

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Mapping Emerging Environmental and Social (E&S) risks: a new methodological approach
▪ TC Number:	RG-T4025
▪ Team Leader/Members:	Rosenblatt, David Louis (CCB/CCB) Team Leader; Ronza, Cristiane (RMG/ESR) Alternate Team Leader; Greco, Maria Sofia (LEG/SGO); Mctigue, Kevin (LEG/SGO); Morra, Daniela Pia (RMG/ESR); Nelson, Michael Reginald Jannah (RMG/ESR); Oyefesobi, Tolulope Ololade (RMG/ORM); Ruddock, Sherie Alethea (CCB/CCB) Nelson, Michael Reginald Jannah (RMG/ESR); Oyefesobi, Tolulope Ololade (RMG/ORM); Ruddock, Sherie Alethea (CCB/CCB)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	n/a
▪ Date of TC Abstract authorization:	n/a
▪ Beneficiary:	Barbados, Bahamas, Guyana, Jamaica, Suriname and Trinidad and Tobago
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Countries (CTY)
▪ IDB Funding Requested:	US\$360,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	12 months
▪ Required start date:	January 2022
▪ Types of consultants:	Individual Consultant and Consulting Firms
▪ Prepared by Unit:	CCB-Caribbean Group
▪ Unit of Disbursement Responsibility:	CCB/CCB-Caribbean Group
▪ TC included in Country Strategy (y/n):	n/a
▪ TC included in CPD (y/n):	n/a
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Gender equality

II. Objectives and Justification of the TC

- 2.1 **Background.** The COVID-19 pandemic crisis had a deep impact in the region, with unprecedented socio-economic consequences for the medium and long terms that are yet to be fully determined. The crisis has exacerbated an already complex scenario for the economies in the region. However, as the IDB's Vision 2025 states: *"amid accelerated digitalization and a readjustment of global value chains, the COVID-19 pandemic has also presented the region with an unprecedented opportunity to expand markets, generate employment, create more efficient and effective educational and social services, foment renewables, and turn the centuries-old aspiration of regional integration into reality"*.

- 2.2 In this mutable context, the IDB Group is in a unique position to support countries and clients in advancing towards achieving growth and sustainable development. To this end, the Bank developed a 2-tier approach to implement the Group's priorities in the region: the first tier aims at achieving three medium-term strategic objectives to induce sustainable and inclusive economic growth, while the second tier focuses on scaling up financing and strengthening the IDB Group's value proposition.
- 2.3 **Justification.** Currently, the Bank carries risk monitoring activities that are mostly retrospective, leading to identification of risks that have already materialized and untimely mitigation measures to remedy impacts. This limited insight into emerging risk areas can have a negative impact on the success of IDB's strategic and operational goals. Within the Caribbean in particular, the pandemic has resulted in unprecedented shocks to key sectors that contribute to GDP, such as tourism and trade¹. This, coupled with instability resulting from political changes, governance issues and disaster shocks, has resulted in an unexpected slow economic recovery for the vulnerable small island states. Nevertheless, as the pandemic begins to recede and move into an endemic phase, and economies within Latin America and the Caribbean begin to recover from its effects, previously deprioritized risks like climate change will begin to drift to the center of attention. Extreme weather events continue to increase across the region. Moreover, stakeholders are demanding support to enable them to better anticipate emerging climate, environmental, social and governance risks and to respond in a timely manner.
- 2.4 In the effort to provide knowledge and foster innovation, groundbreaking and forward-looking approaches in the identification and analysis of emerging climate, environmental and social risks are increasingly important towards a sustainable and resilient growth in the region. The integration of a tool that enables this, and is agile enough to respond to the unique needs in the sub-region, would support the Bank's role as a catalyst to help countries recover sustainably from disasters by using innovative technologies and employing strategic, sustainable thinking.
- 2.5 The IDB is currently mandating the implementation of its project risk management framework to improve the quality of information generated at the project level within countries². In addition to the risks impacting project execution, the Bank also emphasizes (a) the governance processes for identifying macro-economic risks, through the Independent Assessment of Macroeconomic Conditions (IAMC)³; (b) specific aspects of integrity risks⁴; (c) the identification and management of risks impacting the portfolio of projects (at sector and operations levels)⁵; and (d) the identification and management of residual risks from the use of environmental and social safeguards, including climate risks and disaster management risks. These enhancements to the framework provide key input that will be critical to the success of the TC.
- 2.6 **Objective.** In this context, the TC seeks to develop a robust methodology, and subsequently a tool that will allow the Bank to identify and monitor emerging climate,

¹ IDB. (2021) The fragile path to recovery in the Caribbean. Caribbean Development Trends. <https://blogs.iadb.org/caribbean-dev-trends/en/the-fragile-path-to-recovery-in-the-caribbean/>

² Risk Management Framework for Sovereign-Guaranteed Projects Financed by the IDB. [\(OP-1519-5\)](#)

³ Operational Guidelines for the Implementation of the Macro-economic Safeguards in the IDB. [GN-2753-7]

⁴ Integrity Risk management (https://idbg.sharepoint.com/sites/OLPEN/SitePages/Areas/area_9.aspx)

⁵ Portfolio Management [\[OA-300\]](#)

environmental, social and governance risks, considering the varying sources for highlighting these risks. This methodology will increase the Bank's capacity to anticipate risks and become more responsive in unstable and volatile scenarios. A more forward-looking approach to risk monitoring activities will contribute to better understanding of the critical factors limiting economic growth, as well as a more informed and dynamic support by the IDB group towards policy strategies at the country level.

- 2.7 The tool may provide consistent inputs for Country Development Challenges (CDCs), country strategies and their monitoring during implementation, country portfolio review processes, as well as help to develop actionable insights that can be used for programming activities and dialogue with borrowing member countries. This adaptive approach is expected to allow programming to be more informed and agile in reacting to emerging E&S risks.
- 2.8 **Specific Objectives.** The work will start by using a human centered approach to identify target users, priorities and meet the needs of such a tool that can be integrated in existing processes and outputs. A participatory approach is expected to help in ownership and facilitate integration by end users. Subsequently, a reliable independent research and world leading firm that provides E&S risks data sources will be selected to build a methodological approach that will be able to provide and deliver analytical advice and solutions that combine emerging climate, environmental, social and governance risk factors. Finally, the proposal foresees dissemination of the output and findings, as well as the piloting of the tool in 2 countries in the Caribbean region, to gain in-depth understanding on the uses and integration of the tool in existing strategic and operational processes of the Bank. The outputs of the methodology can then be tailored to country needs, priorities and replicated in distinct and specific country context, enabling enhancement of emerging climate, environmental, social and governance risk management.
- 2.9 **Alignment.** The objectives and activities of the project correspond to the Bank's Environmental and Social Policy Framework (GN--2965) which seeks to manage environmental and social risks within the region and will provide information to support the Implementation Plan for the IDB's E&S Policy Framework (OP-1852-5). The TC is aligned with the Ordinary Capital Strategic Development Programs (OC-SDPS) (GN-2819-1) which includes the Economic Growth Technical Cooperation Initiative, as it promotes ideas to support sustainable and inclusive growth in the region. The project is also aligned with the Bank's 2020-2023 Corporate Results Framework (GN-2727-12) and operational and corporate pillars of the Second Update to the Institutional Strategy (UIS) 2020-2024 (AB-3190-2). Additionally, in line with the Caribbean Department's Build Forward Strategy, this proposal brings an opportunity to pilot one of the key goals of the Strategy to prioritize the use of data to allow for more effective empirical-based decision-making processes in the identification of more traceable measures of growth. Moreover, as the tool will be country-specific, it will respond to the Strategy's efforts towards providing ready-to-implement, transparent and sustainable solutions proposed through the various vehicles (investment plans, prototypes, advisory services, quality technical assistance, etc.) based on the different needs and priorities of borrowing member countries, thus contributing to the overall forward-looking approach the IDB is advocating for in the region.
- 2.10 **Beneficiaries.** The direct beneficiaries of this TC are the borrowing member countries benefiting from the information provided through this tool for a more informed decision

making. The tool will be used by Country Economists, Financial Ministries, Economic Planning Officers, Chiefs of Operations and Country Representatives to identify and manage climate, environmental and social emerging risks.

III. Description of activities/components and budget

The resources from this technical cooperation will finance consultancy services (firm and individual) to develop the following outputs:

3.1 Component I: Digital tool for emerging climate, environmental, social and governance risks. (US\$220,000).

This component seeks to develop a robust methodology, and subsequently a tool that will allow the Bank to identify, assess and monitor emerging climate, environmental, social and governance risks. The component will (i) carry out assessments to determine and prioritize needs and users with a participatory approach; (ii) develop the methodology and tool to identify emerging climate, environmental and social risks.

3.2 This component will include 2 outputs:

- (i) **Mapping of users and definition of use-cases for the tool through a human centered design approach.** The objective is to develop a solution considering demand (potential users and processes/outputs where the tool will provide added value contributions) and offer (relevance and consistency of reliable information), for a smooth and efficient coordination while fostering ownership.
- (ii) **Development of the methodology and digital tool.** Based on the results of the user centered design methodology, a company with recognized experience in this area will be hired to design a methodology and prototype tool, as well as to provide the technical expertise that will be necessary to implement it. The tool will be used to aggregate and sort information by defined E&S risk taxonomy that will enable analysis and identification of emerging risk areas and their speed to impact. This will inform:
 - a) Country Strategies: The proposed tool will strengthen the risk section of the country strategies to integrate emerging climate, environmental, social and governance risks that are most relevant to the country and the priority sectors identified in the strategy.
 - b) CDCs: i) Better understanding of the critical environmental and social factors limiting economic growth; ii) Calculation of the exposure of countries to emerging climate, environmental, social and governance risks and their potential macroeconomic impacts.
 - c) Knowledge Products: i) Climate, environmental, social and governance country profiles to be used by any department of the IDB that is involved in project preparation, supervision but also in financial risk management; ii) Playbooks for borrowing member countries about how to address new emerging climate, environmental and social risks.
 - d) Programming activities/dialogue: i) Policy recommendations based on changing regulatory requirements for financial institutions related to climate, environmental and social risks; ii) Actionable insights that can be shared with borrowers to strengthen their climate, environmental and social country systems; iii) Actionable insights that can be shared with borrowers to consider alternative ways to adapt to or mitigate climate, environmental and social risks

- e) Others: Inputs to portfolio review meetings conducted by country offices with our borrowing member countries.

3.3 Component II: Dissemination and pilot exercises for the E&S Risk Tool. (US\$140,000)

The purpose of this component is to pilot the digital tool, scale up implementation and disseminate findings, as determined during the participatory approach foreseen under component I.

This component will include:

- (i) **Pilot in 2 selected countries.** Design and implement a pilot program in two countries in the Caribbean region, to be selected during the initial phase, using agile methodology to benefit from learning-by-doing. The criteria for selecting the pilot countries include: a) advanced stage of CDC process; b) at least 5 years' country portfolio review reports completed; c) availability of relevant historical data, such as up to date information on country regulatory environment, governance, political, economic, fiscal, environmental, information on status of gender issues and migration trends. The results of the pilots will provide feedback towards improvement of the tool as necessary.
- (ii) **Dissemination of results.** Dissemination is a key activity to socialize the output and findings of the technical cooperation and identify potential and adoption interest throughout the region. This component will finance the cost of design, editing and organizing the following dissemination activities: i) an executive summary report of the implementation and dissemination of the E&S Emerging risk assessment tool in English/Spanish and ii) 3 webinars to discuss the findings and identify potential for replication in the region.
- (iii) **Implementation and Management Scale-up Plan:** To show viability of the tool, the methodology will be scaled up to show flexibility to other operational country and portfolio aspects. A Sustainability and Scaling Plan will also be developed for the methodology.

3.4 Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I	Digital tool for emerging climate, environmental and social risks	220,000		220,000
Output I.i - Mapping of users and definition of use-cases for the tool through a human centered design approach		60,000		60,000
Output I.ii - Development of the methodology and digital tool		160,000		160,000
Component II	Dissemination and scale-up of pilot exercises	140,000		140,000

Output II.i - Pilot in 2 selected countries	80,000		125,000
Output II.ii - Dissemination of results	15,000		15,000
Output II.iii – Implementation and Management Scale up Plan of the Methodology	45,000		
TOTAL	360,000		360,000

IV. Executing agency and execution structure

4.1 **Execution.** The Bank, through the Caribbean Country Group (CCB) will be responsible for the execution and supervision of the project in close collaboration with the Environmental and Social Risk Management Unit (RMG/ESR) within the Office of Risk Management. RMG/ESR is best suited to lead the technical inputs of this operation, given its mandate includes the monitoring and reporting the environmental and social risks of IDB's portfolio at an aggregate level and integrates these risks into the overall operational risk of the Bank. All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-28 for logistics and other related services".

4.2 **Monitoring.** The project team will present quarterly progress reports during the 12 months of execution to the Ideation team, as well as the advisory Operational Risk Management Committee. The team will also upload progress of the project to the Bank's TC monitoring system, as well as a report at the end of the project that will include, among other aspects, a description of the results obtained and recommendations for scaling this initiative.

V. Major issues

5.1 The development and implementation of this TC will require the participation of an important number of units within the Bank and of an external firm, which could lead to coordination difficulties and impact the completion of Component I. To mitigate this risk, RMG/ESR and CCB will provide Project Coordination and Monitoring functions to help achieve a fluid coordination among the key actors. Considering the ongoing health and safety protocols related to the COVID-19 pandemic, the dissemination and engagement events under Component II may be impacted. To manage this risk, the team will ensure that all events are carried out virtually.

VI. Exceptions to Bank policy

None.

VII. Environmental and Social Strategy

This TC will not finance feasibility or pre-feasibility studies of investment projects nor associated environmental and social studies; therefore, it does not have applicable requirements from the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Results Matrix - RG-T4025](#)

[Terms of Reference - RG-T4025](#)

[Procurement Plan - RG-T4025](#)