

## 24. INTER-AMERICAN DEVELOPMENT BANK (IADB)

### 24.1 Energy Policies and Actions

The IADB is the oldest and largest regional bank in the world, which supports and finances Latin America and Caribbean (LAC) economically and socially. It is also the main financial aid for institutional development in these regions. IADB energy policy is extremely important as there is expanding need in energy in member countries and IADB can take the lead in promoting the sustainable use of energy.

The objectives of the Bank activities in the energy sector are:

- To efficiently meet the energy requirements of its member countries derived by the process of socioeconomic development;
- To accelerate growth and diversification of the energy supply; and
- To foster energy conservation.

In addition to continuing to support electric energy generation, transmission and distribution projects and/or programmes, as well as the development of hydrocarbon resources, the Bank will actively promote energy development in the region by means of loans and technical cooperation for technically, socio-economically and financially feasible projects, aimed at:

- Developing alternative renewable sources of energy.
- Reducing or replacing the consumption of hydrocarbons in the production of energy.
- Promoting the efficient use of energy.
- Creating or strengthening the institutional and technological base of the energy sector.
- Mobilising additional resources, either of internal or external origin, required for the implementation of energy projects and/or programmes.<sup>417</sup>

In May 2000, the Sustainable Development Department published the "Energy Sector Strategy", which mainly aims to guide the Bank in its efforts to support the restructuring and reform of the energy sector in the borrowing countries so that these sectors can develop in a way that is economically, financially, environmentally, socially and politically sustainable.

A first experimental stage will be to complete the design, and develop and test the instruments and administrative measures required to implement the strategy. This stage would last at least one year and would comprise the following activities:

- Initiation of the Sustainable Energy Fund and mainstreaming activities under the sustainable energy market program.
- Establishment of an interdepartmental working group for making administrative recommendations on the management of comprehensive urban transportation projects based on the experience gained in the pilot projects.
- Start dialogues with interested borrowing countries, which are seeking Bank

<sup>417</sup> Referenced to the web site of IADB under energy sector, [http://www.iadb.org//exr/pic/VII/OP\\_733.cfm](http://www.iadb.org//exr/pic/VII/OP_733.cfm)

support in their efforts to fulfill their obligations under the United Nations Framework Convention on Climate Change and the Kyoto Protocol.

- Installation of an energy information system for ongoing evaluation of the progress made in energy reform in the region and dissemination of best practices.<sup>418</sup>

The IADB has started the Sustainable Energy and Climate Change Initiative (SECCI), which intends to support the LAC region in its urgent challenge to find economically and environmentally sound energy options. Its core objectives are to expand the development and use of renewable energy sources, energy efficiency technologies and practices (e.g. biofuels), and increasing access to carbon finance in the region, as well as to promote and finance climate change adaptation strategies that reduce the region's climate vulnerability.<sup>419</sup>

In particular, the IADB brings the following strengths to the SECCI:

- Capacity to influence policy changes and institutional developments - IADB can engage in strategic policy dialogues with countries linked to agreed investment portfolios, and can provide technical assistance and capacity building.
- Cross-sectoral portfolio - The Bank works across sectors, which will help to mainstream Renewable Energy/Energy Efficiency (RE/EE) in areas such as transport, urban development, agriculture, and water and sanitation.
- Experience with LAC energy issues - The Bank has played a significant role in the LAC energy sector through both lending and technical assistance.
- Partnerships with donors - IADB maintains strong relationships with the donor community through co-financing opportunities and technical partnerships.
- New mandate to provide sub-national loans - New guidelines that permit lending to sub-national public entities without sovereign guarantees open new markets for RE/EE lending.<sup>420</sup>

Events under the SECCI include:

- Conference: Energy and Climate Change in Latin America and the Caribbean 2006 - The conference invited decision-makers from the private and public sector to discuss investment opportunities in renewable energy, energy efficiency and climate change mitigation and adaptation in Latin America and the Caribbean<sup>421</sup>
- Workshop: Reducing Emissions from Deforestation and Degradation - Perspectives from Latin America and the Caribbean 2007 - to enhance the understanding of the benefits of and opportunities for reducing emissions from deforestation and degradation, as well the associated technical issues.<sup>422</sup>

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<sup>418</sup> Extracted from "Energy Sector Strategy", Sustainable Development Department, IADB,  
<http://www.iadb.org/sds/doc/ENV-135E.pdf>

<sup>419</sup> Referenced to the web site of SECCI, <http://www.iadb.org/secci/index.cfm?language=EN&parid=1>

<sup>420</sup> Referenced to the web site of SECCI, <http://www.iadb.org/secci/activities.cfm?language=EN&parid=2>

<sup>421</sup> Referenced to the web site of SECCI,

<http://www.iadb.org/secci/pastEvents.cfm?language=EN&parid=3&item1id=3>

<sup>422</sup> Referenced to the web site of SECCI,

<http://www.iadb.org/secci/upEvents.cfm?language=EN&parid=3&item1id=2>

## 24.2 Environmental Evaluation/SEA in Inter-American Development Bank

The IADB has used the SEA process flexibly in relation to various types of operations. It is seen as complementing and preceding project-level assessments in defining policies and sectoral programmes, identifying key issues and mainstreaming environmental considerations where they matter most. Key areas include regional-based projects, sectoral loans, investment loans with sectoral or multi-sectoral programmes, and regional development initiatives and policy analysis.<sup>423</sup>

According to the Bank's Environmental Strategic in July 2003, additional work needs to be done to incorporate environmental concerns at the policy or programme level, using methodologies such as SEA. This effort is important to address up front social and environmental issues related to broad regional development programmes and policy loans. In order to strengthen environmental quality of the Bank operations, the Bank will seek to assure the appropriate application of both upstream environmental assessment (SEA) as well as downstream environmental impact assessment at the specific project level.<sup>424</sup>

As all of the SEAs undertaken for IADB operations have been carried out without specific guidance, and have been varied greatly in scope and objectives, a new IADB guidance on SEA<sup>425</sup> was issued in 2004 which provide a common framework but will be flexible to facilitate application to a variety of operations.<sup>426</sup>

Since 19 January 2006, the IADB approved a new Environment and Safeguards Compliance Policy<sup>427</sup>, strengthening the Bank's commitment to environmental sustainability. The new policy, approved by the Board of Executive Directors, consolidates environmental safeguards consistent with best practices being carried out among public and private international financial institutions. This new policy is part of the implementation of the Bank's Environment Strategy, which was approved by the Board in July 2003.<sup>428</sup>

The Policy Directives are structured under two major categories: a) environmental mainstreaming; and b) environmental safeguards. These two categories are essential for environmental sustainability and complement and reinforce each other. The mainstreaming directives apply to Bank programming activities, which by their nature predominantly focus on the Bank's public sector activities. These policy directives are proactive in nature and seek to enhance the incentive framework to foster

<sup>423</sup> Extracted from the "Strategic Environmental Assessment: A sourcebook and reference guide to international experience", Barry Dalal-Clayton and Barry Sadler, 2004,

[http://www.iied.org/Gov/spa/documents/SEAbok/Chapter4\\_Oct04.pdf](http://www.iied.org/Gov/spa/documents/SEAbok/Chapter4_Oct04.pdf), pages 125-126

<sup>424</sup> Referenced to the "Environment - Strategic Document" by IADB, 2003,

<http://enet.iadb.org/idbdocswebservices/idbdocsInternet/IADBPUBLICDOC.aspx?docnum=354272>, pages 13, 23

<sup>425</sup> Conditional Credit Line for Investment Projects (CCLIP) - Environmental Procedures and SEA Guidance, IADB, 2004, <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=354298>

<sup>426</sup> Extracted from the "Strategic Environmental Assessment: A sourcebook and reference guide to international experience", Barry Dalal-Clayton and Barry Sadler, 2004,

[http://www.iied.org/Gov/spa/documents/SEAbok/Chapter4\\_Oct04.pdf](http://www.iied.org/Gov/spa/documents/SEAbok/Chapter4_Oct04.pdf), pages 125-126

<sup>427</sup> available at <http://enet.iadb.org/idbdocswebservices/idbdocsInternet/IADBPUBLICDOC.aspx?docnum=665902>

<sup>428</sup> Referenced to the web site of IADB under Sustainable Development Department, [http://www.iadb.org//sds/env/site\\_5512\\_e.htm](http://www.iadb.org//sds/env/site_5512_e.htm)

environmental opportunities, new business opportunities for the Bank, and greater development benefits for the countries. On the other hand, the safeguard directives establish procedures and standards to ensure the quality and the environmental sustainability of both public and private sector operations.

The policy contains the following key objectives for SEA:

- To assure that the main environmental risks and opportunities of policies, plans or programmes have been properly identified
- To engage early-on governments and potentially affected parties in the identification and analysis of strategic issues, actions, and development alternatives;
- To define and agree on a sequence of actions to address systematically and strategically environmental issues and priority actions, summarised in an SEA action plan for adequate monitoring and follow up
- To assure that adequate environmental information is available and collected for the decision making process. The SEA process should be triggered early in the decision-making process and prior to the implementation of the policies, plans or programmes. Recommendations from the SEA process should be incorporated into an operation's activities.<sup>429</sup>

The Bank will finance environmental and natural resources management components or activities across different sectors, with loans and technical assistance, beyond required environmental mitigation actions to increase value added and long-term sustainability. It will seek to enhance environmental sustainability through appropriate public and private operations across sectors, such as urban development, transportation and road infrastructure, and agriculture, among others.

All Bank-financed operations will be screened and classified according to their potential environmental impacts so that the appropriate environmental assessment or due diligence requirements are selected for the operation. The following classification will apply:

- Category "A" - Any operation that is likely to cause significant negative environmental and associated social impacts, or have profound implications affecting natural resources. These operations will require an environmental assessment (EA), normally an Environmental Impact Assessment (EIA) for investment operations, or other environmental assessments such as a Strategic Environmental Assessment (SEA) for programmes and other financial operations that involve plans and policies.
- Category "B" - Operations that are likely to cause mostly local and short-term negative environmental and associated social impacts and for which effective mitigation measures are readily available. These operations will normally require an environmental and/or social analysis, according to and focusing on, the specific issues identified in the screening process, and an Environmental and Social Management Plan (ESMP).
- Category "C" - Operations that are likely to cause minimal or no negative

<sup>429</sup> Referenced to the "Environment and Safeguards Compliance Policy" by IADB, 2006, <http://enet.iadb.org/idbdocswebservices/idbdocsInternet/IADBPUBLICDOC.aspx?docnum=665902>, pages 9

environmental and associated social impacts. These operations do not require an environmental or social analysis beyond the screening and scoping analysis for determining the classification. However, where relevant, these operations will establish safeguard, or monitoring requirements.<sup>430</sup>



Application of photovoltaic<sup>431</sup>



Natural gas project<sup>432</sup>

<sup>430</sup> Referenced to the "Environment and Safeguards Compliance Policy" by IADB, 2006, <http://enet.iadb.org/idbdocswebsiteservices/idbdocsInternet/IADBPUBLICDOC.aspx?docnum=665902>, pages 8

<sup>431</sup> Source: [http://www.iadb.org/sds/hset/hset\\_e.htm](http://www.iadb.org/sds/hset/hset_e.htm)

<sup>432</sup> Source: <http://www.iadb.org/idbamerica/index.cfm?thisid=4277>

### 24.3 Environmental Evaluation/SEA on Energy Policies and Actions in Inter-American Development Bank

According to the Environment and Safeguards Compliance Policy approved by the IADB in January 2006 which is part of the implementation of the Bank's Environment Strategy in 2003, it is an administrative requirement that the Bank's financial operations which will cause significant negative environmental and associated social impacts should conduct an environmental assessment, normally an EIA for investment operations, or SEA for programmes and other financial operations that involve plans and policies, including the energy sector. Details can be referred to section 24.2.

One of the environmental mandates of the Policy Directives is to promote the conservation and efficient use of energy in the Bank's projects, and to promote renewable energy and the efficient and clean use of energy resources.<sup>433</sup>

A summary table for the energy policies and actions and SEA status in IADB is presented in **Exhibit IADB-1**.

<b>Exhibit IADB-1 Summary of Energy Policies and Actions and SEA status in IADB</b>	
<b>(a) Energy Policies and Actions</b>	
<b>Energy Policies and Actions</b>	Policies: <ul style="list-style-type: none"> <li>● Energy Sector Strategy</li> <li>● Sustainable Energy and Climate Change Initiative (SECCI)</li> </ul> Actions: <ul style="list-style-type: none"> <li>● Conference: Energy and Climate Change in Latin America and the Caribbean 2006</li> <li>● Workshop: Reducing Emissions from Deforestation and Degradation - Perspectives from Latin America and the Caribbean 2007</li> </ul>
<b>Guidance/Legislations in Energy</b>	N/A
<b>(b) Environmental Evaluations / SEA Status in Energy Policies and Actions</b>	
<b>Type of Assessment</b>	SEA
<b>Requirement Mechanisms</b>	Administrative
<b>Legislation for Environmental Evaluation / SEA</b>	Environment and Safeguards Compliance Policy 2006
<b>Applications</b>	Policies, Plans and Programmes

<sup>433</sup> Referenced to the "Environment and Safeguards Compliance Policy" by IADB, 2006, <http://enet.iadb.org/idbdocswebservices/idbdocsInternet/IADBPUBLICDOC.aspx?docnum=665902>, pages 1 & 5

## 24.4 Analysis and Conclusions

The IADB energy policy has gaining importance as the energy demand of member countries is expanding and IADB can take the lead in promoting the sustainable use of energy. In addition to supporting electric energy generation, transmission and distribution projects and programmes, as well as the development of hydrocarbon resources, the Bank actively promotes energy development in the region by means of loans and technical cooperation for technically, socio-economically and financially feasible projects.

For Hong Kong, the government has been aware of the demand and secure supply of energy. The government energy policy aims at reducing the growing trend of energy use and promoting the efficient use and conservation of energy. The government has committed to the development of renewable energy in Hong Kong with a view to further improving the air quality.

According to the Environment and Safeguards Compliance Policy approved by the IADB in January 2006 which is part of the implementation of the Bank's Environment Strategy in 2003, it is an administrative requirement that the Bank's financial operations which will cause significant negative environmental and associated social impacts should conduct an environmental assessment, normally an EIA for investment operations, or SEA for programmes and other financial operations that involve plans and policies, including the energy sector.

## 24.5 Examples of Energy Policies/Actions or their Environmental Evaluation/SEA

<b>Example</b> <b>IADB-1</b>		<b>Environmental and Social Strategy: La Yesca Hydroelectric Project Mexico<sup>434</sup></b>
<b>Type of Study</b>	Environmental Assessment	
<b>Description of Study</b>	<p>The purpose of this hydroelectric project in Mexico is to increase electricity supply and diversification of energy sources as the demand of electricity has been expanding. This can also reduce the cost of electricity as private companies and IADB share the investment. Also, this helps to promote the development of power projects with renewable sources.</p> <p>The La Yesca hydroelectric project includes the installation of two turbines and ancillary facilities, and testing and start up of a 750-MW hydroelectric generating facility with an annual average output of 1,210-GWh. The dam is located on the Santiago River, in the border between the states of Jalisco and Nayarit in the midwestern region of Mexico.</p> <p>The proposed IADB participation is in the form of either an IADB loan and/or a guarantee with the aggregate amount of the Bank participation of up to 25% of the total project cost.</p>	
<b>Summary of Alternatives</b>	There is no alternative included in the study.	
<b>Scope of Assessment/ Study</b>	<p>The scopes of assessment include:</p> <ul style="list-style-type: none"> <li>● Hydrology</li> <li>● Water quality</li> <li>● Geology and geomorphology</li> <li>● Climate</li> <li>● Main ecosystem</li> <li>● Natural resources</li> <li>● Impacts on flora</li> <li>● Impacts on fauna</li> <li>● Impacts on avifauna</li> <li>● Seismicity</li> <li>● Cultural resources</li> <li>● Waste</li> <li>● Landscape</li> <li>● Social impacts</li> <li>● Visual impacts</li> </ul>	
<b>Environmental Measures</b>	<p>A series of proposed programmes to further mitigate more specific and broader impacts:</p> <ul style="list-style-type: none"> <li>● Project to implement a nursery for revegetation</li> <li>● Programme to mitigate and compensate the increase in the demand of water for human consumption</li> <li>● Programme to prevent and control eutrophication in the reservoir</li> </ul>	

<sup>434</sup> Extracted from the report Environmental and Social Strategy La Yesca Hydroelectric Project Mexico, <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1049167>



<b>Example IADB-1</b> <b>Environmental and Social Strategy: La Yesca Hydroelectric Project Mexico<sup>434</sup></b>	
	<ul style="list-style-type: none"> <li>● Domestic waste management programme</li> <li>● Wastewater management programme</li> <li>● Hazardous waste management programme</li> <li>● Emissions control programme</li> <li>● Reforestation programme</li> <li>● Erosion control programme</li> <li>● Fauna rescue and relocation programme</li> <li>● Forestry fire protection and control programme</li> <li>● Rehabilitation of construction related affected areas programme</li> <li>● Carry out a study on the biological corridor for promoting a protected natural area in the project area</li> </ul>
<b>Outcome of Study</b>	<p>The project can have the following benefits:</p> <ul style="list-style-type: none"> <li>● Increase electricity supply and diversification of energy sources</li> <li>● Reduce the cost of electricity</li> <li>● Support the promotion of renewable energy in Mexico</li> <li>● Reduce carbon emissions</li> </ul>

<b>Example IADB-2</b> <b>Environmental and Social Strategy: Peru Liquefied Natural Gas (LNG) Project<sup>435</sup></b>	
<b>Type of Study</b>	Environmental Assessment
<b>Description of Study</b>	<p>The purposes of the study are to predict and evaluate the potential environmental impacts related to the construction and operation of the LNG plant, and to design the mitigation measures for the protection of the population and the environment.</p> <p>The Peru LNG project involves the construction and operation of a liquefaction plant and an LNG export facility, which includes a marine terminal, breakwater and temporary rock quarry.</p> <p>The IADB is considering US\$400 million in direct loans to help finance a portion of the capital expenditure programme. The Bank's participation in this project will ensure the proper development and implementation of environmental and social measures to limit and/or mitigate negative impacts of the project. This will result in the application of its recently revised environmental and social policies, which are generally stricter and more demanding than local legislation and through which will benefit to both the energy sector and the Peru population.</p>
<b>Summary of Alternatives</b>	Alternative sites along the Peruvian coastline between Pisco and Lima were identified and evaluated. Seventeen potential locations were evaluated on criteria that considered engineering feasibility, environmental sensitivities and potential social impacts.
<b>Scope of</b>	The scopes of assessment include:

<sup>435</sup> Extracted from the report Environmental and Social Strategy Peru LNG Project, <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=793018>

Example IADB-2 Environmental and Social Strategy: Peru Liquefied Natural Gas (LNG) Project <sup>435</sup>	
<b>Assessment/ Study</b>	<ul style="list-style-type: none"> <li>● Air quality</li> <li>● Noise</li> <li>● Soils and landforms</li> <li>● Water resources</li> <li>● Terrestrial and marine flora and fauna</li> <li>● Social</li> <li>● Economic</li> <li>● Cultural</li> </ul>
<b>Environmental Measures</b>	<p>In order to mitigate the effects on the social and economic infrastructure of the communities in the areas influence, specific mitigation measures will be adapted for each route and/or situation. These include:</p> <ul style="list-style-type: none"> <li>● Driver training for complying with safety standards and assigned routes</li> <li>● Road signs</li> <li>● Speed reduction zones in populated areas</li> <li>● A hotline for emergency contacts</li> </ul>
<b>Outcome of Study</b>	Pampa Melchorita was selected as the location of the LNG plant.