects are generally considered to be corporate or project finance transactions with potentially significant adverse environmental or social risks and impacts. In addition, the reference to higher risk sub-projects is not limited to those considered Category A.

support its FI clients through capacity building training which aims to help each FI client in the development and improvement of its ESMS.

#### Approach for Technical Assistance Activities

36. Through its technical assistance (TA) activities, IDB Invest seeks to provide support to private sector companies in Latin America and the Caribbean with capacity-building programs and other forms of assistance to enhance the projects it finances.
37. IDB Invest is proactive in delivering TA to complement existing or proposed projects. IDB Invest focuses on providing technical assistance aimed at the following: promoting climate change mitigation and adaptation; supporting clients to advance gender equality and diversity through their employees, target markets and value chains; strengthening transparency through corporate governance at the project, corporate and sectoral level; contribute to strengthening corporate governance within the private sector; and contributing to strengthening public private partnerships in the region. Technical assistance may also cover activities, such as developing support for effective environmental and social management systems and assisting clients with identifying and applying best practices. IDB Invest seeks to increase the technical assistance provided to clients for third-party certifications of soft commodities (e.g. agricultural products), such that clients involved in this sector may ensure that the supply chain is producing these commodities in an environmental and socially sustainable manner. In addition, IDB Invest provides technical assistance to companies that are not clients in order to enhance performance and to provide knowledge in different areas.
38. IDB Invest applies the following procedure for technical assistance approval:
  - (i) each TA activity is screened against the IDB Invest Exclusion List.
  - (ii) IDB Invest also requires that the technical assistance and advice provided to companies is consistent with host country laws and the IDB Invest Sustainability Policy.

#### **Environmental and Social Risk Categorization**

39. During appraisal, IDB Invest categorizes operations using a risk-based approach for direct investments and financial intermediary investments.

#### Direct Investments

40. For direct investments, IDB Invest categorizes operations as A, B or C. Each project is analyzed taking into account its type, location, scale, sector, contextual risks, and the likely magnitude of potential environmental and social risks and impacts. The category indicates the appropriate extent of environmental and social impact assessment, information disclosure, and stakeholder engagement required. The category of a project is determined by the category of its most environmentally sensitive or risky social component, including direct, indirect, associated, cumulative and induced impacts in the area of the influence of the project.

41. 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<sup>21</sup> and/or vulnerable groups.
42. 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.
43. Category C projects are those that are likely to result in very limited or no adverse environmental or social impacts or risks.
44. The client carries out an environmental and social assessment of the environmental and social risks and impacts of a project. A variety of tools are available to conduct the environmental and social assessment depending on the type of project. Also, the breadth of the assessment is expected to be commensurate with the nature and level of potential environmental and social risks and impacts. For all Category A projects, and B projects that are greenfield developments or large expansions with specifically identified physical elements, aspects and facilities that are likely to generate significant environmental or social impacts, the client has to prepare an environmental and social impact assessment (ESIA),<sup>22</sup> and in the case of existing facilities, an environmental, social, health and safety audit (EHS Audit)<sup>23</sup> unless the necessary information is otherwise available. For lower impact category B projects, such as those that include for example, modernization and upgrade of existing production facilities, not involving major expansion or transformations, a limited or focused environmental and social analysis<sup>24</sup> may be sufficient.

#### Financial Intermediary Investments

45. When IDB Invest makes an investment in a financial intermediary such as a bank, investment fund or another specialized institution, such as a factoring company, a leasing company, or microfinance institutions, this is categorized as an FI investment. In FI operations, there are typically multiple “sub-projects” to which the FI provides financing using IDB Invest funds. In these cases, the FI is responsible for assuring the applicable requirements of this Sustainability Policy are met by the individual sub-projects.
46. Using the Direct Investment approach to categorization, IDB Invest further categorizes the operation as FI-1, FI-2 or FI-3 based on the type of financial institution, investment

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<sup>21</sup> Examples of sensitive areas may include critical natural habitat, indigenous territories, and/or cultural sites of spiritual, historical or archaeological significance.

<sup>22</sup> The ESIA may also be called an EIA and/or any other name depending on the country. This document consists of an instrument to identify and assess the potential environmental and social impacts of a proposed project, evaluate alternatives and design appropriate mitigation, management and monitoring measures.

<sup>23</sup> An EHS audit is an instrument to determine the nature and extent of all environmental and social areas of concern at an existing project or activities and includes a description of the mitigation measures.

<sup>24</sup> The term limited or focused environmental and social analysis refers to an assessment that is generally narrower in scope than a full-scale ESIA and is specific to potential environmental and social risks (including labor, health, safety and security) and/or impacts associated with the project. For some of these projects, confirmation and documentation of the application of environmental siting, pollution standards or construction standards should be appropriate.

type with IDB Invest, the potential subproject environmental and social risks associated with the likely sector and the expected physical context and size of the sub-projects. In addition, IDB Invest considers the FI client's reputation and management capacity for implementing the Sustainability Policy standards.

47. FI-1 operations are those where the risk potential is high: the FI's current or future portfolio<sup>25</sup> 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.
48. 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.
49. 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.

## **Supervision**

### Supervision of Investment Projects

50. IDB Invest monitors the environmental and social performance of its investments as an integral part of its portfolio management program. In the legal agreements that document its operations, IDB Invest agrees with the client on a regular program of supervision of the management of environmental and social risks and impacts against the agreed requirements, the frequency and extent of which will be commensurate with the category assigned. Key components of the supervision program IDB Invest carries out include: review of the client's Annual Environmental and Social Monitoring Report; review of the implementation performance against the environmental and social conditions for the investment and the client's commitments; where relevant, the identification of opportunities for the client to improve its environmental and social performance and implement additional corrective actions, as needed; and site visits to the Project, depending on the level of environmental and social risk of the Project at any given time throughout the project cycle.<sup>26</sup> IDB Invest may take remedial measures under the financing documentation to promote compliance by its clients, who are responsible for managing environmental and social risks and impacts in a manner consistent with the Sustainability Policy.

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<sup>25</sup> 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.

<sup>26</sup> IDB Invest supervision may include visits at the FI level, as well as to recipients of the FI loans/investments, depending on the level of risk of the FI subproject.

#### Direct Investments

51. For direct investments, IDB Invest reviews the client's Annual Environmental and Social Monitoring Reports and updates on the various environmental and social commitments included in the legal agreement including progress on implementation of the ESAP.<sup>27</sup> As part of the ongoing supervision of direct investments, IDB Invest strives to obtain and take into account information from third parties, including Affected Communities, stakeholders and other relevant organizations.

#### Indirect Investments through Financial Intermediaries

52. In the case of FI investments, IDB Invest reviews the client's Annual Environmental and Social Monitoring Report including progress on screening subprojects against the IDB Invest exclusion list, compliance with national environmental and social laws and regulations, and the overall effectiveness of the Environmental and Social Management System. Supervision may include visits to the FI and potentially some sub-projects, particularly if they are higher risk. The frequency and focus of supervision are commensurate with the risk. IDB Invest will work with its clients so that the clients address any issues identified in their ESMS or management and technical capacity.

#### Supervision of Technical Assistance Activities

53. IDB Invest supervises, when relevant, the implementation of the environmental and social aspects of the technical assistance activities to ensure that the technical advice offered to clients and other companies is in line with the Sustainability Policy requirements. In addition, annual reports are prepared by IDB Invest and submitted to the relevant trust fund donors, detailing the use of the TA funds provided by donors for the year. IDB Invest also discloses a description of the key elements of each TA according to the IDB Invest's Access to Information Policy.

### **Development Impact and Evaluation**

54. IDB Invest uses various tools to assess the expected development impact of its operations, the Development Effectiveness, Learning, Tracking and Assessment (DELTA) system, the Annual Supervision reports (ASRs), and the Expanded Supervision Reports (XSRs). The DELTA system, which has environmental, social and corporate governance indicators, estimates a transaction's expected development impact prior to its approval and throughout its life. The XSRs evaluate a project's deliverables at the time the project matures<sup>28</sup> and includes environmental, social and governance performance indicators to assess the project's overall performance in these areas. In addition to IDB Invest's internal evaluation of deliverables, the IDB Office of Evaluation and Oversight (OVE) reviews and validates the XSRs annually. OVE is independent from IDB Invest management and reports directly to the IDB Invest Board of Executive Directors.
55. Results of evaluations are incorporated in the IDB Invest internet-based Lessons Learned portal and applied to new investments to improve performance.

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<sup>27</sup> For Category C projects, an ESAP is not required and environmental and social management measures may be limited or inapplicable. Category C projects may not have any reporting requirements.

<sup>28</sup> IDB Invest follows the criteria of the Multilateral Development Bank Evaluation Cooperation Group (MDB-ECG) for determining when an operation matures, which can include factors such as when the project has been substantially completed, when the final disbursement has been made by IDB Invest, or others depending on the type of project.

## V. COLLABORATION AND LIAISON WITH PUBLIC AND PRIVATE SECTOR PARTNERS

56. As a multilateral financial institution that promotes economic development through the private sector, IDB Invest collaborates with a variety of private and public sector entities. As a member of the IDB Group, IDB Invest works closely with the IDB in its efforts to promote sustainable private sector development in its regional developing member countries. This currently includes the identification of sustainable projects, joint technical cooperation agreements to help companies benefit from technical assistance, coordination with the IDB Climate Change and Sustainable Development Sector to assist companies in developing and improving their climate change mitigation and/or adaptation projects, as well as the coordination with the IDB's environmental and social specialists on issues such as capacity building for clients.
57. Examples of IDB Invest's work with other public and private sector entities include:
- (i) Collaborating closely with other financial institutions working on joint projects or co-investments and promoting close coordination and harmonization among participating institutions regarding the environmental and social actions required from a client;
  - (ii) Promoting sustainable financial markets in Latin America and the Caribbean through engaging in dialogue with Equator Principle banks and leading training programs for financial intermediaries in Latin America and the Caribbean on issues, such as Environmental and Social Risk Management for the financial sector;
  - (iii) Engaging in dialogues with local and international nongovernment and government institutions as well as financial institutions in Latin America and the Caribbean in order to develop strategic partnerships to be able to work together to further strengthen the environmental and social sustainability of IDB Invest investments and to implement technical assistance programs that contribute to this goal;
  - (iv) Liaising with multilateral development banks, as well as relevant bilateral development institutions and export credit agencies in order to support harmonization efforts related to environmental and social issues, policies, and procedures across institutions; and
  - (v) Liaising with multilateral financial institutions, as well as relevant bilateral financial institutions and export credit agencies on integrating corporate governance into investment operations.

## VI. GOVERNANCE

### Corporate Governance

58. IDB Invest understands the strong correlation between a company's corporate governance culture and its commitment to sustainability. Good corporate governance helps businesses operate more efficiently, attracts capital, safeguards against corruption and mismanagement and improves the relationship with their stakeholders. It makes businesses more accountable and transparent and builds investor confidence in public and private companies. IDB Invest seeks to disseminate good governance practices and put effective and affordable governance tools and structures in the hands of businesses. IDB Invest has adopted the Corporate Governance Development Framework (CGDF),

a common methodology amongst Development Finance Institutions for assessing corporate governance of investee companies. Under the CGDF, IDB Invest strives to: (i) integrate corporate governance in its investment operations, (ii) establish an internal corporate governance function, (iii) provide training and capacity building, (iv) collaborate with other signatories, and (v) report annually on implementation. Through its TA activities, IDB Invest provides private sector companies in Latin America and the Caribbean with direct corporate governance support, capacity-building programs and other forms of assistance.

### **Governance for Projects in the Extractive Industry**

59. In cases where IDB Invest finances an extractive project, it assesses the environmental, social and governance risks and the expected development impact in accordance with this Sustainability Policy and related IDB Invest tools, such as the Development Effectiveness, Learning, Tracking and Assessment (DELTA) system.
60. IDB Invest also promotes transparency of revenue payments from extractive projects to host governments. Accordingly, IDB Invest requires that clients publicly disclose their material project payments to the host government (such as royalties, taxes and profit sharing).

## **VII. INDEPENDENT CONSULTATION AND INVESTIGATION MECHANISM**

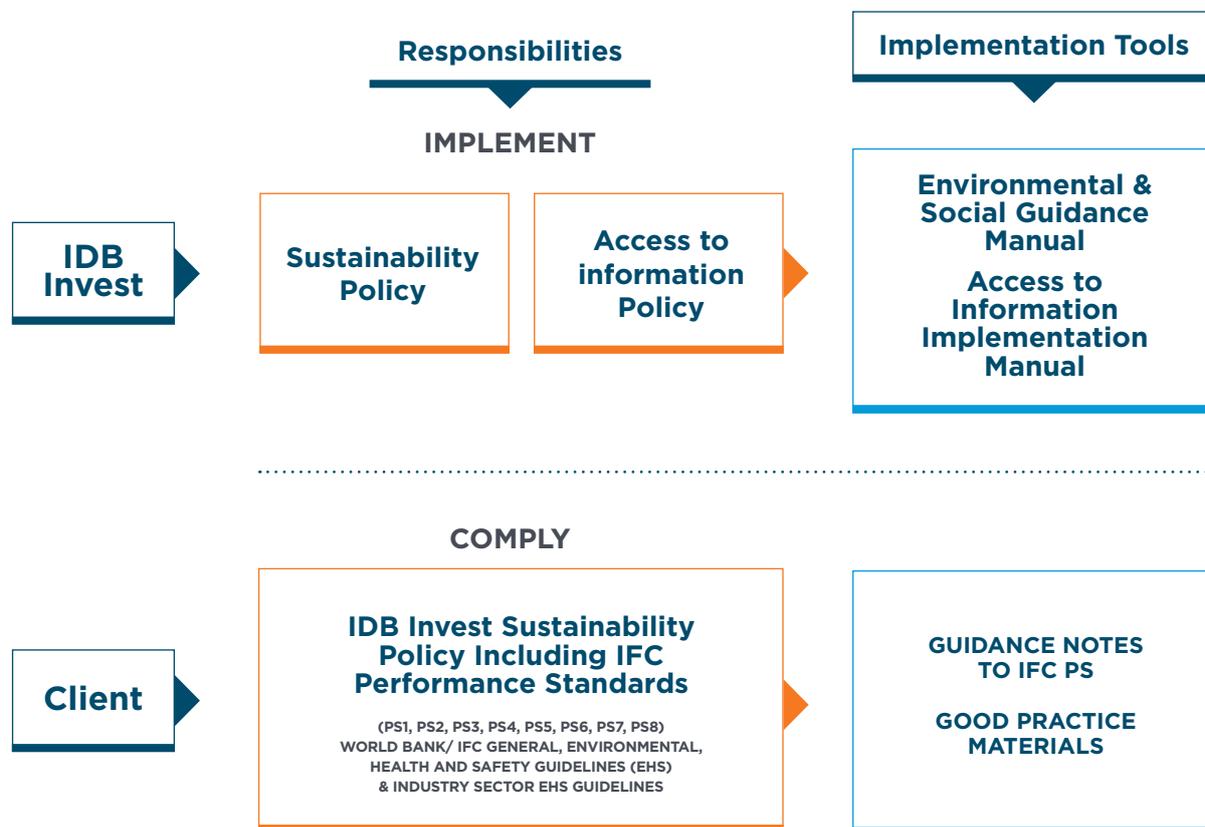
61. In accordance with the Policy of the Independent Consultation and Investigation Mechanism, IDB Invest's Independent Consultation and Investigation Mechanism (MICI) provides a mechanism and process to investigate allegations of harm as a result of IDB Invest's failure to comply with its Sustainability or Access to Information Policies. IDB Invest is committed to implementing the project related recommendations approved by the IDB Invest's Board of Executive Directors and considers the lessons learned from MICI cases in an ongoing effort to improve and continue to strengthen the supervision and implementation of its Sustainability Framework.

## **VIII. RELATED DOCUMENTS**

62. In addition to the PS and the World Bank/IFC General Environmental, Health and Safety (EHS) Guidelines and the Industry Sector EHS Guidelines, the following policies, standards and guidance documents form part of IDB Invest's Sustainability Framework:
- IDB Invest Access to Information Policy;
  - IDB Invest Exclusion List;
  - Policy of the IDB Invest Independent Consultation and Investigation Mechanism;
  - and
  - IDB Invest Corporate Governance Development Framework.

## ANNEX A

### Sustainability Framework



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