

PSG Document

I. BASIC INFORMATION FOR TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Reducing Carbon Emissions and Building Resilience through Smart Sustainable Procurement Practices - PROADAPT PROGRAM
▪ TC Number:	RG-T3553
▪ Team Leader/Members:	Walter, Martin (INE/CCH) Team Leader; Balza Angulo, Lenin Humberto (INE/INE) Alternate Team Leader; Nunes Da Cunha, Natascha (INE/INE) Alternate Team Leader; Aldaz Guallart, Miguel (ORP/REM); Bonifaz Urquizu, Jeanette (INE/ENE); Castillo Manrique, Rafael (IFD/CTI); Crespi, Gustavo Atilio (IFD/CTI); De Pierola Del Aguila, Jose Carlos (INE/INE); Dorr, Julian Alexander (INE/INE); Fernandez-Baca, Jaime (CSD/CCS); Greco, Maria Sofia (LEG/SGO); Isabel Williamson, David Alejandro (ORP/GCM); Mendoza Centellas, Mariana Beatriz (ORP/GCM); Ramirez Bello, Maria Cecilia (INE/INE); Vogt-Schilb, Adrien (CSD/CCS); Persson, Svante P.
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	n/a
▪ Date of TC Abstract authorization:	31 October 2019
▪ Beneficiary:	Regional
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Cofinancing Special Grants(COF) - The Ministry for Foreign Affairs of Sweden ¹
▪ IDB Funding Requested:	US\$1,000,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	May, 2020
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	INE-Infrastructure and Energy Sector
▪ Unit of Disbursement Responsibility:	INE-Infrastructure and Energy Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Environmental sustainability

¹ These funds will be administered by the IDB through a Project-Specific Grant (PSG). The Ministry for Foreign Affairs of Sweden will contribute US\$ 1,000,000.00.

II. OBJECTIVES AND JUSTIFICATION OF THE TC

- 2.1. The main objective of the Project Specific Grant (PSG) is to support the reduction of carbon emissions and build resilience in the natural resources sector in Latin America and the Caribbean (LAC) and its associated value chain through: (i) the generation of new knowledge and empirical findings on the types of conditions and factors that are most likely to facilitate emissions reductions through enhanced industry procurement practices; (ii) providing recommendations and guidance to industry (public and private sectors) on the implementation of procurement policies and innovative practices that can support reductions in greenhouse gas emissions, and (iii) piloting the implementation of a “Carbon Calculator” tool for industry and government that will demonstrate feasibility and impact of improved procurement practices in the natural resources sector. A secondary objective is to provide incentives for the creation and viability of small and medium enterprises in the supply chain to start producing and marketing low-emission and resilient products and services to the natural resource industry.
- 2.2. In line with the Sustainable Development Goal 13, which focuses on climate action, and the 2015 Paris Climate Agreement, there is now broad global consensus that carbon emissions reduction and adaptation to climate change are critical and urgent priorities. As the private sector – including the natural resources industry – grapples with how to meet business priorities and achieve these objectives, practical research and best practice evidence are needed on the various ways to reduce carbon emissions across the material aspects of business. At the same time, the COVID-19 pandemic continues to affect global trade, through volatile commodity prices and forcibly revised investment and procurement decisions, with a direct impact on natural resource development supply chains. Ongoing market disruptions affect both upstream and downstream activities and are a significant source of uncertainty for all stakeholders in the natural resources sector. Linkages with other economic activities and global markets constitute important challenges for strategic decision-making and crisis management.
- 2.3. Prior to the COVID-19 crisis, most industry financial pledges and carbon goals had yet to be accompanied with a detailed acknowledgement and action plan to address environmental impacts associated with supply chains. The Green House Gas Protocol estimates that Scope 3 emissions – indirect emissions from a company’s value chain – account for approximately 90% of total industrial emissions. Still, knowledge about the environmental impact from the provision of services remains limited, especially in the natural resources industry, which hampers the actions to mitigate these impacts. In the current context, it is critical that economic efficiency considerations are aligned with strategic efforts to strengthen environmental standards.
- 2.4. The mining industry, for example, represents up to 11% of global energy consumption and is an important emitter of greenhouse gases.² In 2016, the twelve largest publicly listed mining companies by market capitalization reported Scope 1 and 2 emissions – or direct emissions from a company’s owned or controlled sources and indirect emissions from the generation of the energy they purchase – of 214 million tCO₂e. Scope 3 emissions – or all other indirect emissions generated in a company’s value

² IEA (2019)

chain, including in upstream and downstream emissions³ – for these companies was estimated to be at least 10 times higher. The environmental impacts from these activities are not fully accounted by industry decision makers and by governments for adequate oversight.

- 2.5. To ensure that the future development of the sector is environmentally sustainable, the extraction and consumption of natural resources need to fundamentally adapt to also be low-carbon and low-impact. Done responsibly, natural resource development can help climate change adaptation and mitigation strategies in host countries. Minerals and metals are key inputs for renewable energy technologies such as solar, wind, and energy storage, which are needed to combat climate change.
- 2.6. The introduction of more sustainable procurement practices to the natural resources sector can be an important contribution to mainstreaming climate change mitigation actions. Corporations across all sectors can benefit from a better quantification of their environmental impacts, to mitigate inconsistent practices. Corporate procurement is a strategic process from which it is possible to direct impact from procurement decisions and take action to curb environmental impacts in natural resource projects. Green procurement practices offer the opportunity to reduce emissions and build climate resilience through careful planning to benefit the environment throughout the project's life cycle. Green procurement processes assess the supply chain to identify opportunities to reduce the level of greenhouse gas emissions and contribute to sustainability and climate change mitigation and/or adaptation.
- 2.7. The natural resource industry is facing mounting pressure to buy more of their goods and services locally in host countries, as many regions rich in resources have seen limited growth and industrial sector linkages. To tackle this challenge, host country private sector and governments in LAC are increasingly implementing local initiatives and content regulations on investing companies. In Chile, the Antofagasta Mining Cluster⁴ is building capacities in local entrepreneurs to provide services for mining industry; Peru presented a Technological Road Map⁵ for mining providers and is fostering a dedicated Mining Cluster⁶; in Brazil, the mining hub of Belo Horizonte⁷ is promoting local capacity building through interchanging experiences in the continent.
- 2.8. Given these pressures on the sector in the region and elsewhere, a timely opportunity presents itself to demonstrate the potential to reduce carbon emissions, build resilience, and improve industrial sector linkages through more sustainable procurement practices. While most attention on reducing carbon emissions has focused on activities within a company's primary operations, there are significant potential reductions possible in either lowering the carbon emissions created in the production of highly used goods and services, or in producing those products closer to mine sites and lowering shipping-linked emissions.
- 2.9. Until underlying standards or certification schemes are built, the numerous frameworks for emissions accounting will be limited in their ability to convey emissions and operational changes. With each company using the platforms and standards uniquely, there will remain an essential conflict between financial costs and sustainable

³ https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

⁴ <http://www.clustermaneroantofagasta.cl/>

⁵ Initiative led by Innovate Peru, promoted by CTI/BID

⁶ Initiative promoted and financed by CAF

⁷ <https://www.mininghub.com.br/en/>

development, resulting in a natural resources industry that tends to operate at the lowest possible common denominator. Strengthening underlying methodologies can benefit the transition to a low-carbon environment and industry alike. The sooner industry can compare performance and become accountable to irresponsible practices, the sooner companies can be open about their efforts to change the way they operate for the better.

- 2.10. This project is aligned with the Second Update to the Institutional Strategy 2020-2023 (AB-3190-2) and is strategically aligned with the development challenge of productivity and innovation, by studying and promoting the implementation of innovative technologies that, amongst other benefits, will improve quality and efficiency of energy provision and therefore positively impact the country's productivity. It is also consistent with the Energy Sector Framework Document (GN-2830-8) as promotion of RE is one of the principles in the energy sector and promoting initiatives to reduce carbon emissions. This operation will contribute to the Corporate Results Framework (CRF) GN-2727-12 by (i) reducing carbon emissions; and (ii) promoting power generation from RE sources. It is also aligned with the cross-cutting issues of climate change and environmental sustainability and with the Climate Change Sector Framework (GN-2835-8), by promoting the implementation of actions for the reduction of greenhouse gas emissions.

III. DESCRIPTION OF ACTIVITIES

- 3.1. **Component I: Develop knowledge of effective industry procurement strategies to reduce carbon emissions (US\$245,000.00).** Lack of evidence on effective interventions and appropriate methods for measuring and reducing environmental impact through industry procurement is hindering the promotion of more sustainable practices and smarter regulations in the natural resources sector. This component seeks to narrow this knowledge gap by supporting a comprehensive review of contemporary supply chain research (in mining and comparable sectors) and new insights from practitioners on the ground to identify conditions and factors likely to facilitate emissions reduction through enhanced procurement practices.
- 3.1.1. **Activity 1.1. Best Practices and Methodology.** Will support the generation of a technical note that will: (i) identify gaps in currently available knowledge and measurement models that calculate carbon emissions for typical natural resource development projects and related industries in order to identify opportunities to create and/or improve existing models; and (ii) identify goods and services typically procured in high volumes by large-scale mine sites, particularly those that have the potential to reduce emissions resulting from their production process and transportation. The technical assessment of global procurement practices will focus on Latin America and the Caribbean and make available new quantitative information to decision-makers in the natural resources sector.
- 3.1.2. **Activity 1.2. Estimation of Carbon Emissions Reduction.** Create a novel—or improve upon an existing—easy-to-use methodology that estimates potential carbon reductions resulting from the procurement of prioritized goods and services in the natural resources industry through modelling and enabling actions to reduce carbon emissions in the supply chain. The analytical approach will help identify potential gains to be achieved through improvements in upstream production and/or shifting goods and services to local providers. It will identify and analyze procurement practices and profiles for specific products through the quantification

of emissions created by suppliers during production and accounting for typical transportation and shipping routes. The methodology will estimate and benchmark the likely carbon emissions that would be associated with production of the selected goods and services if they were produced closer to the mine sites, highlight assessment methodologies employed by industry, and opportunities for improvement.

- 3.2. **Component II: Provide guidance and support to industry and governments on the types of procurement policies that can support reductions in carbon emissions and improve environmental resilience (US\$350,000.00).** With attention to legal, regulatory and administrative requirements regarding climate change action, this Component will focus on producing customized and actionable guidance for industry and governments to improve their sustainability goals. Key stakeholders for policy and industry initiative will be governments, natural resources companies, and their major suppliers in the sector, such as engineering, procurement and construction (EPC) and engineering, construction and management (EPCM) firms. Eligibility will be determined according to the potential impact of prioritized industries and supply chains –in terms of the significance of economic and environmental impacts– and interest from national and local public and private sector stakeholders. Specific prioritization criteria will be informed by the results and insight generated from knowledge generated from Component 1 activities.
- 3.2.1. **Activity 2.1. Tailored country and company specific action plans and capacity building.** This activity will help produce tailored recommendations for developing and/or enhancing legal and regulatory frameworks, administrative and environmental guidelines, and industry action. The recommendations will be structured into detailed workplans to support the adoption of greener procurement practices in the natural resources industry, based on empirical evidence and including commentary on the types of goods and services that should be targeted based on local conditions. The reports will indicate specific actions and efforts to be taken up by stakeholders, grounded on in-depth assessments of the most promising supply chains. Recommendations will reflect stakeholder engagement activities that will be used to validate opportunities and challenges for decisive action from government and industry.
- 3.2.2. **Activity 2.2. Stakeholder capacity building.** To support adoption of better procurement practices and disseminate knowledge on best practices, this activity will enable the implementation of training and capacity building activities geared at stakeholders responsible for ensuring that procurement incorporates environmental sustainability indicators. Capacity building will be conducted through a series of virtual/in-person seminars, workshops and regularly scheduled webinars for interested stakeholders. Most adequate capacity-building approaches will result from the detailed country assessments and workplans. Capacity-building activities will reach an estimated 500 stakeholders in Latin America and the Caribbean.
- 3.2.3. **Activity 2.3. Online platform to enhance innovation and sustainable resilient practices in the natural resources industry value chain.** The project will support the development of a platform for sharing information along the supply chain, promoting innovative solutions to challenges for resilience and sustainability in the industry. Through an online data management platform, the project will help disseminate findings and monitor best practices and methodological lessons learned as well as implement capacity building efforts to support adoption of

innovative green procurement policies at the regional level. The platform will make available knowledge resources, information about capacity building and other relevant sector data. It will also enable participation and direct engagement of relevant regional stakeholders to ensure greater information sharing and business opportunities and foster the creation and enhanced viability of local small and medium enterprises from Latin America and the Caribbean that mainstream low-emission and resilient products and services.

- 3.3. **Component III: Pilot implementation of a “Carbon Calculator” tool for industry and government (US\$300,000).** This component will support the implementation of a Carbon Calculator tool that highlights the feasibility and impact resulting from improved procurement practices. The Carbon Calculator is a set of up-to-date metrics on carbon emission and sustainability indicators for a given company’s supply chain. The adoption of the Carbon Calculation by a company will demonstrate the impact from greener procurement practices through quantifiable and verifiable data and serve efforts to promote such practices in Latin America and the Caribbean. Eligibility will be determined according to the potential impact of prioritized industries and supply chains and interest from national and local public and private sector stakeholders. Voluntary implementation of the tool will be done by at least one large company, focusing on a high-impact representative supply-chain area, prioritized on the basis of its economic and environmental significance. Specific prioritization criteria will be informed by the results and insight generated from knowledge generated from Component 1 activities. Activities will include:

- 3.3.1. **Activity 3.1. Implementation of the Carbon Calculator Tool.** The implementation of the tool will result in a detailed report on procurement policies and practices and the contribution to environmental sustainability from supply chain firms. The tool will integrate information about suppliers and their production processes, industry benchmarks, and other relevant information enabling a more detailed analysis of the impact of procurement decisions on a company’s emissions and environmental sustainability. Research on environmental sustainability with a focus on emissions has focused on sector-wide indicators⁸ and company-specific impact assessments; there are no standard methodologies for value chain assessment in the natural resource industry. The carbon calculator will leverage knowledge and information from components 1 and 2 to implement company-context specific calculations geared at the review of targeted procurement processes, and contribute to developing an industry-wide approach. The calculator will enable the generation of a technical report that includes quantitative and qualitative information on emissions along the value chain. It will contribute to promote better industry sustainability reporting efforts and targeted efforts to curb emissions through greener procurement. Implementation of the tool will require revision of existing procedures and policies, and eventual review/modification. The effectiveness of the calculator to foster greener procurement will be quantified by a suitable third party, comparing baseline emissions for prioritized supply chains and specific procurement practices against post-intervention indicators.
- 3.3.2. **Activity 3.2. Communications and dissemination.** Information and lessons learned from the implementation of the tool and knowledge generated in the

⁸ See IBDR ([2015](#)).

context of components 1 and 2, will be systematized and disseminated to support further improvements to the instrument and facilitate widespread adoption by the industry in its operations. Results from implementation of the tool will be showcased as a best practice to global practitioners, through communications materials, presentations and seminars to industry associations and other relevant stakeholders.

- 3.4. Project will dedicate resources to auditing activities⁹ to ensure compliance with IDB policy and PSG agreement. The project will also generate a final evaluation report which will describe and analyze progress in reaching the targets contained in the results matrix of the project.

Indicative Budget *

Component	Activity	IDB Funding	Total Funding
Component I: Develop empirical findings on the conditions and factors likely to facilitate emissions reductions through industry procurement	Activity 1.1. Best Practices and Methodology	US\$120,000.00	US\$245,000.00
	Activity 1.2. Estimation of Carbon Emissions Reduction	US\$125,000.00	
Component II: Provide guidance to industry and governments on the types of procurement policies that can support reductions in carbon emissions and improve environmental resilience	Activity 2.1. Tailored country and company specific action plans, and capacity building	US\$120,000.00	US\$350,000.00
	Activity 2.2. Stakeholder capacity-building	US\$105,000.00	
	Activity 2.3. Online platform to enhance innovation and sustainable resilient practices in the value chain	US\$125,000.00	
Component III: Pilot the development of a "Carbon Calculator" tool for industry and government	Activity 3.1. Implementation of the Carbon Calculator Tool	US\$150,000.00	US\$300,000.00
	Activity 3.2. Communications and dissemination.	US\$150,000.00	
PSG administrative fee		US\$50,000.00	US\$50,000.00
Agreed upon procedures report by auditor		US\$25,000.00	US\$25,000.00
Contingencies		US\$30,000.00	US\$30,000.00
Total		US\$1,000,000.00	US\$1,000,000.00

* In the case of PSGs, the budget table needs to include the 5% administration fee charged by the IDB. The fee is calculated as 5% of the donor total contribution.

- 3.5. Ministry of Foreign Affairs of Sweden expects to commit US\$1,000,000.00 to this project. Resources for financing of this project to be received from the Ministry of Foreign Affairs of Sweden will be provided to the Bank through a Project Specific Grant (PSG).

⁹ US\$25,000 are allocated towards an agreed upon procedures report by an external auditor; contingencies could also be applied if needed towards the audit although the preference is to assign them towards project activities.

- 3.6. A PSG is administered by the Bank according to the “Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)” (Document SC-114). As contemplated in these procedures, the commitment by the Ministry of Foreign Affairs of Sweden will be established through a separate administration agreement. Under such agreement, the resources for this project will be administered by the Bank and the Bank will charge a non-refundable administrative fee of five percent (5%) of the contribution, which is identified in the budget of this project. The 5% administrative fee will be charged upon the Bank’s receipt of the contribution into the account defined in the administration agreement.
- 3.7. The project team will be responsible for project execution and will report to the donor annually, in compliance with the stipulations of the administration agreement. If at the end of project execution the project closed with a positive uncommitted and unspent balance, the project team will be responsible for informing ORP/GCM to transfer the unspent balance as agreed to by the donor and the Bank pursuant the terms of the PSG Administration Agreement.
- 3.8. **Implementation Reports and Final Evaluation.** The Bank will elaborate implementation reports every semester and a final report at the end of the project. The implementation reports will include information about: (i) progress on the achievement of objectives and results agreed in each Annual Operation Plan (AOP) and Program Monitoring Report (PMR), including analysis and monitoring of risks that affected them and mitigation measures; (ii) the status of execution and of the procurement plan; (iii) compliance with the contractual clauses; and (iv) financial execution status. Additionally, the report for the second semester of each calendar year will include the new AOP for the new year and an updated procurement plan.
- 3.9. The project will include a final evaluation report which will describe and analyze progress in reaching the targets contained in the results matrix of the project. This final evaluation will be carried out by the Bank.

IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 4.1. The project team will be responsible for the preparation and submission to the donor of the project reporting, in compliance with the stipulations of the Administration Agreement.
- 4.2. The activities related to this operation will be included in the Acquisition Plan (annex) and will be executed according to acquisition methodology of the IDB: a) hiring of individual consultants, as established in the AM-650 standards. b) hiring of consultant firms for intellectual services according to GN-2765-1 and its associated operating guides (OP-1155-4); and c) Contracting of logistics services and different other services according to policy GN-2303-20.
- 4.3. The Bank will be the executing agency for this CT taking advantage of its expertise and relationship with different stakeholders related to the natural resources industry. The Bank will include a progress and final report of the results of the activities.

V. MAJOR ISSUES

- 5.1. Public data on the purchases made by natural resources companies and companies in the minerals and metals value chain and emissions produced by the sector is fraught with paucity. Limited information about environmental indicators is due to the focus on economic efficiency of procurement processes in natural resource projects and to the

complexity inherent to assessing and monitoring environmental impacts in the supply chain. To mitigate the risk posed by information scarcity, the IDB will partner public sector entities and world-class private sector companies operating in the region who have already made public strategies geared towards reducing emissions in their operations and in their value chains, willing to share information and lessons learned, and in improving procurement processes. The approach will favor showcasing early wins to demonstrate the value associated with greener procurement practices in the industry.

- 5.2. The ongoing global sanitary crisis due to the COVID-19 pandemic has generated important disruptions in economic activities in Latin America and the Caribbean, and particularly in the natural resources development sector. Price volatility and market instability have hindered supply chains, and investment and procurement decisions. However, faced with a crisis, the implementation of new initiatives associated with procurement processes may face implementation challenges, including logistical issues and communication delays. To mitigate these issues, project implementation will sequence desktop research, online communications, and remote supply chain assessment with willing partners. The project will help leverage good practices and initiatives to mainstream environmental issues in procurement practices.

VI. EXCEPTIONS TO BANK POLICY

- 6.1. None apply.

VII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 7.1. According to the ESG toolkit, this project is classified as “C”, consequently, no environmental or social risk are expected.

Required Annexes:

[Request from the Client_29634.pdf](#)

[Results Matrix_81405.pdf](#)

[Terms of Reference_59999.pdf](#)

[Procurement Plan_64439.pdf](#)