2022 BUSINESS PLAN UPDATE

REVISED VERSION

DECEMBER 2021

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Acronyms and Abbreviations

BPU	Business Plan Update
CECL	Current Expected Credit Losses
DELTA	Development Effectiveness Learning, Tracking and Assessment
DFI	Development Finance Institution
DSP	Strategy and Development Department
FDI	Foreign Direct Investment
GDI	Gender Inclusion and Diversity
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IT	Information Technology
LAC	Latin American and the Caribbean
LIBOR	London Inter-Bank Offered Rate
MD&A	Management's Discussion and Analysis
MICI	Independent Consultation and Investigation Mechanism
MSME	Micro, Small, and Medium Sized Enterprises
NSG	Non-Sovereign Guaranteed
OPD	Operations Division
PPP	Public-Private Partnership
S&I	Small and Island
SCF	Supply Chain Finance
SLA	Service Level Agreement
TFFP	Trade Finance Facilitation Program
UCP	Unfunded Credit Protection

Executive Summary

In 2021 Latin America and the Caribbean (LAC) began a slow recovery, hampered by limited access to vaccines and ongoing economic uncertainty. In the face of this uncertainty, many businesses have delayed investment decisions and financial institutions remain highly liquid. Despite challenging market conditions and continued limitations on business development, due diligence, and supervision due to travel restrictions, Management focused on continuing to deliver a counter-cyclical response and is on track to deliver its 2021 US$5.85 billion commitment target.[1] Moreover, it has continued to attract external capital through core mobilization and is on track to reach the US$2.5 billion target for 2021.

IDB Invest has demonstrated its capacity to originate quality transactions at scale—under the most challenging market conditions—and the region has demonstrated the demand for private investment with a focus on delivering impact.

Even as Management focused resources on a counter-cyclical response to the crisis, it made substantial progress implementing the pillars of the 2020-2022 Business Plan, positioning the institution to accomplish the main objectives during 2022. This includes organizational changes, including the consolidation of the Operations Division within FNA and the creation of a new DSP; contracting staff to meet organizational needs; capital projects that will enable the organization to scale, such as the Treasury Management System and improvements to Maestro; and a continued focus on systematizing new mobilization prhoducts to reach new partners. The organization took important steps in “walking the talk” when it comes to impact, making progress to increase the Paris Alignment in its portfolio and achieving EDGE Move certification.

Entering 2020, IDB Invest’s healthy capital position enabled it to provide a robust counter-cyclical response in 2020 and 2021, lending strong support to those most vulnerable - reaching record numbers in MSMEs and GDI -, fostering the shift towards digitalization through equity investments with high market signaling value, and mobilizing a record volume of capital to the region.

Management proposes an indicative commitment target of US$4.8 billion, including US$2.4 billion in short-term commitments and US$2.4 billion in long-term commitments, and a core mobilization target of US$2.1 billion (a higher mobilization ratio than the 2021 target). Management also recommits to its impact objectives for S&I countries, C&D countries, climate finance, gender & diversity, and MSMEs.

From a corporate perspective, 2022 will continue to present complex challenges: This includes, as conditions permit, a cautious execution of the return to office framework and a gradual return to selective business development, due diligence, and supervision missions. Work remains to complete some key backbone projects that will enable IDB Invest to scale its efforts and address the increasingly complex demands from clients. The final stages of the LIBOR transition will also be a backbone significant effort in 2022. Having a workforce that operated at well over 100% capacity to deliver the institution’s counter-cyclical response, Management will also need to continue efforts to de-stress the organization.

[1] Long-term commitments plus short-term commitments.

I. Introduction

1.1 Through its long-standing planning cycle, IDB Invest Management and the Board of Executive Directors ("the Board") set the organization's financial, operational, and developmental priorities for a three-year period in a Business Plan. In the intervening two years, Management provides updates and seeks the associated annual authorizations in annual Business Plan Updates (BPUs). This approach provides flexibility in the face of changing economic, financial, and operational environments.

1.2 In December 2019, priorities were set for the 2020–2022 planning cycle through a Business Plan focused on Growth for Sustainable Impact (CII/GA-80-2). To address the urgent needs of the region in the face of the Covid-19 pandemic, the Covid-19 Response (CII/GN-419) introduced measures to support the private sector including an increased plan of operations and a Covid-19 lens for investments.[3] The 2021 BPU[4] incorporated the IDB Group's Vision 2025 (CII/AB-1583) priorities including tracking indicators for strengthening regional value chains and digitalization. The 2022 BPU marks the final year in the cycle.

1.3 While in the past the BPU and the Budget have been part of the same proposal, at the request of the Board, this year Management is submitting two proposals for consideration: i) the BPU and ii) an Administrative and Capital Budget ("Budget"). This approach will allow a comprehensive and strategic discussion of each proposal separately. Although the BPU and the Budget are delivered separately, they remain interdependent, and the Budget reflects the resources required to execute the priorities described in the BPU.

II. Economic and Business Outlook

A. A Gradual Shift to Recovery in LAC

2.1 LAC has been the region most affected by the Covid-19 crisis. The region accounts for only 8% of the world's population but more than 33% of global deaths.[5] The pandemic is expected to reverse the progress made in poverty reduction across the past two decades,[6] and inequality increased by 5% compared to pre-crisis levels[7]. Within LAC, the impacts varied significantly by country. Economies that rely on international tourism, including many in the Caribbean, were particularly hard hit, as cross-border travel came to a halt. The median IDB Group borrowing member country lost 7.8% of Gross Domestic Product (GDP) in 2020; one quarter of countries lost 10.9% of GDP or more, while one quarter of countries lost 5% of GDP or less; the recovery is also likely to be heterogeneous.

2.2 The pandemic continues to be the driving force affecting the global economy. The global economy is projected to grow 6.0% in 2021 and 4.9% in 2022 but with divergent trajectories between developed economies and emerging market and developing

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3 The elements of the Covid-19 response were approved via resolutions CII/DE-20/20, CII/DE-21/20, CII/DE-22/20, CII/DE-23/20, CII/DE-24/20, CII/DE-25/20, and CII/DE-26/20.

4 The 2021 BPU encompasses both the Provisional BPU (CII/GA-80-6) and the final BPU (CII/GA-80-11).

5 As of July 31, 2021.

6 Acevedo, I., Castellani, F., Flores, I., Lotti, G., Székely, M., *Social effect of Covid-19: Estimates and alternatives for LAC*, Latin American Economic Review, Vol. 29 (2020), 2021-01-22.

7 IMF Regional Economic Outlook for Western Hemisphere. April 2021.

economies mainly explained by differing vaccine access.[8] Strong growth in China in 2021 has supported higher commodity prices. Higher prices help commodity producers in LAC, particularly in South America. Uncertainty about the economic outlook remains high, with both the trajectory of the pandemic and the monetary policy outlook posing risks for developing economies.[9]

2.3 The IMF projects LAC will grow 5.8% in 2021 and 3.2% in 2022. Investment across the region has taken a severe—and most likely prolonged—hit from the pandemic: firms have rolled back planned investments and gross fixed capital formation declined by an estimated 13% in 2020 and will increase 7% in 2021 and 3% in 2022.[10] Foreign direct investment (FDI) flows to LAC plummeted by 35% in 2020 (the sharpest decline among developing regions); investment flows to and from the region are unlikely to recover their pre-crisis level before 2023.[11] FDI inflows to Central America (excluding Mexico) fell by 90%, South America by 40%, and the Caribbean by 26%, while inflows to Mexico increased by 7%. Losses in the GDPs of LAC countries were curtailed in some countries given large fiscal packages. Fiscal deficits grew substantially from 3.0% of GDP in 2019 to 8.3% in 2020 and debt ratios rose from 58% of GDP in 2019 to 72% of GDP in 2020. For tourism-dependent economies, debt rose from 63% of GDP in 2019 to an estimated 80% in 2020. Total debt service (interest payments plus amortizations) is expected to be as high as 5% of GDP in the coming years, roughly double the spending on infrastructure in recent years.

2.4 Three are bright spots that can be levers of the Region's recovery. The agribusiness sector remained resilient and will benefit from the rise in commodity prices. The technology and innovation industries are another sector that has weathered the crisis better and where the recovery is underway, as record levels of capital financing show: venture capital in the Region reached US$9.3 billion in the first semester of 2021, compared with US$5.3 billion in all 2020.

B. Business Outlook

2.5 As the pandemic is expected to wane in 2022, it will be critical for the private sector to support recovery and contribute to sustained economic growth. Given the disproportionate impact of the crisis on vulnerable populations, the increasing risks from climate change, and the constraints the public sector faces in confronting these challenges, a successful recovery must be a sustainable and inclusive one driven by the private sector. Consistent with the 2021 BPU, the Vision 2025 priorities for the private sector continue to be critical for recovery, including investments that: generate employment (in particular for women and vulnerable populations), support for MSMEs, a boost to digitalization, and strengthen regional value chains. Boosting infrastructure investment can fuel the recovery from the pandemic and propel growth by increasing productivity of other economic sectors.[12] Given the fiscal constraints, private investment in infrastructure must accelerate. For PPPs, a pipeline of sustainable, efficient, fiscally

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8 IMF World Economic Outlook Update. July 2021.

9 Ibid.

10 UN World Economic Situation and Prospects 2021.

11 UNCTAD World Investment Report 2021. June 2021 and ECLAC Foreign Direct Investment in LAC, 2021. August 2021.

12 Cavallo, Eduardo A. and Andrew Powell. 2021. *Opportunities for Stronger and Sustainable Postpandemic Growth.* Inter-American Development Bank: Washington, DC.

responsible, and bankable projects is a potential constraint; this constraint can be alleviated through support for project preparation and structuring. IDB Invest will continue to play a key role in providing and mobilizing financing, as well as supporting strong ESG and transparency standards to ensure infrastructure quality and sustainability. The region faces a growing environmental crisis. Investing for a sustainable recovery can create jobs and economic growth while reducing climate risks. The right policies can boost growth by more than one percentage point per year.[13]

2.6 The remainder of this section includes a short-term demand analysis for each of IDB Invest's segments for 2022 based on market intelligence including input from clients. Overall, given IDB Invest's Plan of Operations for 2022, Management expects eligible demand to substantially exceed available financing. The issue of long-term term demand is a focus of the ongoing analytical work in response to the Barranquilla Resolution.

Corporates

2.7 The impact of the pandemic on Corporates has varied by industry. Tourism in LAC suffered from limitations on international travel and capacity restrictions, and operators continue to face significant uncertainty. However, the industry has reached an inflection point and is starting to observe improved fundamentals, especially driven by domestic travel. Manufacturers' experience has been mixed, with many experiencing supply-chain disruptions and human-resource constraints but specific industries seeing strong demand, including pharmaceuticals and supermarkets. Agribusiness has been relatively unaffected as demand for primary products has remained strong. Despite a decrease in network investments, usage of telecom infrastructure has experienced strong growth as social distancing requirements linked to the pandemic have driven demand for better broadband and access to digital channels for a wide range of services. Tech-enabled business models have flourished.

2.8 Commercial banks continue to be cautious in making new corporate loans due to ongoing market uncertainty. This reticence has led to financing gaps in many industries. Companies are also being cautious making new capital investments, and this caution has slowed the origination process.

2.9 Despite some challenges, 2022 will bring new and increased opportunities for IDB Invest in some sectors:

2.10 Digitalization continues to be a strong opportunity. Closing the connectivity gap with OECD countries would create over 15 million direct jobs, boost regional economic growth by 7.7%, and increase productivity by 6.3%. Investment in digital infrastructure will pick up as is required to support to tech-enabled business models. The technology sector in LAC is experiencing strong growth, as measured by venture capital investment volumes and new unicorns. Most investment opportunities in tech require equity financing, an area in which IDB Invest's participation is constrained by its capital and balance sheet.

2.11 Strengthening regional value chains continues to be an opportunity for jump-starting the economies of LAC.[14] Supply chain disruptions that emerged in early 2020 have proven persistent. While severe shortages of basic goods were largely ephemeral, manufacturers continue to face challenges in industries from plastics to

[13] Ibid.

[14] CII/GN-446. March 8, 2021. Strengthening Regional Value Chains in LAC. Concept Note.

semiconductors.[15] New sources of disruption have continued to arise, including the increased frequency of natural disasters due to climate change and tariff disputes. As supply-chain uncertainty becomes a permanent feature of the global economy, more companies are looking for ways to strengthen the resilience of their supply chains, including by diversifying suppliers and regionalizing production. This trend has created a unique opportunity for LAC to increase its share in global production.[16]

2.12 As the tourism industry embraces recovery and stakeholders ramp up their operations, the sector is still facing liquidity needs as local commercial banks remain cautious about injecting new capital. IDB Invest can alleviate this strain by providing working capital support via corporate loans to large regional portfolios and risk-sharing facilities.

2.13 In agribusiness, opportunities to support the sector's increased sophistication and climate smart development will continue, with heightened prospects to support capacity building, linkages to MSMEs, and test new technologies and methods.

Financial Institutions

2.14 Financial systems across LAC have been resilient to the economic consequences of the Covid-19 pandemic; however, they are showing signs of some deterioration of lending portfolios. Unprecedented policy measures allowed banks to maintain a stable level of non-performing loans from 2019 to the first quarter of 2021, however as government support to the real sector tapers, this trend has started to change. Higher leverage in the corporate sector and risk of default have increased loan-loss reserves in the financial sector at a cost of lower profitability, which is expected to be significantly less than before the pandemic, non-performing loans are also higher.

2.15 Given high levels of ongoing uncertainty and slow economic activity FIs may face vulnerability as the impact of the crisis continues to materialize in the real sector. However, FIs are carrying high liquidity, have remained well capitalized, and are carefully planning their funding strategies to support portfolio growth.

2.16 Financial Institutions (FIs) in LAC increasingly recognize that integrating sustainability into their core business not only mitigates credit, compliance, and reputational risks, but also creates value. FIs are embracing the sustainability trend by developing new business models, creating and joining alliances, joining sustainable indexes, etc.

2.17 This presents a business opportunity for IDB Invest to play a critical role in financing the sustainable transformation of the financial sector, mainly by supporting the following areas:

2.18 First, a heightened global focus on *climate change* has drawn FIs' attention to the *sustainability* of their own portfolios and operations. This has created opportunities to finance more green and other thematic bonds and loans, sustainable physical infrastructure, green housing, and to work with clients to embed sustainability in their business models, investments, and loan approval processes (e.g. implementing Paris alignment or Task Force on Climate-Related Financial Disclosures compliance). Opportunities also exist for investment funds wholly or partially focused on climate change and sustainability themes including affordable green housing, energy efficiency, and sustainability.

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15 Vakil, Bindiya. March 26, 2021. "The Latest Supply Chain Disruption: Plastics." *Harvard Business Review.*

16 Cavallo and Powell, *Opportunities*.

2.19 Second, there is continued market demand for financial products supporting gender equity, diversity, and inclusion. This includes demand for products that finance the women's market including MSMEs led/owned by women or excluded populations, immigrants, housing for women, investment in funds that approach their portfolio with a gender lens, and advisory services engagements that promote gender equality and diversity within organizations.

2.20 Third, demand for financial inclusion and MSMEs continues to be strong and will be key in the context of Covid-19 recovery, as MSMEs and underserved populations have been particularly hit. A wide range of types of FIs—including development banks, cooperatives, and investment funds—are working in financial inclusion. There are opportunities within the investment fund market to support private equity and private credit funds focused on supply chain finance of MSMEs, impact investing and Covid-19 response investments. There are also opportunities to finance high-impact portfolios and to increase focus on populations that are underserved by the traditional financial sector, including afro-descendants, indigenous populations, and retirees, all of which are also disproportionately poor and vulnerable.

2.21 Finally, the pandemic has accelerated the digital transformation of the financial sector. There are new opportunities for partnering with FIs that are leveraging digital technology to improve products and services that attend underserved populations and MSMEs; this may involve working with innovative credit scoring methodologies, with payment providers to strengthen the digital infrastructure for MSMEs and providing tools and advisory services to support the digitalization of MSMEs. In terms of investment funds, there are opportunities to invest in technology-focused funds. IDB Invest can complement IDB Lab's focus on early-stage technology by supporting expansion projects and later stage technology companies through funds.

Infrastructure and Energy

2.22 The pandemic also continues to affect the infrastructure segment. Utilities are facing reduced operating margins and liquidity constraints as clients experiencing income loss have deferred their payments. Travel restrictions and the economic slowdown significantly reduced demand in the transport sector—up to 80% in some cases. Supply-chain disruptions, labor constraints and temporary work stoppages have caused delays and cost overruns in construction. Projects that were in pipeline or under construction before the pandemic have largely continued; however, ongoing market uncertainty has slowed structuring of new projects and has reduced the number of tenders. Integrity and reputational risks also continue to present a challenging environment in selecting suitable infrastructure and energy projects in the region.

2.23 Given the long time-horizon for structuring infrastructure projects, the slowdown has only recently begun to materialize in the project pipeline. On the other hand, the demand for working capital—to enable ongoing utility access for poor and vulnerable consumers who have been forced to delay payment—resulted in a short-term increase in commitments.

2.24 For 2022, there are new and increased opportunities for IDB Invest in specific infrastructure sectors:

2.25 As countries strive to meet the mitigation goals established in their Nationally Determined Contributions and the global community increases its focus on climate change, there will continue to be demand for renewable energy. Despite ongoing demand, solar projects will face challenges linked to supply-chain issues affecting the industry. In more mature markets, new investment opportunities stem from corporate PPAs. Blended and concessional finance play a pivotal role in enabling innovative models and increasing the adoption of new technologies such as batteries to achieve scale.

2.26 The supply and maturity of large projects to finance remains slow. However, as governments seek to revitalize their economies by investing in core infrastructure but face binding fiscal constraints, PPPs will pick up in the medium-term (in the short-term governments are moving towards schemes such as private-financed public works). There will be specific opportunities to support concessions and the private sector in developing key assets, such as ports and strategic road corridors.

2.27 Management sees potential for growth in water and sanitation in the coming years. Stress on the health sector due to the pandemic is leading to increased demand, creating opportunities to support projects across the region in health technology, expanded coverage, improved service quality, and hospital PPPs.

2.28 Demand by region is expected to be balanced with about one third in both southern cone and the Andean countries, and the remaining third split evenly between Central American countries and the S&I countries.

Financial Products

2.29 TFFP: At the onset of the Covid-19 crisis in early 2020, unprecedented levels of uncertainty led many FIs to limit their exposure by rapidly and severely restricting access to new financing. As alternative sources of financing exited the market, there was a sudden increase in the demand for trade finance, which IDB Invest sought to support with its countercyclical increase in the TFFP.

2.30 Over the course of 2020 and 2021, FIs in LAC have become more liquid and uncertainty as it pertains to trade-finance products has diminished. While FIs continue to act with restraint for long-term financing, many have re-entered the trade finance market, leading demand to converge to pre-crisis levels.

2.31 Supply Chain Finance: Demand for supply-chain finance products has continued to grow in 2020–2021, a trend expected to continue in 2022 as corporate’s suppliers have increasing needs of working capital (especially MSMEs). As demand for supply-chain increases, Management will look expand the geographic diversity of this product. Short-term, trade-related assets are the most mobilizable asset class, given their lower-risk profile.

2.32 Equity: Demand for equity investments from high-quality firms continues to be high, substantially exceeding IDB Invest’s current financing capacity. A significant source of demand is regional entrepreneurs seeking risk capital to support disruptive, scalable opportunities that are often found in the digital space. These companies—which are critical to increasing productivity—require equity financing in early stages to build out their footprints. IDB Invest's role in this space builds on the work of IDB Lab along the continuum of product offerings to the private sector.

2.33 Bonds: Clients react positively to IDB Invest’s innovation in securities products. IDB Invest’s participation (as anchor investor or partial credit guarantee provider) in thematic bonds and sustainability-linked bonds is expected to grow across all segments. The Covid-19 crisis also increased the relevance of structured finance as alternative funding and capital preservation solutions for corporate and financial institutions.

Business Development

2.34 Developing long-term relationships with clients that share its vision for a sustainable and inclusive private sector is central to how IDB Invest generates impact with its investments. In 2020 Management rolled out the Client Strategy, a plan for overhauling how IDB Invest does business development to a client-centric approach, and to continue the transformation that began with the merge-out into a private-sector-oriented and client-centric institution. With the Client Strategy plan nearly complete, Management will continue adapting and improving its Client Strategy to help the organization responding to the changing needs of clients. In addition, Management is exploring opportunities to support non-regional companies that are interested in developing or expanding operations in LAC and have projects aligned with IDB Invest's mandate.

2.35 Attracting new co-investors is also critical to scaling up IDB Invest's impact by increasing the amount it mobilizes. New financial product offerings that meet the needs of new investors have been crucial to increasing the ratio of own account lending to mobilization in the last few years. For example, UCPs have helped attract insurers which now account for a significant share of IDB Invest's mobilization. Looking forward, Management will continue to innovate in financial products as it seeks to attract more institutional investors and local investors.[17]

III. Delivering on Business Plan & Vision 2025 Priorities

3.1 Management identified three pillars to drive the organization over the 2020–2022 period: smart growth, knowledge, and IDB Group synergies. This chapter reviews progress on these objectives over the past year and progress expected to be achieved over 2022.

A. Smart Growth

3.2 Over the first four years of operation Management focused on building origination capacity to ensure the organization's financial sustainability by generating earning assets. The purpose of smart growth was to focus on building a non-financial value proposition, along with a back and a middle office, to match the origination capacity.

3.3 The countercyclical response to the Covid-19 pandemic greatly accelerated growth in origination and portfolio, significantly increasing strain on investment teams as well as the back and middle-office functions. At the same time, those functions provided critical services in enabling the organization to adapt to remote work, and experienced slower-than-anticipated workforce growth as hiring slowed during the pandemic.

3.4 Looking forward, IDB Invest continues to face the need to de-stress the organization following a prolonged period of intense growth. It also requires targeted workforce growth responding to specific needs. Overall, however, as commitment levels converge towards the institution's sustainable lending level, the organization will reach its cruising altitude in terms of workforce size and administrative budget in 2022.

[17] See more details in Chapter III Section A under the subheading "Mobilization."

Strengthening the Backbone

3.5 As the end of the Business Plan period approaches, Management is finalizing key investments in backbone systems and processes that will enable the organization to scale its impact, reduce operational risk, and support new and more complex functionality to help meet client needs.

3.6 The consolidation of several backbone support functions in the Operations Processing Division (OPD) was a central part of reinforcing the backbone. This consolidation has been tremendously successful: OPD has enhanced internal and external client experience with middle-office functions; decreased operational risk; supported key capital projects such as the LIBOR transition, and cash and treasury management; and implemented process improvements and synergies. The work managed by OPD is a key enabler for scalability in areas such as document management, mobilization, and new financial products.

3.7 IDB Invest is already working on additional improvements, such as defining optimal team size, project management tools, and incentives. Another area of focus is designing flightpaths or abbreviated approval processes for transactions that match specific risk profile, products, industry, or region criteria.

3.8 Key backbone capital projects that will enable the automation of the reconciliation process in both US dollars and some local currencies are nearing completion including the systems for payments and cash management, the Treasury Management System, and the data architecture project. These efforts are the foundation for enhancing market risk management and asset and liability management.

3.9 Management has made critical improvements to accounting processes including its Accounting Policy Manual, documentation of assumptions, and improvements in the fair value process. The organization is in the process of completing a Management's Discussion and Analysis section that will enhance the granularity of its financial disclosures to investors.

3.10 Preparations for the LIBOR transition have been ongoing since 2020 and, as the transition approaches, will be a core focus for many of the backbone business units in 2022.

Non-Financial Value Proposition

3.11 Expanding the scope of the Department of Strategy and Development (DSP) will help meet market demand for deeper impact through the provision of non-financial additionality. The new DSP consolidates into one department the Advisory Services; Environmental, Social, and Corporate Governance; Development Effectiveness; and Strategic Planning and Knowledge divisions. It will act as a sustainability hub and a trustworthy advisor by offering clients well-informed guidance and strategies, helping them manage risks, assessing and monitoring measurable development impact, leveraging actionable knowledge, and engaging stakeholders to promote LAC's private sector.

3.12 This expanded DSP recognizes that IDB Invest's non-financial value to clients exists as a continuum extending from compliance with standards to positive impact, and measuring impact is central to improving it. The new DSP is better positioned to transform risks into opportunities to generate impact beyond mitigation and will improve internal and external client experience by ensuring coordination across functions that frequently use similar client information. Finally, DSP will help identify new opportunities to, in close coordination with the Investment Department, leverage relationships with clients to push them toward greater impact.

3.13 Identifying the sources of financing will be an enabling factor for achieving the potential in terms of non-financial additionality. DSP is implementing an integrated approach to fundraising, which will help cultivate donor relationships and enhance the strategic approach to development. Even as fundraising efforts increase, there are likely to be gaps between donor interests that finance non-financial additionality and shareholder priorities Management seeks to implement. Management will continue to explore alternative options to support these shareholder priorities (e.g., authorizing expenses for non-financial additionality).

3.14 Providing advisory services[19] in an impactful and cost-effective manner requires balancing the development of innovative services that capitalize on new trends with a systematization of delivery for mature solutions. Creating standardized solutions of mature advisory products will enable IDB Invest more effectively to offer packaged solutions that include advice on how to adopt new business approaches that are both impactful and financially profitable, together with the financial resources required to implement such new business approaches. Standardization also allows continued focus on developing new advisory solutions that respond to emerging market demand. Systematically integrating an advisory component into IDB Invest's financial offering will help develop deeper relations with clients and greater relevance in their markets, thus achieving greater impact.

3.15 Going forward, IDB Invest will continue to adapt to demand by monitoring key market trends, piloting advisory products jointly with investment solutions, and systematizing those products for wider implementation. One example currently being deployed is a suite of products for FIs that integrate financial products with gender and climate advisory, helping clients in their journeys to become gender- and climate-smart institutions.

3.16 Management sees an opportunity for developing a stronger upstream practice to build clients' capacity, to support the bankability of projects, and to create markets. Building knowledge and capacity in the emerging area of upstream will be an important focus in terms of continuing to enhance non-financial additionality. The implementation of the Update to the S&I Action Plan (CII/GN-354-2) provides the opportunity to test models in several countries. Building on that success in other countries will require further enhancing capabilities and identifying resources needed for implementation.

3.17 IDB Invest has continued to enhance how it manages non-financial risk. IDB Invest finalized the Implementation Manual (CII/GP-16-17) for the Sustainability Policy in December 2020 and began the rollout of the new IDB Invest Environmental and Social Sustainability Policy (CII/GP-16-15) in 2021. Training modules are being developed and will be available to all staff including MICI and OVE. Externally, Management is holding sessions with civil society organizations to share the manual and communicate how input was incorporated. The new policy has also contributed to strengthening synergies with the rest of the IDB Group on non-financial risk management, as IDB's policy is also based on the Performance Standards.

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19 Management provided a technical briefing addressing IDB Invest's value proposition for advisory services in more detail in August 2021.

3.18 The development of the Management Grievance Mechanism (MGM) has been a significant effort in 2021 and shows promise as an innovative way to improve risk management and community relations. The MGM complements existing mechanisms by filling the gap between project-level complaints and the MICI process. While very new, early experience shows the MGM can be effective in facilitating complaint resolution and has potential to improve relationships with civil society by opening new lines of communication.

3.19 IDB Invest continues to invest in knowledge linked to its expertise in non-financial risk management including publications addressing the issue of reprisals[20] and on preventing sexual exploitation.[21] IDB Invest is also collaborating with other DFIs, solar industry associations, and its solar clients to develop and implement the measures to address the recent allegations of forced labor in the global solar supply chain proposed in the document entitled "IDB Group Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules" (CII/GN-464). Regardless of the country, sector or industry in which IDB Invest works, the Environmental and Social Sustainability Policy requires clients to carry out good labor relations and practices, provide good working conditions, and maintain health and safety standards in line Performance Standard 2—guided by the International Labor Organization conventions—which preclude forced labor. Further, the Policy expressly states that clients may not employ trafficked persons.

3.20 Enhancing the corporate governance offerings was a focus in 2020 and is central to its role in supporting the IDB Group institutional priority institutional capacity and the rule of law. Going forward, Management views corporate governance as an area with a high potential for scaling up IDB Invest's impact, especially in small economies. Enhanced corporate governance can help clients and potential clients—especially in small economies—take the necessary steps to work with IDB Invest and other global financial institutions and enhance competitiveness in global markets.

Mobilization

3.21 Since 2016, IDB Invest has been increasing its annual mobilization volume, reaching a record number of US$2.30 billion in 2020. For 2021 Management set an ambitious core mobilization target of US$2.5 billion. As of September 30, IDB Invest reached US$1.7 billion in core mobilization and is on track to meet this record-setting objective.

3.22 Perhaps more significant than the volume increase is the increase in number of transactions that have been mobilized, thereby reducing the reliance on mega-deals to reach targets.

3.23 Product development has been further strengthened in 2021 with the creation of a group inside the mobilization team focused on developing new products and optimizing processes. The new team also freed the existing mobilization team to dedicate more time towards sourcing of bankable assets and building relationships with investors.

3.24 As more countries move toward local currency financing, the ecosystem needs to be developed to promote greater use of local capital markets. IDB Invest needs to work with IDB and local regulators to develop project bonds as an asset class, educate local investors, and develop new instruments to mobilize (i.e., liquidity backstops), among other solutions to reach local investors.

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20 *Good Practice Note for the Private Sector: Addressing Risks of Retaliation Against Project Stakeholders*.

21 *Preventing Sexual Exploitation: A Practical Guide to the Private Sector.*

3.25 Although liquidity is plentiful in the market, institutional investor appetite weighs heavily toward investment-grade transactions, with an overwhelming focus on larger economies. IDB Invest manages over US$800 million of blended finance to crowd in private-sector investments that would otherwise not be available to projects with high development impact. While these funds help re-balance risk-reward profiles for pioneering investments and enabling them to happen, their use can often be quite restrictive. To mobilize more institutional investors, IDB Invest would need greater access to less restrictive donor funding or allocate a greater share of its capital towards risk mitigation products, such as partial credit and liquidity guarantees, and mezzanine products.

Scaling-up Mobilization

3.26 From an internal perspective, scaling up mobilization will require processing more bankable assets, a backbone and reinforced processes to support this increase, servicing the investor end-to-end, and careful consideration of the implications for the business model. As the combination of mobilization fees and interest income need to keep pace with the origination, portfolio management, and other costs, the mobilization ratio requires an increase to ensure financial sustainability. To continue expanding the instruments available to mobilize investors, in 2022 Management will explore the creation of a mobilization platform for equity. Such a platform would allow IDB Invest to leverage its limited equity capacity, mobilize additional equity investments from new partners, and support the growing demand for equity in LAC.

Human Resources

3.27 Managing the workforce has been a critical smart growth priority for IDB Invest and a challenge as the organization confronted the practical difficulties and business needs to support the region during the pandemic. Given the countercyclical increase in lending and ongoing efforts to execute critical backbone capital projects, workload has continued to be extremely high across the organization. At the same time, recruiting to fill vacancies has proven to be a challenge during telework. As a result, many business units continue to operate well above their built-in capacity and the organization continues to be stressed.

3.28 Management conducted a comprehensive workforce analysis in 2020. Since that time, the needs of the organization have evolves and Management will continue to assess the distribution of functions, the workforce balance between headquarters and country office, and the mix of staff and consultants.

3.29 Increasing workforce engagement continues to be a priority. Maintaining a high level of engagement despite the demands on employees during the telework period speaks to the workforce’s commitment to the mission of the organization. Working through the network of engagement champions, Management will continue to look for ways to improve engagement.

3.30 In 2022 several key IDB Group efforts will play a key role in managing the workforce. IDB Invest is collaborating with the rest of the IDB Group on the development of the Human Capital Strategy. Coordination on the execution of the return-to-office framework will also be a central focus for 2022.

B. Knowledge

3.31 Management identified two mutually reinforcing goals for knowledge efforts at IDB Invest: influencing externally and learning internally. The organization has continued to be successful in producing a range of high-quality knowledge products linked to areas of expertise. It has also made significant strides in improving knowledge management by strengthening knowledge systems, processes, and governance. Synergies with the rest of the IDB Group have been critical in this process.

3.32 In terms of intellectual capital creation, IDB Invest has produced just over 50 external knowledge products per year from 2018–2020. The reach has increased as press mentions of IDB Invest reached 9,000 in 2020, up from 6,800 in 2019. Each of these products leverages knowledge to foster impact beyond the projects IDB Invest finances. IDB Invest also developed internal knowledge products that complement its transactional work including debt capital markets regulatory framework analysis for several jurisdictions, and compliance trainings (e.g., integrity and business compliance).

3.33 The challenge IDB Invest faces is how to scale its efforts: how does it ensure knowledge products are accessible and knowledge production is aligned with the strategic direction of the organization, while nurturing the successful organic growth in knowledge production to date? And how does it capture the lessons learned throughout the project cycle?

3.34 Strengthening the knowledge function and creating a roadmap for the future of knowledge in the organization are key first steps. The consolidation of key intellectual-capital-generating functions into new DSP will have a positive impact on intellectual capital production. To provide further strategic direction, Management engaged external knowledge experts to conduct a needs assessment and inform a knowledge roadmap that sets key milestones for strengthening knowledge capacity.

3.35 Management also strengthened systems enabling staff to find knowledge products. This includes launching the Knowledge Engine, a modular platform for accessing knowledge that can grow with the organization. Management also made significant progress on the data lake to capture data resources. In 2022, systems enhancements will continue, focusing on a lessons learned system that integrates and builds upon the successes of the Mountains of Knowledge and Development Effectiveness Analytics systems.

3.36 Synergies with the rest of IDB Group are critical to strengthening knowledge management and production at IDB Invest. KIC is providing strategic guidance on the development of the Knowledge Roadmap and supporting the knowledge function with specific services through the SLA; collaboration with IDB sectors has been central to publications, such as a study of the impact on private investment on electricity provision in LAC.[22]

C. Synergies

3.37 Development solutions require a virtuous circle between the public and private sectors. The complementary capabilities and synergies among its public, private, and innovation laboratory functions allow the IDB Group to provide holistic solutions and are part of its distinctive value proposition. In 2021, IDB Invest continued to strengthen synergies with IDB and IDB Lab. The crisis has revealed the potential of acting as one IDB Group to address the region's needs. The production of a Covid-19 Impact Dashboard is one example of the integrated digital transformation efforts within the IDB Group. Together with the regional coordinators, the single country representatives had a pivotal role during

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22 Balza, Lenin; Raul Jimenez Mori; Demian Macedo; and Jorge Mercado. 2021. *Revisiting Private Participation, Governance, and Electricity Sector Performance in Latin America*. IDB Invest Development Through the Private Sector Series No. 23. IDB Invest: Washington, DC.

the crisis, helping to navigate rapidly changing conditions in each country, identify country needs, and provide a single IDB Group voice for our Covid-19 Response.

3.38 Public-private coordination has expanded substantially at the strategic, operational, and knowledge levels in recent years. This coordination has allowed (i) enhancing client services and solutions and the collaborative work on (ii) enabling environment and market development. The Group targets enhanced client service and solutions through different tools, such as the creation of sustainable and efficient PPP solutions, innovative and impactful projects designed by cross-institutional teams like the PPP single window, with IDB Invest scaling up IDB Lab clients, among others. The IDB Group supports the establishment of enabling environments and market development advocating for removing regulatory constraints to the private sector, through joint knowledge products that help identify and develop markets, and through continuous policy dialogue with both public and private counterparts, among other initiatives.

3.39 Collaboration has been particularly robust in areas with significant overlap between the public and private sectors. For example, the IDB Group PPP Single Window, through which the PPP Team coordinate biweekly meetings with the relevant business units across all three IDB Group institutions to provide coordinated PPP support, generate applied knowledge, and disseminate best practices. Another example is business units across the IDB Group working on financial markets and financial inclusion have standing meetings and coordinate closely on financing and knowledge products.

3.40 One example of how synergies can support the development of enabling environment and enhanced client service is Kubo Financiero. Kubo is the first Mexican regulated fintech with a 100%-digital model that offers products to the low and middle-income population. Kubo first received a grant and a loan from IDB Lab to test and improve its model. In 2021, Kubo, which has benefited from the IDB's work to advance the fintech regulatory framework in Mexico, received an IDB Invest equity investment to support the growth of its MSME and social investment loan portfolio. This example highlights how the continuum of product offerings from IDB Lab and IDB Invest can support enterprises through various stages of growth. IDB Lab support for emerging technology, such as green hydrogen, is another important sources of collaboration along the continuum.

3.41 Work remains to consolidate and build on the success of the well-functioning and coordinated IDB Group. Looking forward and in line with Vision 2025, Management will continue institutionalizing, incentivizing, and tracking synergies across the three organizations.

D. Key Initiatives

Knowledge Roadmap

3.42 Management continues to work on developing the Knowledge Roadmap.

Information Technology “Future” Roadmap

3.43 IDB Invest is working with the rest of the IDB Group on the Digital Transformation Initiative, under the leadership of the Office of the President.

Operational Excellence 2.0

3.44 In 2021 work continued on the Operational Excellence Initiative. Enhancements to the supervision process have been under implementation since June 2020. The implementation process will last for two years.

Mobilization Roadmap

3.45 As mandated in the Barranquilla Resolution (CII/AG-2/21), IDB Invest Management is working with the rest of the IDB Group to prepare an analytical document on mobilization which will be presented to the Board in late 2021.

Non-Financial Risk Roadmap

3.46 The IDB Invest non-financial risk roadmap was delivered in the form of two technical briefings that described the framework for environmental and social due-diligence monitoring (CII/PP-298-3) and the work to strengthen the management of integrity and reputational risks in coordination with the Office of Institutional Integrity(CII/PP-377). These efforts were complemented in the quarterly Board reports by enhanced reporting on non-financial risks during portfolio supervision.

Climate Roadmap

3.47 IDB Group Management presented a new joint IDB Group Climate Change Action Plan at the end 2020. IDB Invest made progress aligning with the Paris Agreements and with recommendations from the Task Force on Climate-related Financial Disclosures, including a disclosure its 2021 Annual Report. As part of the analytical work mandated by the Barranquilla resolution, in 2021 IDB Group is analyzing how the Group can align with the Paris Agreements and support countries in updating and implementing their Nationally Determined Contributions.

Poverty, Vulnerability, Gender, and Diversity Roadmap

3.48 The Poverty and Vulnerability Roadmap (CII/GN-442-2) was approved by the Board. Management is coordinating with IDB to present a coordinated group-level approach to gender and diversity.

IV. Key Performance Indicators

A. Proposed Plan of Operations

4.1 For the private sector in LAC, 2022 will be a year of transition as inoculations continue, the pandemic recedes, and—supported by the IDB Group's Vision 2025—the economies of the region progress toward the new normal.

4.2 The 2022 Plan of Operations reflects these realities, with a total commitment target of US$4.80 billion, including US$2.4 billion in long-term[25] and US$2.4 billion in short-term, a total of US$1.05 billion below the 2021 target. The target for core mobilization is US$2.1

[25] Including US$ 50 million in equity investments.

billion, increasing the historically high mobilization-to-commitments ratio in 2021. Management will maintain its median DELTA target of 8.0 for long-term commitments.

Figure 1. Indicative Operational Activity for 2022

	US$ millions
Financial Institutions	730
Corporates	730
Infrastructure and Energy	940
Subtotal Long-Term Commitments	*2,400*
Short-Term Commitments	2,400
Total Commitments	*4,800*
Core Mobilization	2,100

4.3 The segment mix in Figure 1 is consistent with 2021 targets.[26] Building on the practice started in 2018, Management will continue to deploy anti-bunching measures aiming at a smoother delivery of the program of operations throughout the year.

4.4 Management renews its commitment to Governor-level objectives: reaching 40% of DRAs in C&D countries by 2025; a floor of 10% of commitments—applied separately to long-term and short-term—in S&I countries; 30% of total commitments supporting MSMEs; 30% of the number of long-term commitments supporting gender equity or diversity; and 30% of total commitments supporting Climate Finance, also considered a floor. Management will continue reporting the percentage of Climate Finance for long-term commitments, a metric aligned with the reporting methodologies of the other MDBs.

4.5 Following the established practice and building on recent efforts to enrich quarterly discussions with the Board, Management will report on the progress achieved toward these and other corporate goals through comprehensive quarterly operational, financial, and institutional presentations.

[26] IDB Invest works with clients in the strategic sectors of Agribusiness, Manufacturing, Telecommunications, and Tourism (grouped into the Corporates segment); Energy, Social Infrastructure, Transport, and Water and Sanitation (grouped into the Infrastructure and Energy segment); and Financial Institutions and Investment Funds (grouped into the Financial Institutions segment).