

# **2020-2022 BUSINESS PLAN AND ADMINISTRATIVE AND CAPITAL BUDGET PROPOSAL**

NOVEMBER 2019

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## **Acronyms and Abbreviations**

<b>AI</b>	Artificial Intelligence	<b>LAC</b>	Latin America and the Caribbean
<b>API</b>	Application Programming Interface	<b>LIBOR</b>	London Inter-Bank Offered Rate
<b>CAR</b>	Capital Adequacy Ratio	<b>MDB</b>	Multilateral Development Bank
<b>COF</b>	Country Office	<b>MOK</b>	Mountain of Knowledge
<b>CRF</b>	Corporate Results Framework	<b>MSME</b>	Micro, Small and Medium Size Enterprise
<b>CTI</b>	Competitiveness, Technology and Innovation Division	<b>ORP</b>	Office of Outreach and Partnerships
<b>DEA</b>	Development Effectiveness Analytics	<b>OVE</b>	Office of Evaluation and Oversight
<b>DEBrief</b>	Development Effectiveness Brief	<b>PIWG</b>	Process Improvement Working Group
<b>DELTA</b>	Development Effectiveness Learning, Tracking, and Assessment Tool	<b>PPP</b>	Public-Private Partnership
<b>DEO</b>	Development Effectiveness Overview	<b>RAROC</b>	Risk Adjusted Return on Capital
<b>DFI</b>	Development Finance Institution	<b>S&amp;I</b>	Small and Island
<b>DRA</b>	Development Related Assets	<b>S&amp;P</b>	Standard and Poor's
<b>EDGE</b>	Economic Dividends for Gender Equality	<b>SBE</b>	Sustainable Budget Envelope
<b>EMDE</b>	Emerging Markets and Developing Economies	<b>SChF</b>	Supply Chain Finance
<b>ERR</b>	Economic Rate of Return	<b>SDG</b>	Sustainable Development Goals
<b>FDI</b>	Foreign Direct Investment	<b>SEG</b>	Social, Environmental, and Governance
<b>FDIC</b>	Credit Rights Investment Fund (Brazil)	<b>SLA</b>	Service Level Agreement
<b>FI</b>	Financial Institution	<b>SMT</b>	Senior Management Team
<b>GDP</b>	Gross Domestic Product	<b>STEP</b>	Staff Exchange Program
<b>HRD</b>	Human Resources Department	<b>TC</b>	Technical Cooperation
<b>IDB</b>	Inter-American Development Bank	<b>TFFP</b>	Trade Finance Facilitation Program
<b>IFC</b>	International Finance Corporation	<b>UIS</b>	Update to the Institutional Strategy
<b>IIC</b>	Inter-American Investment Corporation	<b>VPC</b>	Vice Presidency for Countries
<b>IT</b>	Information Technology	<b>VPS</b>	Vice Presidency for Sectors
<b>KIC</b>	Knowledge, Innovation and Communication	<b>XLT</b>	Extended Leadership Team
<b>KPI</b>	Key Performance Indicators		

## Executive Summary

Three years ago, IDB Invest Management met with colleagues of the rest of the IDB Group and the Board of Executive Directors to discuss the first post-merge out Business Plan for IDB Invest covering the period 2017-2019. At the time, the institution was concluding its transition year and defined “Consolidation for Growth” as the challenge for the next three years. The Business plan defined three guiding policies and six actionable initiatives to address this challenge. As we approach the end of the current planning cycle, Management can report that IDB Invest *has achieved all major operational objectives* set out in the 2017-2019 Business Plan and the expectations set out in Busan for this timeframe.

IDB Invest has built a capacity to generate deals, mobilize resources, provide expert advice and enhance impact at entry that exceed pre-merge out levels and Busan projections while maintaining a smaller workforce and spending less in real terms, thus delivering the operational efficiency and qualitative gains expected from the reorganization.

With projected approvals set to near US\$5 billion in 2019, IDB Invest’s origination will surpass 2015 numbers by 76% and Busan projections by 20%. More importantly, direct lending to infrastructure and corporate clients will more than double pre-merge out levels while disbursements are expected to triple the same baseline in 2019. At the same time, IDB Invest’s workforce remains 6% below the baseline number, and execution of the administrative budget in 2019 is projected at 4% below the 2015 baseline, in real terms<sup>1</sup>.

***IDB Invest’s purpose, however, goes beyond the numbers.***

Management believes that the most meaningful departure from the status-quo is realized through the qualitative institutional and operational improvements which fuel our culture, infuse IDB Invest’s operations with purpose and link our actions to our mission. Growth then, becomes the engine and enabler of impact. True to its development mandate, volume and efficiency gains were directed at maximizing development impact within a framework of long-term financial sustainability. This effort is reflected in ex-ante DELTA scores representing strong impact expectations at approval, added to an extremely strong financial profile<sup>2</sup> and the confidence of credit rating agencies, capital markets, and our shareholders. As the development portfolio continues to mature in the coming years, the final impact associated with its investments will come into focus.

The revamped institution has moved away from the “single-currency, single-product” model, dominant before the reorganization. To date IDB Invest operates in 9 currencies and has issued local currency bonds in markets as different as Mexico and Paraguay. To provide the right solutions for private sector clients, IDB Invest transactions have increased in number, size and complexity, including capital market solutions and reaching new sectors such social infrastructure, water and sanitation, tourism, and telecommunications. Over 36% of approvals in 2018 had a supply chain, capital markets, mezzanine or equity component, more than double the levels achieved in 2017. The equity investment program remains at an estimated US\$50 million per year which, while valuable, still lacks the scale to build a full business model given the needs of the region and the instrument’s potential for additionality.

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<sup>1</sup> For comparison purposes all post-merge out values in this section are expressed in 2015 US\$ terms using the respective budget deflators for each year. Chapter XI of Document CII/GN-296-1 Organization proposal for the IDB Group Private Sector Merge-out defined the baseline for workload and administrative expenses for the pre-merge out status-quo in 2015.

<sup>2</sup> As defined by Standard and Poor’s.

Significant institutional resources were dedicated to fulfilling IDB Invest’s responsibilities within the IDB Group. A unified IDB Group leadership is emerging by sharing teams, workgroups and committees, by participating in key joint decision-making processes and especially in operations. The decision by the Governors to designate a single country representative for the IDB Group was crucial to ensure an integral view of public and private challenges and solutions. It also created the conditions for a successful rollout of a broader presence in the field, which grew from 11% to 29% of IDB Invest’s workforce which underpins our commitment to be the partner of choice for all the countries we serve. These efforts were sealed by establishing the IDB Invest brand, which created a powerful sense of corporate identity, promoted unity in diversity, and contributed to the institution’s emerging culture. The new brand reflects the vision of the Busan Resolution,<sup>3</sup> underscores the reality of an IDB Group greater than the sum of its parts and clarifies IDB Invest’s role within the Group

Embracing the mandate, IDB Invest undertook a marked increase in the number and complexity of its operations in the real sector. These brought with them a substantial increase in Category A<sup>4</sup> projects which required a proportional increase in dedicated resources, especially to address MICI requests. The increase of real sector investments also carried heightened exposure to non-financial risks. These changes, in the context of civil society, member countries, donors, and co-investors greatly concerned with socioeconomic and environmental impacts – particularly those of large infrastructure projects - have brought greater scrutiny for multilaterals. The new IDB Invest through its heightened market presence and leverage of the IDB Group now shares this limelight and operates in a more challenging environment than the one envisioned in 2015, especially given worsened conditions related to climate change with direct impacts on our projects. With additional complexity, management of financial and non-financial risks<sup>5</sup> becomes an essential component of our work *and* a key element in our competitive advantage.

The essential resources for these achievements are the commitment of our people, the support of the IDB Group’s senior leadership starting with the Chairman of our Board, the guidance of the Board of Executive Directors and the capital provided by our shareholders. The results of this joint efforts are recognized by the market through dozens of awards for systemic importance and innovation including the “Multilateral of the Year” award by a prestigious industry publication in 2018 and now again in 2019.

***Looking to the future, IDB Invest’s value proposition is clear.***

The infrastructure investment gap in Latin America and the Caribbean remains substantial,<sup>6</sup> estimates vary, but most are around 2.5% of GDP or US\$150 billion a year. Despite this gap, public sector investment in infrastructure is declining.<sup>7</sup> Substantial demand from highly developmental projects also exists in every other sector of IDB Invest’s operations. The overall funding gap for MSMEs in LAC is estimated at US\$1,209 billion, second only to the East Asia region. The enormity of the challenge, however, should not induce capitulation or paralysis. This is where focus and strategic selectivity become essential. First, a large share of the market for private sector investment is either out of scope or out of mission for IDB Invest. Direct SME financing is an example of the former, as defined by the action plan approved by the Board of

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<sup>3</sup> CII/AG-2/15. “Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out”

<sup>4</sup> Projects that could result in potentially significant and diverse, irreversible, or unprecedented environmental and/or social risks and impacts that often extend beyond the boundaries of the actual project site or facilities. In principle, Category A includes projects which have significant impacts on protected or sensitive areas and/or vulnerable groups.

<sup>5</sup> Including environmental, social, corporate governance and integrity issues.

<sup>6</sup> See, for example, Serebrisky, T., A. Suárez-Alemán, D. Margot, and M. C. Ramírez. 2015. *Financing Infrastructure in Latin America and the Caribbean: How, How Much and by Whom?* Inter-American Development Bank, Washington, DC.

<sup>7</sup> See Chapter 6 of Cavallo, E. and Powell A. 2019. *Building Opportunities for Growth in a Challenging World: 2019 Latin America and the Caribbean Macroeconomic Report*. Inter-American Development Bank. Washington, DC.

Executive Directors. The latter includes portions of the market served by private sector lenders or other MDBs or DFIs.

However, the experience in the first four years of operations, especially the size and quality of the institution's pipeline and its capacity to originate beyond Busan's expectations, indicate that even discounting "out of scope" and "out of mission" markets, a significant number and volume of eligible and highly developmental investments – as defined by strategic selectivity and the portfolio approach- remains unfunded, giving IDB Invest a clear path to promote development through the private sector.

IDB Invest's work must be tempered by the challenges ahead. Beyond the need to optimize capital deployment and ensure strategic selectivity of its operations, IDB Invest will operate in a region facing difficult political and economic trials. The global and regional economic outlook remains highly uncertain and political headwinds in several countries threaten to move regulatory and fiscal policy in a direction that may negatively impact the enabling environment for investment. Non-financial risks will be the core feature of a portfolio of growing complexity, in a context of greater scrutiny and where immunities afforded to International Organizations are at risk. At the same time, these challenges underscore the need for a private sector lender with a mission to provide support independent of the economic cycle. Internally, the work on operational excellence including culture, products, processes, and systems geared towards serving our clients and generating impact will always remain a work in progress.

### ***Planning for the next cycle***

In view of global and regional economic and operational contexts and in alignment with the IDB Group's strategic framework, Management seeks to build on the achievements of "Consolidation for Growth" and target "***Growth for Sustainable Impact***" as the central challenge for the 2020-2022 planning cycle. This challenge embodies IDB Invest's ambition to become ***the leading financial institution with the knowledge and expertise to invest with impact in LAC and to connect countries and private sector investments with the Sustainable Development Goals.***

The framework for the next planning cycle is designed to address this challenge. It rests on the strong foundation built in the first four years that includes fully implemented Development Impact and Capital Adequacy frameworks, a recommitment to the five key institutional priorities established by the Governors,<sup>8</sup> and the work to create an IDB Group that supports development in the region through public and private solutions. In the next planning cycle, IDB Invest will pursue ***Smart Growth***, will deepen its focus on ***Intellectual Capital*** and will actively contribute towards a more impactful ***IDB Group***.

### ***Setting targets***

Key operational targets will be set in terms of commitments,<sup>9</sup> which aligns IDB Invest with other MDBs and the private sector. This change completes the transition anticipated in the 2018 and 2019 Business Plan Updates and underscores Management's assertion that "commitments, and ultimately disbursements, are the metrics truly tied to client needs, and represent actual deployment of resources to foster development in LAC."<sup>10</sup> For 2020, total deployment of resources to the region would reach US\$6.3 billion, a 10% increase over expected results for 2019. Of this, commitments of US\$4.3 billion -including US\$3.3 billion in long term transactions and US\$1 billion in short term operations- would come from IDB Group's own account, and US\$2 billion through core mobilization.

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<sup>8</sup> These are (i) C&D Countries, (ii) S&I Countries, (iii) MSMEs, (iv) Climate Change, and (v) Gender and Diversity.

<sup>9</sup> Approvals will continue to be tracked together with other operational metrics.

<sup>10</sup> CII/GA-77-4. 2018 Business Plan Update and Administrative and Capital Budget Proposal.

Starting in 2020, short-term lending will be reported separately from long-term commitments and will be reported as average outstanding. This change is consistent with original Busan projections and with industry standards,<sup>11</sup> and more accurately reflects capital utilization. The equivalent short-term target for average outstanding for 2020 is \$850 million. These targets are in line with a long-term sustainable operational level for IDB Invest and are consistent with the proposed plan of operations and budget.

Considering performance over the previous planning period, Management proposes more ambitious targets for MSMEs, moving from 16% to 30% of the annual commitment volume, and for Gender, moving from 15% to 25% of the number of long-term commitments and expanding the scope to include Diversity, accounting for resources<sup>12</sup> now available to IDB Invest. Management will maintain a median DELTA target of 8.0, and recommits to reaching 10% of commitments in S&I countries by 2020, 40% of DRAs in C&D countries by 2025 and to the existing climate finance target of 30%, as a floor applied to each period.

### ***Final thoughts***

The purpose of this document is, to ***get approval from the Board of Executive Directors*** on (i) the strategic direction set by this Business Plan, (ii) the Administrative and Capital Budget for 2020. To this effect, it outlines the key elements of the 2020-2022 Business Plan in ***Chapter 2*** and a plan of operations for 2020 in ***Chapter 3***.

Busan set ambitious targets and provided the essential fuel to light the path to a Renewed Vision for development through the private sector at the IDB Group. The work so far indicates that through careful and effective implementation, the entity co-created by IDB Group Management, the Board of Executive Directors, and through the Governors' decision and support in Busan is equipped to go beyond expectations, providing the opportunity to chart a course based on new aspirations grounded on concrete evidence that these aspirations can be fully realized.

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<sup>11</sup> Starting in 2015, the International Finance Corporation (IFC) changed its reporting of short-term business from cumulative commitments added to long-term commitments, to an average annual outstanding portfolio balance, joining other MDBs such as the EBRD and AfDB. In addition, this method also aligns with commercial banking practices.

<sup>12</sup> Especially important is IDB Invest access to the Woman Entrepreneurs Funding Initiative (WeFi).

# 1. Introduction

- 1.1. This document is the result of an open and productive dialogue within IDB Invest, with the IDB Group formalized through the Chairman's Committee for the General Supervision of IDB Invest and with the Board of Executive Directors. The chapters that follow present (i) the business plan for next three years in Chapter 2, and (ii) the plan of operations for 2020 in Chapter 3.

## 2. The Plan

### A. A Planning Framework for 2020-2022

- 2.1. The economic and geo-political context in which IDB Invest operates is critical to understand the challenges it will face in the coming years, and it's essential to define the institution's role and value proposition. The recent approval by the Governors of the Institutional Strategy Update means that IDB Invest can now take advantage of a complete IDB Group Strategic framework. IDB Invest's 2020-2022 Business Plan is therefore an inferential result of its place within the global and regional context and its membership in the IDB Group.

#### a. Global and Regional Context<sup>13</sup>

- 2.2. Global growth continues to soften in 2019. Current projections indicate a 3% increase in global GDP, reflecting weaker than expected international trade and investment. Growth is expected to slightly improve after 2020; reaching 3.4% in 2020 and a slightly higher rate in 2021-2024. This pattern reflects a major downturn in 2019 and projected recovery in a group of emerging market and developing economies (EMDEs). The EMDEs are projected to recover modestly moving from a four-year low of 3.9% in 2019 to 4.6% in 2020.<sup>14</sup> However, EMDEs remain constrained by subdued investment prospects, held back by weak global growth, limited fiscal space, and other structural constraints. Despite the modest projected recovery, a substantial probability for a downside turn remains. Confidence and investment could be markedly impacted by a sudden rise in policy uncertainty triggered, for instance, by substantial new trade barriers between major economies; renewed financial turmoil in EMDEs; or a sharper-than-expected slowdown in major economies. Upside potential comes from the implementation of structural reforms.
- 2.3. After a weak 1% performance in 2018, growth in Latin America and the Caribbean continued to slow during the first half of 2019 and the region is projected to grow at 0.2% in 2019. This sluggish growth in 2019 is explained by idiosyncratic conditions in several of the largest regional economies and is expected to moderately recover with growth reaching 1.8% in 2020.
- 2.4. If it materializes, the moderate recovery in LAC will be driven mainly by private consumption and fixed investment. Assuming inflation remains moderate and confidence returns, private consumption is expected to grow, and private investment is expected to rebound. Net exports are projected to decline as external demand weakens and import demand strengthens, although bilateral tariffs by the United States and China benefited some LAC countries and export volumes have grown since 2018. However, these initial benefits to LAC economies will wane and global trade is

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<sup>13</sup> This section is based on Chapter 1 of Cavallo, E. and Powell A. 2019. *Building Opportunities for Growth in a Challenging World: 2019 Latin America and the Caribbean Macroeconomic Report*. Inter-American Development Bank. Washington, DC., and Chapter 1 and 2 of World Bank (2019) *Global Economic Prospects: Heightened Tensions, Subdued Investment*. The World Bank Group

<sup>14</sup> IMF (2019) World Economic Outlook, October 2019. Forecasts of Latin Focus as of September 2019 are close to these figures; both the global growth in 2019 and the global growth in 2020 are forecasted to be 2.8%.



on a declining trend, slowing down export growth in the region. The importance of commodity prices for regional economic development will also diminish as commodity prices remain relatively stable.

- 2.5. Growth prospects in the region are uneven. After a lower than expected growth of 0.9% in 2019, Brazil is projected to grow at 2% in 2020. In Colombia, large-scale infrastructure projects will support a pickup in investment growth and strengthen economic growth. In Mexico, growth is projected to ease in 2019 to 0.4% as export demand from the U.S. slows and pick up to 1.3% in 2020. Growth in Chile is expected to be dampened in 2019 by slowing export demand together with fiscal tightening and pick up to 3% in 2020. The economic situation in Argentina has deteriorated and growth was revised downward to -3.1% in 2019 and -1.3% in 2020<sup>15</sup> based on a lower expected consumption and investment. Growth in Central America is projected to accelerate moderately from 2.6 in 2018 to 3.4 in 2020. The exception is Nicaragua, where political conditions may lead to a sharp contraction in investment. In the Caribbean, growth is projected to slow to 3.3% in 2019, from 4.7% in 2018.<sup>16</sup> The development of the offshore oil industry in Guyana will be the key driver of faster growth in the Caribbean in 2020. In Venezuela, the humanitarian and economic crisis is deepening.
- 2.6. Global financing conditions are expected to remain supportive in the near term and tighten gradually later. Amid signs of deterioration in global economic prospects and persistently low inflation, major central banks have adopted more lenient monetary policy stances for the near term.
- 2.7. Risks to the regional economic outlook are mostly tilted to the downside. Global trade flows may underperform due to worsening geopolitical tensions in major economies such as lower-than-expected growth in the United States, a larger-than-expected deceleration in China, or a tumultuous departure of the United Kingdom from the European Union. Domestic risks are associated to weak fiscal positions. Government debt has risen steadily to an average of 60% of GDP in 2018. A sudden rise in the borrowing cost will have negative implications for regional growth. The eventual rise of advanced-economy yields could also have a negative effect on capital flows to emerging economies. Risks also stem from intraregional linkages. A slower recovery in Brazil; a further deterioration in Argentina's economic situation; or worsening of conditions in Venezuela can have spillover effects on other countries in the region. Disruptions related to climate change, lack of transparency, and natural disasters are a persistent source of downside risk to the regional growth.
- 2.8. Non-financial risks remain a significant challenge both regionally and globally. Ongoing corruption scandals related to infrastructure investments have increased integrity risks for infrastructure transactions in the region. At the same time, there is legal uncertainty created by the Jam vs. IFC case that could result in increased litigation for MDBs and potentially impact policy making. Political uncertainty in the region continues to be high as several countries face elections that could result in significant fiscal policy shifts that risk crowding-out of private investment and regulatory policy shifts may impact the enabling environment for investment.

#### **IDB Invest's value proposition within this context**

- 2.9. Substantial global and regional economic uncertainty, public sector fiscal constraints, and non-financial risks present ongoing challenges to consolidate growth and promote investment in Latin America and the Caribbean.

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<sup>15</sup> IMF (2019) World Economic Outlook, October 2019.

<sup>16</sup> IMF (2019) World Economic Outlook, October 2019.

- 2.10. The infrastructure investment gap in Latin America and the Caribbean remains substantial.<sup>17</sup> Estimates center around 2.5% of GDP or \$150 billion a year, by any measure, investment in the sector is substantially below the optimal level for economic growth compounded by a declining<sup>18</sup> share of public sector investment in the sector. Sustainable, efficiency-enhancing investments in infrastructure is crucial to attracting new flows of Foreign Direct Investment (FDI), moving up FDI value chains<sup>19</sup> and support the countries' efforts to achieve the SDGs. The overall funding gap for MSMEs in LAC is estimated at US\$1.2 trillion, second only to the East Asia region.<sup>20</sup> Furthermore, MSMEs in LAC receive only 12% of total credit, less than half of credit received by MSMEs in OECD countries (25%) and only 17% of SMEs in the Region use bank credit to finance short term working capital, compared to 29% of large companies.<sup>21</sup>
- 2.11. Although the fiscal situation of some economies in the region has improved—Barbados, Colombia, Costa Rica, and Peru have all implemented fiscal reforms in 2018—most countries remained fiscally constrained: the average adjustment required to stabilize debt-to-GDP ratio in LAC is 1.8% of GDP—an improvement over 2018 but high nonetheless—and six countries require adjustments greater than 3% of GDP.<sup>22</sup> An increase in the interest rate could lead to further deterioration given high levels of public debt. Efficient and sustainable infrastructure investment has the potential to improve growth but is unlikely to be driven by the public sector in the context of tight budgets and high levels of public debt.<sup>23</sup>
- 2.12. Given investment gaps, limited public investment and efficiency concerns around public expenditures, the need for private investment is clear. It is also of a range and scale that is beyond the means of even the aggregate strength of all DFIs working in the region. So, how do we link this regional need with the role and capabilities of IDB Invest? For Management, the key to the answer is strategic selectivity as defined by the Governors.
- 2.13. The enormity of the challenge should not induce capitulation or paralysis. This is where focus and selectivity become powerful tools. First, a large share of the market for private sector investment is either out of scope or out of mission for IDB Invest. Out of scope markets for IDB Invest include, for example, direct MSME financing as defined by the action plan approved by the Board of Executive Directors. Out of mission markets are defined by the financial additionality mandate<sup>24</sup> and include markets fully served by other MDBs or DFIs or covered by private sector lenders, as well as all projects that do not meet the portfolio approach eligibility criteria.
- 2.14. However, the experience in the first four years of operations, especially the size and quality of the institution's pipeline and its capacity to originate beyond Busan's expectations, indicate that even discounting "out of scope" and "out of mission" markets, a significant number and volume of eligible and highly developmental investments – as defined by the portfolio approach- remains unfunded. The Renewed Vision's premise that IDB Invest is needed in LAC has been proven.

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<sup>17</sup> Estimates vary, but most are around 2.5% of GDP or \$150 billion per year. See, for example, Serebrisky, T., A. Suárez-Alemán, D. Margot, and M. C. Ramírez. 2015. *Financing Infrastructure in Latin America and the Caribbean: How, How Much and by Whom?* Inter-American Development Bank, Washington, DC.

<sup>18</sup> See Chapter 6 of Cavallo, E. and Powell A. 2019. *Building Opportunities for Growth in a Challenging World: 2019 Latin America and the Caribbean Macroeconomic Report*. Inter-American Development Bank. Washington, DC.

<sup>19</sup> ECLAC. 2019. *Foreign Direct Investment in Latin America and the Caribbean*. United Nations. Santiago, Chile.

<sup>20</sup> IFC (2017), Enterprise Finance Gap Database.

<sup>21</sup> OECD/ECLAC (2013), Latin American Economic Outlook: SME Policies for Structural Change.

<sup>22</sup> See Chapter 5 of Cavallo et al.

<sup>23</sup> See Chapter 6 of Cavallo et al.

<sup>24</sup> IIC's Charter states in Article III, Section 3 (g) that IDB Invest "shall not undertake any financing for which, in its opinion, sufficient capital could be obtained on adequate terms.

- 2.15. This is where, leveraging the IDB Group’s country knowledge and expertise provides a unique tool for selectivity. Through the Strategic Selectivity component of IDB Invest’s Impact Model, set to launch with this business plan, the institution can target investments that match the development gaps identified within a specific country and sector and further refine the scope of its interventions especially when looking at far reaching sectors such as infrastructure.
- 2.16. IDB Invest’s financial capacity sets the boundaries for its own investments but perhaps more importantly, IDB Invest’s “skin in the game” is needed to attract -more and top tier- investors to the region. Defining the optimal and or achievable size for IDB Invest is one of the key questions that Management, IDB Group Management and the Board of Executive Directors will answer through each planning cycle. The financial projections in this chapter address this issue.
- 2.17. In addition to its ability to originate transactions and meet the demand for investment in the region, IDB Invest’s capacity to manage the associated risks will be increasingly important. The Bank’s increased portfolio share of real sector projects carries heightened non-financial risks and exposure to risks associated with climate change. In terms of non-financial risks, recent scandals in the region highlight the rise of integrity risk in the infrastructure sector. At the same time, IDB Invest is receiving more attention and scrutiny as it increases its scale and visibility, while the legal immunities of international organizations is being questioned. IDB Invest supports the fight against climate change through its investments, but it nonetheless faces new risks as severe weather patterns and rising sea levels threaten LAC’s infrastructure. Careful risk assessment and a focus on climate resilient infrastructure will help to mitigate these risks. IDB Invest can also serve as a partner to borrowers to identify and mitigate exposure to risks from climate change.

## **b. The IDB Group’s Strategic Framework**

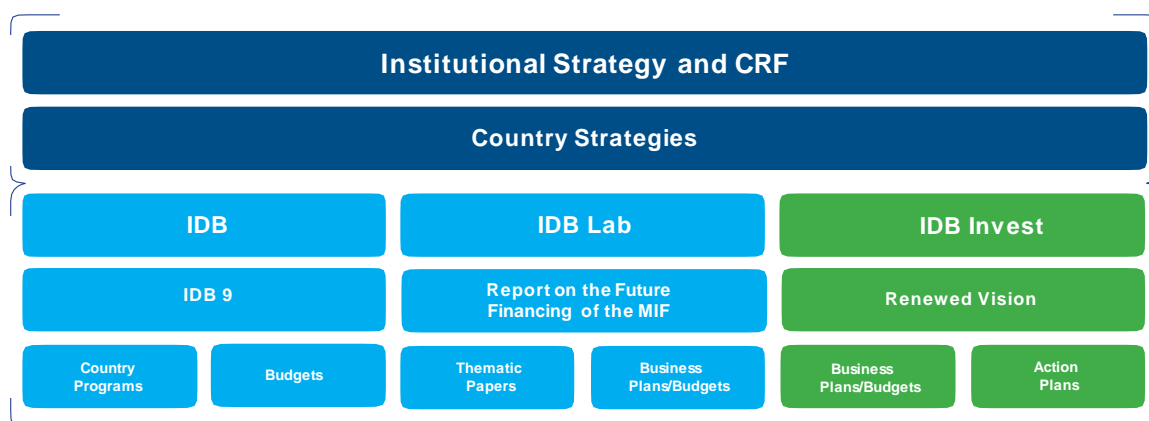
- 2.18. The Update to the Institutional Strategy<sup>25</sup> recently approved by the Governors is the first to include all members of the IDB Group. To complete this endeavor, IDB, IDB Invest and IDB Lab have developed a Corporate Results Framework (CRF) for consideration by the Boards of Executive Directors in Q4 2019. With these two elements in place, *the IDB Group’s strategic framework is complete* (see Figure 1 below).
- 2.19. Drawing from the Institutional Strategy, the Country Strategies further define the Group’s vision and guide its actions. Starting in 2016, IDB Invest has steadily strengthened its participation in the analysis and drafting of integrated country strategies. As of September 2019, IDB Invest participated in 20 country strategy processes, ranging from country day participation to country strategy approval. As part of these processes, IDB Invest has contributed to the completion of 15 Country Development Challenges documents with in-depth private sector assessments.
- 2.20. The Group’s vision anchors IDB Invest’s own strategic framework, the first component of which is the Renewed Vision<sup>26</sup> reflecting the Governor’s long-term mandate for the institution. To address the short to medium-term, IDB Invest develops Action Plans and three-year Business Plans.

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<sup>25</sup> CII/AB-1540-2, “Update to the Institutional Strategy. Development Solutions that Reignite Growth and Improve Lives.”

<sup>26</sup> For the purpose of this document, the Renewed Vision encompasses: (1) The *Busan Resolution CII/AG-2/15*, (2) The main input for this resolution, document *CII/CA-165 “Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out”* and (3) The final capitalization proposal was reflected in document *CII/GN-297-3*.

**Figure (1) Strategic Framework of the IDB Group<sup>27</sup>**



- 2.21. Action Plans target a specific sector or area of interest for the organization. As of today, the Board of Directors has approved five action plans for IDB Invest: the MSME Action Plan,<sup>28</sup> the Financial Intermediaries Action Plan,<sup>29</sup> the Action Plan for Risk Capital Investments,<sup>30</sup> the Approach to Increase Operations in S&I countries<sup>31</sup> and the Field Presence Plan.<sup>32</sup> The Board has also approved a Group Action Plan to address the issue of Climate Change.<sup>33</sup> The Action Plans followed a reflective process and, when relevant, considered OVE’s recommendations. A brief description and status of these plans was included in Annex 2 of the Issues Paper.
- 2.22. Business Plans help bring all these elements together by including (i) a definition of the challenge, (ii) the main guiding policies for each respective cycle, and (iii) coherent actions to execute on the plan’s objectives. IDB Invest’s, three-year Business Plans (and its two successive annual updates) also include the following annual components (i) a plan of operations; (ii) financial planning,<sup>34</sup> and administrative and capital budget; (iii) a funding plan; and (iv) key capital adequacy indicators.
- 2.23. All these elements provide a solid and coherent direction for IDB Invest. Business Plans must be, by design, aligned with the rest of the framework: *first* to the Institutional Strategy, *second* to the Country strategies and *third* to the Renewed Vision for the private sector.
- 2.24. Alignment of the 2017-19 Business Plan to the 2015 **Institutional Strategy** Update was achieved through IDB Invest’s focus on direct interventions -especially infrastructure- a key contributor to productivity and economic integration. The Business Plan indicators and core targets further underscored this alignment. For example, the plan added private sector indicators to the CRF. These indicators focused on areas where the private sector showed higher potential contribution to the IDB Group’s goals, specifically, the development challenges of “Productivity and Innovation” and “Economic Integration” and the cross-cutting issues of “Gender equality and diversity” and “Climate Change and Environmental Sustainability”. The five core institutional indicators (i.e, MSME, Gender, Climate, C&D, S&I) also steered IDB Invest’s activity in this direction.

<sup>27</sup> This figure is intended to be illustrative, there are components not portrayed.

<sup>28</sup> CII/GN-364-1. “IDB Invest Action Plan for the Micro, Small, and Medium Enterprises.”

<sup>29</sup> CII/GN-369-1. “IDB Invest Financial Intermediaries Action Plan.”

<sup>30</sup> CII/GN-368-1. “IDB Invest Risk Capital Action Plan.”

<sup>31</sup> CII/GN-354. “Approach to Increase Operations in Small and Island Countries.”

<sup>32</sup> CII/GA-76-2. “IIC Field Presence Plan. Second revised version”

<sup>33</sup> GN-2848-4. “IDB Group Climate Change Action Plan 2016-2020”

<sup>34</sup> IDB Invest’s internal financial planning process now includes a long term financial planning framework and costing, contributing to OVE Recommendation 3 in CII/RE-27-3 “Review of the Implementation to Date of the Private Sector Merge-out.”

- 2.25. The **2019 Update to the Institutional Strategy (UIS)**, defined Technology and Innovation and Resource Mobilization as areas of strategic focus. Four corporate areas are also targeted: (i) Planning period, (ii) Institutional profile, (iii) Knowledge programs, and (iv) IDB Group approach.
- 2.26. This Business Plan defines a challenge and a set of policies that are essential to strengthening the institutional profile. Moreover, the focus on knowledge and innovation is strongly aligned with the UIS. This business plan also confirms IDB Invest’s commitment to the real sector and the five core institutional indicators, thus reaffirming the alignment to the UIS. Finally, the business plan annual updates allow IDB Invest to have the flexibility to adapt and realign with the UIS on a yearly basis.
- 2.27. Since its inception, IDB Invest has included an assessment of its projects’ alignment to the **Country Strategies** through a specific component of the DELTA. In addition, IDB Invest’s participation in country strategies and diagnostics on country development challenges has led to the Strategic selectivity framework for IDB Invest operations described throughout this document. Through this framework, *alignment with the country strategies* at early project selection will take a leap forward, providing data to track, report and improve.
- 2.28. Finally, IDB Invest’s impact model ensures alignment to the three pillars of the **Renewed Vision**<sup>35</sup>: Strategic Selectivity, Development Effectiveness and Systemic Impact. In the next planning cycle a stronger focus will be placed on instruments and solutions towards systemic impact. The section on Measuring Results at the end of this chapter completes the effort to align IDB Invest’s results to the Institutional Strategy, the Country Strategies and the Renewed Vision.

### c. **A Planning Framework for IDB Invest**

- 2.29. For planning purposes, the Busan period is composed of one transition year (2016) and three equal and consecutive planning cycles. The 2017-2019 cycle centered on “Consolidation for Growth.” This plan viewed consolidation as the successful implementation of three guiding policies: (i) the effective *design and deployment of a comprehensive Impact model* capable of guiding selectivity at origination, assessing each project at the structuring and approval phase, tracking results through the project’s life cycle, and measuring results through an ex-post evaluation framework to support future origination efforts,<sup>36</sup> (ii) the *creation of a culture that remains flexible, efficient and creative* and is therefore better prepared to promote Innovation through its work in the region, and (iii) the *design and deployment of a state-of-the-art Capital management framework* to ensure rational and efficient use of resources with a view on the mandate of long-term financial sustainability. In addition, Management identified six actionable initiatives<sup>37</sup> to strengthen IDB Invest, promote efficiency, and enhance its client offering.

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<sup>35</sup> Between 2013 and 2015, the Ad-Hoc Committee of the Board of Executive Directors and the Governors reviewed many documents to construct their vision and inform their decision to create a new model for private sector operations at the IDB Group resulting in the *Busan Resolution CII/AG-2/15*. The main input for this resolution was document *CII/CA-165 “Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out”* reviewed by the Governors in Busan. As the title suggests, it includes the organization and capitalization proposals. It also includes “The Case for NewCo” which starts from the vision set forth in early 2013 and defines the rationale for the merge-out at the final decision point. Finally, this document includes the second to last set of financial projections for the 10-year capitalization period. Later, the final capitalization proposal was reflected in document *CII/GN-297-3*.

<sup>36</sup> The Impact Framework including the selectivity pilot contributes to OVE Recommendation 4 in CII/RE-27-3 “Review of the Implementation to Date of the Private Sector Merge-out.”

<sup>37</sup> The initiatives were (i) Expand product flexibility and innovation, (ii) Development of an MSME Strategy, (iii) Implementation of the Field Presence Plan, (iv) Development and implementation of a Climate Action Plan, (v) Implement an Operational Excellence Initiative, (vi) Development of a Risk-Appetite Framework.

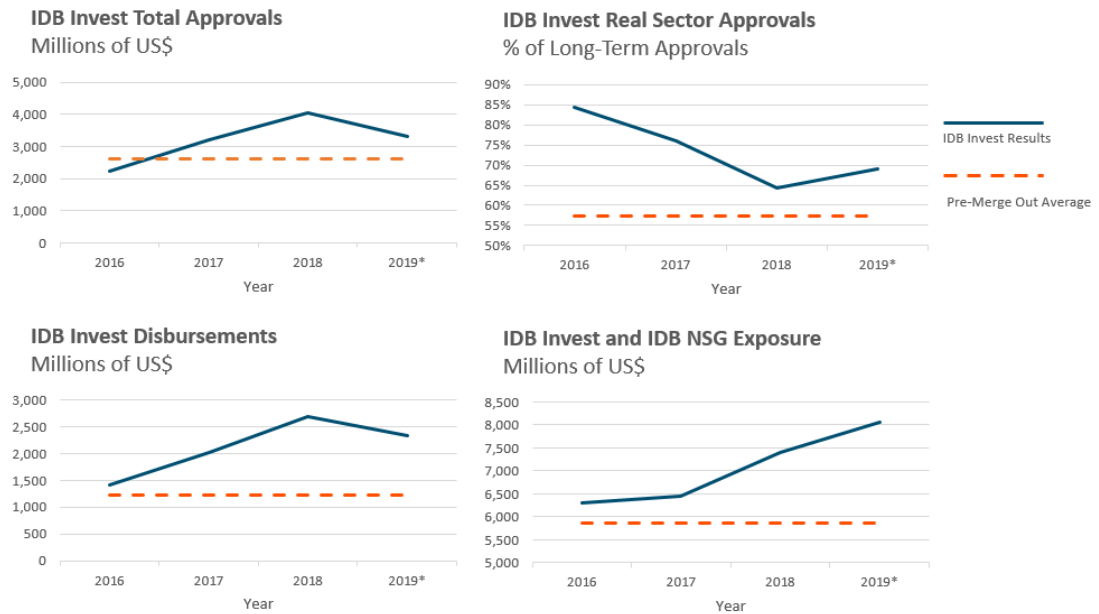
**Figure (2) The Busan Timeline**



2.30. Management can report that IDB Invest will conclude its first three-year planning cycle having achieved all major operational objectives and initiatives set out in the 2017-2019 Business Plan and the expectations set out in Busan for the same timeframe. The figure below is an illustration of IDB Invest’s work since 2016. A more detailed narrative about IDB Invest’s progress towards these objectives can be found in ANNEX I: Taking Stock of the Initial Years .

**Figure (3) IDB Invest Pre and Post Merge-Out Operational Results**

**IDB Invest Activity vs. 5-Year Pre-Merge Out Average**



\*Results for 2019 are year to date as of September 30.  
 \*\* Pre-merge out average for real sector approvals and disbursements includes only 2014 and 2015.

2.31. Several internal and external factors make the next planning cycle particularly important. **First**, it follows the consolidation period which suggests a more stable and mature institution. This, in turn, will lead key stakeholders -our shareholders, the market, our clients and rating agencies - to increase their expectations of IDB Invest’s performance. **Second**, by the end of the planning cycle over 85% of the subscribed capital should be paid in. After 2022, US\$ 215 million of capital will mostly come

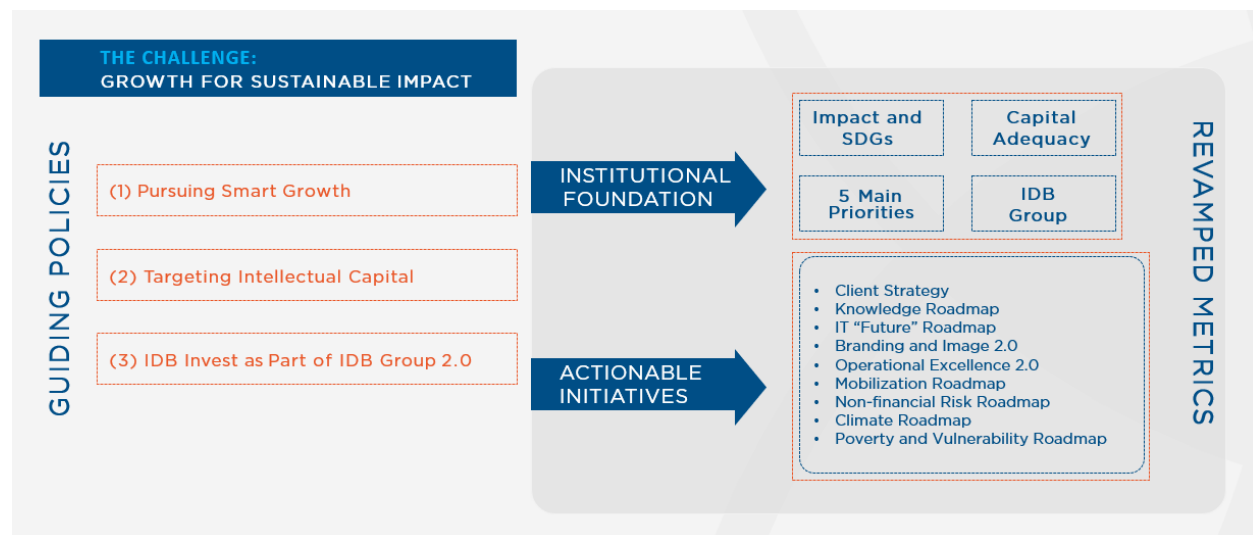
through transfers from the IDB. This will increase Management’s responsibility to deploy this capital effectively and efficiently. **Third**, the end of the next planning cycle coincides with the end of the cross-booking period. Management must ensure that IDB Invest is ready to operate under these new conditions and that it can continue to execute on the breadth and diversity of its mandate. **Finally**, the next planning cycle is the period where investments and initiatives still have time to mature and produce meaningful outcomes in time for the 2025. This is the key accountability moment for Management, where the Governors will evaluate the impact of the \$2 billion capital increase provided.

- 2.32. Building on the work to date, this business plan defines a new challenge, a new set of guiding policies, and a number of actionable initiatives for the period 2020-2022.

**The 2020-22 Planning Framework**

- 2.33. The framework for the next planning cycle is designed around the challenge of **Growth for Sustainable Impact** and presented in Figure 4 below. This framework supports a new stage in the process of building the institution, acting as a Group, and delivering on the shared aspirations of Management and the shareholders. As the figure shows, the framework rests on the strong foundation built in the first four years of IDB Invest. This foundation includes (i) the Development Impact<sup>38</sup> and Capital Adequacy frameworks fully implemented during the current planning cycle, (ii) a recommitment to the five key institutional priorities<sup>39</sup> established by the Governors and (iii) contribution to and leverage of the IDB Group.

**Figure (4) 2020-2022 Planning Framework**



- 2.34. The three guiding policies outlined in the framework target IDB Invest’s competitive advantages and seek to develop new areas of institutional capacity and expertise. Arising from the three policies are (1) actionable initiatives, which will be developed over the course of the next three years, and (2) a new framework for measuring results.

<sup>38</sup> IDB Invest’s impact framework covers Development Effectiveness, Environmental, Social, Corporate Governance and Integrity issues.

<sup>39</sup> These are (i) C&D Countries, (ii) S&I Countries, (iii) MSMEs , (iv) Climate Change, and (v) Gender and Diversity.

## B. Defining the Challenge

### Growth for Sustainable Impact

- 2.35. In view of global and regional economic and operational contexts and in alignment with the IDB Group’s strategic framework, Management seeks to build on the achievements of “Consolidation for Growth” and target “***Growth for Sustainable Impact***” as the central challenge for the 2020-2022 planning cycle. This challenge embodies IDB Invest’s ambition to become ***the leading financial institution with the knowledge and expertise to invest with impact in LAC and to connect countries and private sector investments with the Sustainable Development Goals.***<sup>40</sup>
- 2.36. Management sees ***Growth*** as the engine and enabler for sustainable impact. Growth is necessary for financial sustainability, indispensable for internal capital generation, is essential to deploy investments, it provides the “skin in the game” that makes resource mobilization possible and funds knowledge and innovation initiatives to achieve impact beyond financing.
- The first guiding policy supports this component. ***Pursuing Smart Growth*** encompasses several considerations that link growth with financial sustainability and impact.
- 2.37. Aiming for ***Sustainable*** impact signals IDB Invest’s drive towards long-term support to the region, the recognition of an imperative global priority and its ambition to maximize impact far beyond financing. ***First***, IDB Invest wants to remain faithful to the Governors’ mandate to ensure long-term financial sustainability and be ready to support the region through every economic cycle for years to come. ***Second***, it recognizes the imperative of Climate Change and its implications in terms of risk and opportunity for lasting impact. ***Third***, it places the Sustainable Development Goals at the center of IDB Invest’s actions in the future. The seventeen SDGs are the definition of a global ambition, so IDB Invest must go from tracking and maximizing its own portfolio’s contribution to the SDGs to proactively “making a dent” in the region’s SDGs by connecting countries with private sector investments and investors. This task will require impact beyond its financial capacity and into the realm of intellectual capital, knowledge transfer and support for innovation already spreading through the region.
- 2.38. ***Impact*** becomes the final objective. Impact is embedded in every action that IDB Invest undertakes. It flows from origination through portfolio management and is the benchmark for every ex-post evaluation. It guides the way for intellectual capital generation and infuses purpose to the institution’s culture and brand. IDB Invest’s fully developed impact model will evolve to include the ambition of sustainable impact and continue to be the source for tracking and accountability.
- 2.39. The final two guiding policies ***Targeting Intellectual Capital*** and looking beyond the achievements of the first four years to envision and commit to an enhanced 2.0 version of the ***IDB Group*** are squarely aimed at sustainable impact.

## C. Guiding Policies

### a. Pursuing Smart Growth

- 2.40. At the core of the Systemic Impact<sup>41</sup> pillar of the Renewed Vision lies an effective vehicle within

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<sup>40</sup> This concise summary of IDB Invest’s value proposition will contribute the institution’s branding and image.

<sup>41</sup> Document CII-CA-165 Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out, paragraph 2.4 (b) states: “A systemic approach will be used to ensure that NewCo’s resources have an impact greater than that of an individual project. This will be achieved by setting ambitious, systemic targets upfront, programming upstream work and designing targeted operations, coupled with effective evaluation, knowledge generation and strategic communication.”



the IDB Group to promote development through the private sector by investing and mobilizing resources, especially from investors that come to the region, perhaps for the first time, because they value the IDB Group brand. Key to this ambition were assumptions on (i) the need for private sector involvement in the region's development; (ii) the existence of enough private sector demand for development finance; and (iii) the ability of the Group to build an organization that could capture this demand by effectively catering to private sector clients' needs and expectations. These assumptions have been fully validated in the last four years.<sup>42</sup> The capacity for growth is therefore not in question; however, as IDB Invest maximizes the use of its capital, the focus of Management and the Board should be to ensure *smart growth*.

- 2.41. In operational terms, even under the assumption of a long-term sustainable lending level, IDB Invest DRAs will continue growing at a brisk pace, especially after the end of the cross-booking period in 2022. The allocation of capital towards investments that create the greatest opportunity for impact will require strategic and tactical discipline to define and then meet corporate targets. Smart growth requires an approach that (i) is strategically selective at origination, (ii) considers the appropriate investment mix,<sup>43</sup> (iii) enhances the institution's capacity to mobilize, (iv) ensures effective management of financial and non-financial risks,<sup>44</sup> (v) maintains a selected rate of capital deployment, and (vi) reinforces institution's backbone to support origination and management of a larger portfolio.
- 2.42. To guide the institution in this direction, IDB Invest developed a Strategic Selectivity Framework<sup>45</sup> that identifies development gaps at the intersection of countries and sectors to steer origination towards interventions with greater potential impact. Once the projects enter the pipeline, a robust development effectiveness and additionality framework qualifies and ranks a portfolio of projects based on their development impact (DELTA) and financial contribution (FCR).
- 2.43. Beyond investments, smart growth will require strengthening key institutional resources. An evolving human capital strategy must align the workforce to the organization's growth and complexity. Deployment of core systems and processes must be followed by investments in systems and processes that look to the future and allow for speed, selectivity and proactive management of financial and non-financial risks. This section explores the different variables that in Management's view will determine the components of smart growth.

#### **Speed of Capital Deployment**

- 2.44. As stated before, demand for private sector investments that meets IDB Invest's portfolio impact criteria far surpasses IDB Invest's capacity given current resource assumptions. IDB Invest's 2018 approvals<sup>46</sup> exceeded Busan projections for that year by 11%. Approvals for 2019 are expected to surpass Busan targets by almost 30%. Thus, a central issue to ensure smart growth will be the appropriate speed of capital deployment.

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<sup>42</sup> The 2017 "Merge-out Progress and Implementation Report" presented by Management and the Board of Executive Directors to the Governors at the Annual Meeting in Mendoza stated that IDB Invest had by then proven the validity of the vision and design concept. The subsequent 2018 report showed an institution with significant market presence and capturing the value of a private sector institution that now greatly leveraged its membership in the IDB Group.

<sup>43</sup> The investment mix includes the allocation for equity investments, the division between short-term and long-term investments, and the sector mix within long-term investments.

<sup>44</sup> The ongoing updates to the Environmental and Social Sustainability Policy and the Access to Information Policy will help to improve management of non-financial risks.

<sup>45</sup> The Strategic Selectivity Framework was deployed in 2019 as a pilot. It's is expected to be fully active in 2020.

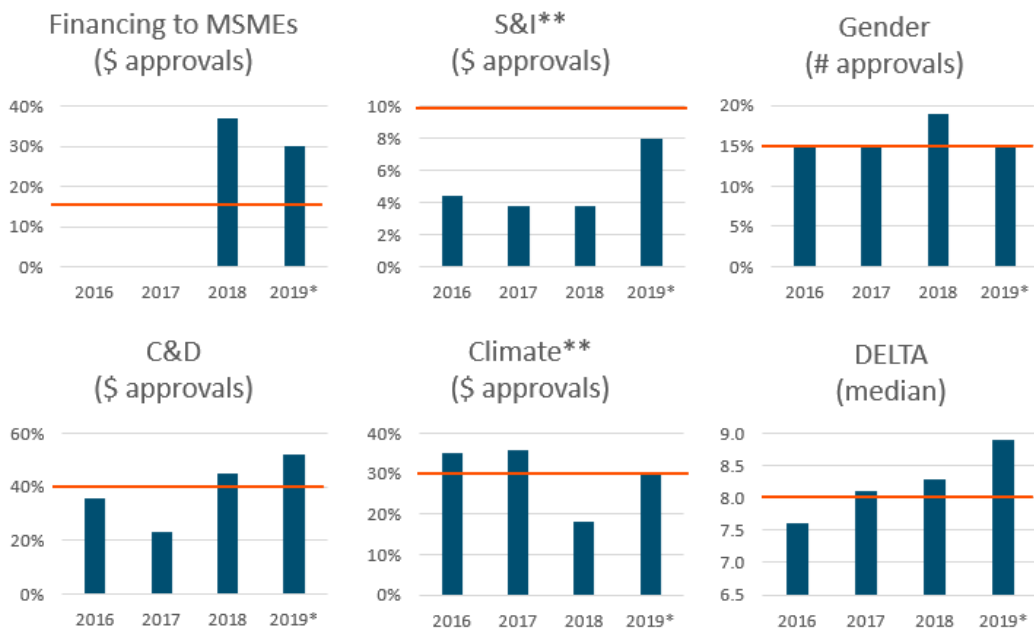
<sup>46</sup> Total approvals including trade and supply chain investments.

**Sector and Tenor Mix**

2.45. Management believes that a portfolio with a sector composition consistent with the Renewed Vision<sup>47</sup> and achieved through the 2017-2019 Business Plan<sup>48</sup> cycle continues to be appropriate. This sector composition<sup>49</sup> is consistent with the institution’s mandate to favor direct lending and has greater potential to support the achievement of the SDGs throughout the region. IDB Invest will maintain higher than Busan levels of short-term lending including the Trade Finance Facilitation Program (TFFP) and Supply Chain Finance (SChF), consistent with the board-approved TFFP exposure limit<sup>50</sup> and with the mandate to support MSME financing. Short-term lending will continue to play a key role to facilitate trade flows to and from borrowing countries, to diversify risk and to develop new relationships with financial sector clients in S&I and C&D countries. Finally, IDB Invest will continue investing in equity at a rate of up to US\$50 million annually. Details for the proposed segment mix for the first year of the planning period are provided in the Plan of Operations.

**Figure (5) Progress on Key Institutional Targets**

**IDB Invest Progress on Corporate Targets  
2016-2019**

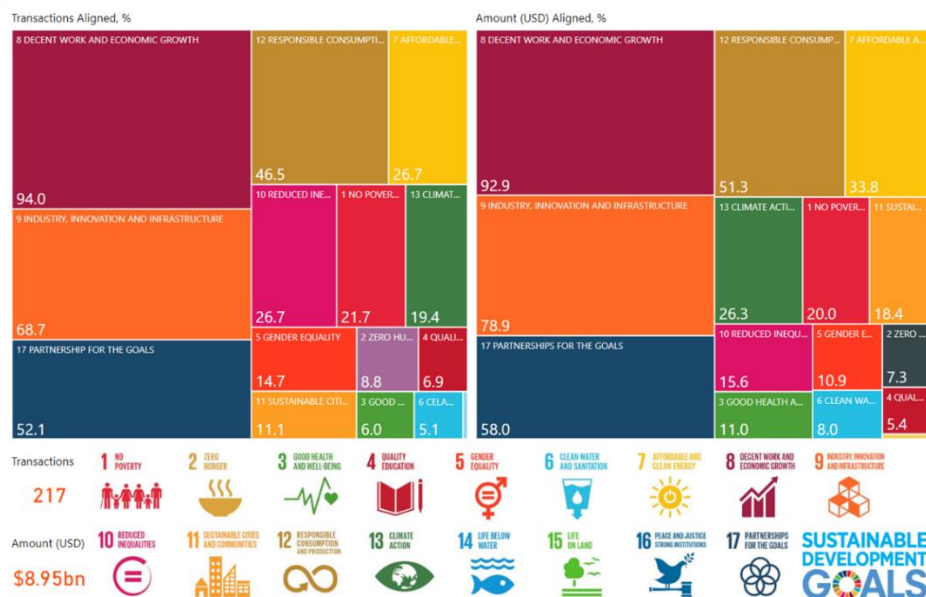


\* Numbers for 2019 are as of the end of Q3.  
 \*\* Multi-year targets. For details on S&I target see CII/GN-354 for details on climate target see CII/AB-1439.

<sup>47</sup> CII/CA – 165 “Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out  
<sup>48</sup> CII/GA – 77 – 2 “2017-2019 Business Plan, 2017 Administrative and Capital Budget Proposal, and 2017 Funding Strategy. Revised version.  
<sup>49</sup> Specific expectations by sector and tenor are provided in the *Plan of Operations for 2020*.  
<sup>50</sup> CII/GN-328. “Report to the Board of Executive Directors of the Inter-American Investment Corporation on the Status and Operational Enhancements of the Trade Finance Facilitation Program”

## Figure (6) IDB Invest Projects and the SDGs

### IDB Invest Approvals Alignment with Sustainable Development Goals 2016-2019



### Mobilization

- 2.46. Mobilization is an area of emphasis on the IDB Group’s Updated Institutional Strategy and is central to IDB Invest’s ambition for impact<sup>51</sup>. IDB Invest must continue evolving from a “pure lender” mindset to that of an originator and asset manager. This will involve changes in project structuring, asset management, and client relationships. Given the size of the global market, that will most often mean translating development needs into financial products that fit the market’s appetite. Many of these changes are already happening.
- 2.47. In the first four years of operation, IDB Invest has substantially expanded its capacity to mobilize. During 2018, IDB Invest signed the first co-financing agreement with a fund to mobilize mezzanine transactions<sup>52</sup> and the first secondary sale of an A-loan.<sup>53</sup> Overall, a total of 31 syndicated transactions with 30 different participants were concluded. Core mobilization reached US\$1.05 billion, and catalytic mobilization reached US\$4.56 billion or 83% of the ambitious US\$5.5 billion target in the Busan projections. IDB Invest continued the effort to broaden its investor base with innovative financial instruments, such as B-bonds for infrastructure financing. This financing structure allows IDB Invest to reach a larger number of institutional investors. For instance, four institutional investors participated in B-bond issuances including BlackRock, the world’s largest asset manager, and Allianz Global Investors, the world’s second largest insurance company.
- 2.48. Moving to an asset manager mentality will also mean structuring projects with mobilization in mind, allowing for bigger take-outs from a more diverse pool of investors, and ensuring that new products are financially sustainable for IDB Invest. Scaling up mobilization will require changing how IDB Invest measures success and structures incentives. Metrics will need to shift from

<sup>51</sup> Update to the Institutional Strategy. Development Solutions that Reignite Growth and Improve Lives (CII/AB-1540-2).

<sup>52</sup> Agreement signed with Blue Like an Orange.

<sup>53</sup> YPF Manantiales loan sold to Banco Santander

approvals and commitments of own resources and booked DRAs to total commitments *plus* mobilization and total DRAs under management which include outstanding balances to co-investors managed by IDB Invest.

- 2.49. IDB Invest’s future capacity to mobilize will rely on significant ongoing work to build relationships with the investor community. As part of this work, an in-house and comprehensive investor map is now available. Figure (7) shows the geographic density and distribution of 467 potential partners. To date, IDB Invest has closed at least one transaction with 226 of these investors and developed core relationships with 101 investors.<sup>54</sup> As IDB Invest widens its reach with co-investors, a steady and sizeable market presence will be critical to maintain and expand these relationships by delivering a stable pipeline of bankable projects through skilled staff and effective processes.
- 2.50. Through its relationships with 25% to 50% of this potential market, IDB Invest has shown that its mobilization model -investor and fee focused- can produce substantial results. As we move forward, it is very important to recognize the challenges of mobilization.
- 2.51. The appetite of commercial investors is primarily focused on transactions in the larger economies, and in countries at or above investment grade. For smaller economies below investment grade, Development Finance Institutions (DFIs) are the primary source for mobilization. In these cases, the role that sovereign funds administered by the IDB and the role that blended finance plays to increase transaction bankability cannot be understated. The macroeconomic environment may also present exogenous constraints. Further contraction of the global or regional economy could change the risk appetite of major investors affecting the availability of partners for co-financing. IDB Invest’s “sweet spot” lie in the availability of local currency to tackle the challenges of larger economies and in key partnerships with DFIs and sovereign funds to tackle the challenges in the smaller economies.

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<sup>54</sup> This core roster includes commercial banks (54%), asset managers (14%), MDBs/DFIs (14%), impact investors (8%) as well as insurance companies, pension funds, IDB managed funds and export credit agencies (10%)

**Figure (7) Resource Mobilization Investor Map**



- 2.52. Looking to the future, success will depend on several factors. *First*, having “*skin in the game*” is a core component of credibility when approaching co-investors. IDB Invest must continue to scale up its own investments and deploy its own capital to produce a steady stream of bankable assets and generate the interest of co-investors. *Second*, IDB Invest must work to *educate investors* about the countries and markets in which IDB Invest operates. Although investors have capital available, it is not always clear to them what we do or the characteristics of the 26 countries that IDB Invest serves. *Third*, IDB Invest, in close collaboration with IDB, must *work with regulators* to clarify the treatment of specific asset classes, which varies from country to country. In many cases, regulators treat infrastructure investments as an alternative asset, thus limiting the ability of local pension funds to invest in these transactions, further limiting the pool of local currency investors.

**Supporting a Diverse Portfolio**

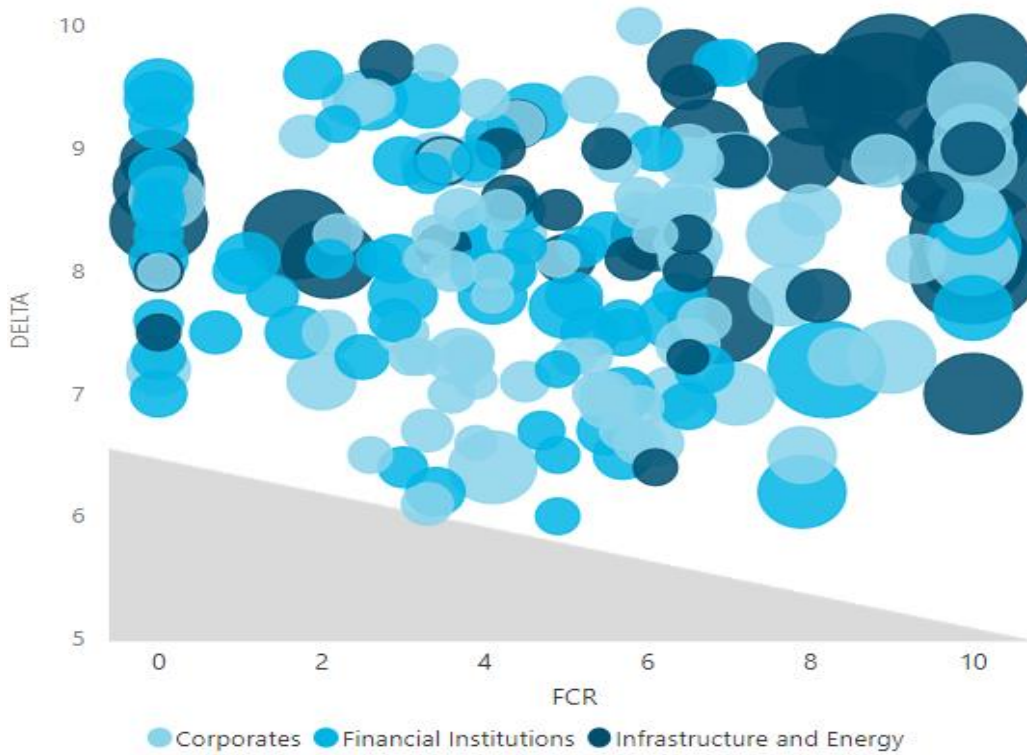
- 2.53. Strengthening IDB Invest’s ability to originate, book, and service a wide range of transaction types is essential for the institution’s impact and financial sustainability. Guided by the portfolio approach Management has developed over the first four years of operations a balanced set of DRAs shown on Figure (8).
- 2.54. Beyond sector and tenor, portfolio diversity must include transaction size. A balanced mix of small and large transactions is critical to cover the need of each specific sector, to deepen involvement in the region’s smaller economies and to support signature infrastructure projects with the potential to drive economic transformation on a regional scale.<sup>55</sup>

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<sup>55</sup> For an example of transformation investment see Infrastructure Investments and Private Investment Catalyzation: The Case of the Panama Canal Expansion.

**Figure (8) The Portfolio Approach**

Portfolio 2.0: DELTA vs FCR



- 2.55. Adding a growing number or relatively small to medium-size transactions to the portfolio requires scalable processing capacity. Management will continue efforts to improve systems and processes with the final goal of automated end-to-end transaction workflows.
- 2.56. Larger transactions pose a different challenge. In addition to the significant non-financial risks involved, these transactions are subject to prudential limits which are a function of the total portfolio size. Current “Base-Case” financial projections indicate that IDB Invest’s DRAs would reach US\$6 billion by year-end 2022 when all transactions must be booked at IDB Invest. Within prudential limits, this level of assets would allow a maximum single name exposure of US\$315 million. Properly conceived and structured, large transactions carry the potential of systemic impact and require the type of careful and highly technical environmental, social, integrity and developmental due diligence that is a key competitive advantage of a DFI such as IDB Invest. Moreover, these transactions tend to have public-private components or characteristics.
- 2.57. Management understands that solving the challenge this situation poses goes beyond IDB Invest, but since it will materialize at the end of the next planning cycle it is important to consider options during the next three years.

**Managing the Portfolio**

- 2.58. Maximizing impact throughout the project cycle is a critical component of smart growth. The Impact toolbox<sup>56</sup> provides practical solutions for selectivity at origination, effective project design at structuring and approval, efficient results tracking and innovation testing during supervision, and

<sup>56</sup> See Annex 3 of CII/GA-80. 2020-2022 Business Plan Issues Paper. A detailed technical briefing is suggested for early 2020.

a comprehensive evaluation approach. As the portfolio grows, further effort will be required to ensure the anticipated impacts of projects is realized during supervision. This can be achieved by tracking the DELTA for projects in supervision and following up on projects nearing the target threshold. IDB Invest can protect the impact of approved investments with the same care and diligence as the financial recovery of distressed assets.

- 2.59. In 2018, IDB Invest implemented a state-of-the-art Capital Management Framework that guides growth and fosters a diversified portfolio built around prudential investment parameters. This framework includes a Risk Appetite Policy, a Capital Adequacy Policy, and a Liquidity Policy. Later in that year, the Risk Adjusted Return on Capital (RAROC) tool was also deployed and, in conjunction with the DELTA, allows for effective management of the institution's dual mandate of impact and financial sustainability.
- 2.60. As the organization approaches full capital utilization, it will face increasing need to actively manage portfolio assets. In-depth quality portfolio reviews ensure the continued health of the portfolio as it grows in volume and complexity and maintain portfolio concentration limits while continuing new approval activity. In addition to managing increasing dollar volume, especially after the end of cross-booking, a shift towards larger shares of mobilization (ex-ante or ex-post) and smaller own resource commitments would further increase the number of transactions under management. As both the responsibility and balance sheet impact of the portfolio management function increases, having the right tools and adequate resources will be critical to realizing the potential financial returns and development impact from the transactions IDB Invest originates.
- 2.61. The inherent costs and risks of managing a larger and complex suite of financial products offered by IDB Invest should not be underestimated. Adequately assessing the value of transactions will require an institution with clear understanding of costs and an appropriate fee structure for co-financiers. Recognizing the costs of managing the portfolio and the fiduciary responsibilities associated will be critical to the efficient management of a growing institution, while focus on systems and ensuring client-facing coordination will also play an important role.

### **Human Capital**

- 2.62. In the 2016-2019 period IDB Invest built a high performing workforce. IDB Invest worked with IDB HRD to develop a joint Human Capital Strategy<sup>57</sup> through which IDB-HRD adapted the services and programs originally developed for IDB staff to meet the unique needs of IDB Invest while keeping IDB Group-wide consistency and standards. The strategy established simplified and agile performance management processes, performance-based incentives and rewards in line with private sector needs.
- 2.63. As a growing organization, IDB Invest will continue to strengthen its culture and values, build leadership capacity, and provide career development opportunities for its workforce. As a result of the recent IDB Group engagement survey, staff-selected champions put in place actions to improve employee engagement and continue focusing the organization on operational efficiency, technical excellence, and client service. At the managerial level, IDB Invest is promoting excellence on its extended leadership team (XLT) through a series of workshops designed to enhance team work and streamline decision-making processes. At the technical level, Management successfully piloted in 2019 a Staff Exchange Program (STEP) to enhance skills and foster career development between the Risk and Investment departments. The program will continue in 2020. The Gender Equality Task Force (GET) is executing action plans to build on the results of the EDGE certification survey.

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<sup>57</sup> Document GN-2606-14

- 2.64. Recruiting efforts continue to attract and retain talent. This effort is particularly important to achieve the goals outlined in the Field Presence Action Plan.<sup>58</sup> In the next three years, Management will focus on (i) consolidating the Caribbean Regional Hub, (ii) enhancing the roles of the hub coordinators, (iii) further leveraging country office communication to increase brand awareness, (iv) exploring further delegation to field teams, and (v) promoting the presence of senior staff in the field. Specific programs to enhance field mobility include the CREA program, short term assignments for staff, and a “leadership in residence” program, giving senior staff the option to perform their duties from country offices for an extended period.
- 2.65. The next planning cycle will find IDB Invest at an inflexion point in many areas, including its workforce. Even after considerable gains in operational efficiencies, Management believes it has taken the level of productivity of its current workforce close or past the prudential limit and is now focusing on improving engagement. To further tailor the human capital at IDB Invest to its business goals, IDB Invest began a comprehensive workforce analysis with results expected in 2020. The workforce analysis will provide IDB Invest Management with insights to identify staffing needs and opportunities for improvement based on the next Business Plan objectives, the volume and complexity<sup>59</sup> of investments as well as the execution of capital projects and other corporate and institutional activities and initiatives to support portfolio growth. The complexity of managing a diverse and decentralized workforce cannot be underestimated.
- 2.66. The bottom line remains, workforce growth will be done responsibly and efficiently, driven by business needs, and will remain within the sustainable budget envelope. Building and maintaining a talent pool to support IDB Invest’s growth and impact while managing risks is critical to ensuring success.

#### **Managing Non-Financial Risks**

- 2.67. Management of non-financial risks—including environmental, social, governance, business conflicts of interests, reputational and integrity risks—is a key component of sustainable smart growth and will be of critical importance in the coming planning period.
- 2.68. There are three compelling reasons behind this statement. *First*, a core objective of the merge-out process and the Renewed Vision is to enhance investment in the real sector. Moreover, IDB Invest aspires to participate in systemically important infrastructure investments in Latin America. To reach these objectives, the institution will take on more complex transactions with significant non-financial risks that will require identification, mitigation and active monitoring. *Second*, IDB Invest is operating in a more demanding external environment, where civil society, member countries, donors and co-investors have high expectations for transparency and engagement. *Third*, the increasing profile of the institution draws closer attention to its transactions, even as MDBs face an uncertain legal environment as the result of ongoing legal proceedings in Jam vs. IFC.
- 2.69. However, non-financial risk management also represents an opportunity for IDB Invest. Concern for environmental, social, integrity, and other externalities of projects is part of IDB Invest’s value proposition. While a failure to manage these issues would carry significant reputational risk, effectively managing these risks will reinforce IDB Invest’s identity as a market leader in risk management and enhance its impact in the region.
- 2.70. Effective non-financial risk management will require the implementation of robust processes and

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<sup>58</sup> CII/GA-76-4 “Field Presence Plan Implementation. Update”

<sup>59</sup> This includes more financially complex projects, such as those including local currency and mobilization; taking on projects with more non-financial risk, such as major infrastructure projects carrying out proper assessment of non-financial risks including social, environmental and integrity risks; and back office support for these more complex projects.



systems, training and investing resources to ensure risks are identified and managed at entry—as part of the approval process—and effectively addressed during supervision. In addition to non-financial risks in operations, IDB Invest will also enhance its management of non-financial risks from an institutional perspective in relation to information governance (such as cybersecurity, data privacy, records management) and anti-money laundering.

- 2.71. IDB Invest has already taken steps to strengthen its management of integrity and reputational risks with the creation of a Compliance function in the Legal Department and to enhance processes including the Directive on Managing Business Conflicts of Interest in IDB Invest Operations, implementation of the Access to Information Policy and ongoing updates to the Environmental and Social Sustainability Policy. These policies will require additional investment in systems for effective implementation. Additional investment in human capital and training will also be required to ensure adequate identification and management of non-financial risks as a function of the increasing size and complexity of the activities of the institution.

## **b. Targeting Intellectual Capital**

- 2.72. It is practically impossible to find a real-world example of outsized success beyond finance that does not include some form of intellectual capital. It is not surprising, therefore, that the Governors in Busan<sup>60</sup> defined intellectual capital as one of the five impact channels<sup>61</sup> for NewCo and made it a key component of systemic impact and private sector culture. They also defined this goal as one that can only be achieved by leveraging the full capacity of the IDB Group.
- 2.73. Starting from IDB Invest’s competitive advantage as a practitioner in the development world *-the institution that knows how to invest with impact-*, generating knowledge that enhances impact for all investors, learning from our operations, bringing best practices to the region, highlighting first-of-a-kind projects, and creating new financial instruments to multiply the impact of resources demonstrate how knowledge and innovation can drive impact at scale. Achieving sustainable impact will require a renewed focus on innovation and knowledge creation and management in addition to a smart growth strategy for deploying financial resources. Management believes that recommitting to knowledge and innovation is essential for the next planning cycle. To have a reasonable chance of success, these efforts must be anchored in a renewed and enhanced partnership within the IDB Group and especially with KIC which can provide expertise, resources, technical support and a strong link to the 60 years of IDB experience in generating and sharing knowledge.

## **i. Investing in Knowledge**

- 2.74. While the amounts vary, any estimate of the additional investment required for LAC countries to achieve the SDGs<sup>62</sup> exceeds the combined financial capacity of all DFIs working in LAC by several orders of magnitude. The potential impact of knowledge—such as the demonstration effect of innovative projects, the irrefutable validation of investment impacts, or the dissemination of best practices in sustainability—is unbounded. For this reason, Management believes further organizing

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<sup>60</sup> CII/CA-165 Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out. March 13, 2015.

<sup>61</sup> The five impact Channels defined were: (i) stable and predictable lending, (ii) mobilization of third party resources, (iii) more effective use of knowledge products, services and activities, (iv) capital generation through retained earnings, and (v) generating and maintaining operational synergies.

<sup>62</sup> See for example Serebrisky et al (2015) and Castellani et al (2017).

and enabling the knowledge efforts at IDB Invest is a key issue for achieving sustainable impact. Achieving the organization's potential in the area of knowledge will require effective identification of the goals for knowledge production, management of the organization's knowledge resources, and deployment of the knowledge products developed.

- 2.75. Management has identified two mutually reinforcing goals around which to organize knowledge efforts at IDB Invest: influencing externally and learning internally. The knowledge strategy will be driven by these goals and will be substantively rooted in the institution's identity as a practitioner of investment and focused on the institution's competitive knowledge and advantage: ***IDB Invest and the IDB Group both know the business of impact.***
- 2.76. Enhancing synergies within the IDB Group—where the knowledge advantages of IDB and IDB Lab are highly complementary to that of IDB Invest—will be a driver of success for Knowledge at IDB Invest. Synergies will be realized through a variety of channels including knowledge sharing based on the specialized expertise of each institution and collaboration on joint knowledge products. A reviewed Service Level Agreement with KIC will support the efficient execution of this vision.

#### **(a) Influencing Externally**

- 2.77. To drive impact beyond its direct investment, IDB Invest must build its reputation as a thought leader focusing on its experience as a practitioner and market leader in the business of impact. Its influence should extend beyond clients and co-investors to other players -investors, executives, and policymakers- with the potential to drive economic and social development through the private sector. The potential to develop fee-generating services should not be dismissed as external parties are increasingly looking to tap into IDB Invest's expertise.

#### **Taking Stock**

- 2.78. In the first four years of operations IDB Invest took significant steps towards building its external influence. IDB Invest staff produced nineteen peer-reviewed technical notes (ten of which were co-authored with colleagues in IDB Group) as part of the Development through the Private Sector Series that apply rigorous standards to measuring and understanding impact through operations. It has participated in twenty IDB Group Country Strategies, three Development Effectiveness Overviews, one LAC Macroeconomic Report, and contributed to fifteen Sector Framework documents. It developed extensive short-form content such as blogs and *DeBriefs* aimed at private sector audiences. It has built a robust advisory services practice serving as a broker of knowledge and market intelligence for clients and knowledge products highlighting key programs such as *Using Financial Incentives to Close the Gender Gap*.<sup>63</sup> It has developed a best practice impact framework for private sector transactions covering the complete project cycle. It has also helped make the business case for strong Environmental, Social, and Governance Safeguards.<sup>64</sup>
- 2.79. In addition, Sustainability Week, IDB Invest's flagship event has greatly contributed to IDB Invest's position as a knowledge broker in the sustainability arena. This event brings together renowned leaders in environmental and social sustainability and corporate governance in Latin America and the Caribbean. It serves as a business forum and platform to share best practices and develop knowledge networks in key sectors, such as infrastructure, banking, tourism and capital markets. For instance, ninety-five percent of participants in the 2019 Sustainability Week reported that the event was useful for creating new connections, In 2019, Sustainability Week was held in

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<sup>63</sup> [IDB Invest, 2018. \*For Equality We Make the Difference: Using Financial Incentives to Close the Gender Gap.\*](#)

<sup>64</sup> [Brochure: IDB Invest's Environmental and Social Review Process - The Business Case for Environmental and Social \(E&S\) Risk Management](#)

Panama City and gathered a record number of more than 600 business leaders representing 272 companies dedicated to sustainable investments in Latin America and the Caribbean in full view of the Sustainable Development Goals (SDGs). During the event, IDB Invest received close to two million mentions in social media and the press.

- 2.80. These efforts have grown the reputation of the institution as a knowledge center. The DELTA has generated substantial interest from major Development Finance Institutions and private impact investors and the additionality portion was the cornerstone of the Harmonized Framework<sup>65</sup> adopted as best practice by all Multilateral Development Banks. The technical notes have contributed to the organizations reputation as technically proficient and verified the impact of our investments, while short form publications have delivered knowledge to the market and built a reputation among development practitioners. Publications highlighting our projects, safeguards, and advisory engagements have brought attention to new ideas and best practices in sustainability and gender investment.

#### **Challenges to Greater Impact**

- 2.81. Despite having built substantial capacity to produce high-quality knowledge products for the right audiences, challenges remain to maximizing the influence gained through those products: group-level collaboration is only present for some knowledge products, others are dependent on individual relationships, and in yet other cases its simply non-existent. Likewise, enhanced coordination and strategic direction within IDB Invest would strengthen the external visibility of knowledge products.

#### **Aiming for the Future**

- 2.82. The organization’s reputation as a knowledge leader can be enhanced in four main areas: (1) Better leveraging and contributing to the IDB Group and coordinating the deployment of Group resources, with a focus on leveraging the deep sectoral knowledge through VPS and country knowledge through VPC and offering support to IDB through private sector expertise such as the development of regulatory frameworks. (2) Building a strategic agenda for knowledge production within IDB Invest with the support of KIC. (3) Enhancing internal IDB Invest and Group level awareness of knowledge products to enable broad support for the development of the organization as a thought leader. (4) Reimagining IDB Invest’s strategic relationship with KIC to meet the current needs of the institution.

#### **(b) Learning Internally**

- 2.83. Taking steps to become a learning organization will support operational efficiency, financial sustainability, and external influence. Learning from operations is the core of this effort, encompassing peer to peer knowledge-sharing, recording of lessons learned, and incorporating those lessons into the design of future operations. Support for this type of learning requires systems and processes to enable learning, as well as creating a culture of continuous improvement and a system of incentives to support their use.

#### **Taking Stock**

- 2.84. To date, IDB Invest has put in place several initiatives to capture and disseminate data and knowledge across and beyond the organization, these include: (i) two online systems to catalog lessons learned<sup>66</sup> and (ii) Analitika, a single hub to access data on operations and enable data-driven

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<sup>65</sup> [Multilateral Development Banks’ Harmonized Framework for Additionality in Private Sector Operations. September 2018.](#)

<sup>66</sup> The MOK, Mountains of Knowledge site covering 241 lessons from 38 projects in special assets, and the DEA Development Effectiveness Analytics site covering 441 lessons from 289 projects focusing on development impact The DEA lessons learned are also being aggregated into internal sector studies examining trends and common elements across projects.

decision making. The successful deployment of the lessons-learned systems generated marked interest in the units not covered by these systems.

- 2.85. IDB Invest has also worked to create a culture of knowledge-sharing. An example of this effort is the annual all-staff event named Knowledge Week which has proven invaluable to the creation of a unique IDB Invest culture and an opportunity for collaboration and integration with colleagues throughout the IDB Group. The institution invested in a state of the art, in-depth onboarding process, essential for a growing organization. Through our partnership with KIC, IDB Invest Staff have participated in over 83,000 hours in knowledge activities.<sup>67</sup>

#### **Challenges for Greater Impact**

- 2.86. Despite these successes, significant challenges remain. The systems dedicated to lessons learned were the result of efforts by specific units and individuals rather than coordinated institutional efforts. As a result, while robust and effective for their specific purpose, these systems have substantial gaps, leaving equally valuable institutional knowledge outside of their scope. Furthermore, the lessons captured by these systems are not fully integrated into the operational systems of the organization making their use into the design of new operations difficult. Both KIC and IDB Invest agree that collaboration needs to move from the transactional to a broader strategic vision for development of institutional capacity. Cross-institutional knowledge-sharing opportunities, especially the deep sector knowledge at IDB, remains largely untapped by IDB Invest, and the means for sharing knowledge within the organization remain limited.

#### **Aiming for the Future**

- 2.87. Management aims to consolidate and strengthen efforts in the area of internal learning in several ways. First by continuing to support and further enable efforts that are working well. Second, by enhancing both the capturing of lessons learned—both from operations and in back office functions—and promoting their use in the design of future operations.<sup>68</sup> Third, by further leveraging Group knowledge resources, in particular initiatives to deepen knowledge-sharing between IDB sectors and the corresponding operational units in IDB Invest.<sup>69</sup> One of the key initiatives defined in the Business Plan is the development of a Knowledge Action Plan defining the steps that will be taken to carry out the goals identified here. Strategic support across all three of these areas will be provided by KIC an ongoing dialogue.

## **ii. Focusing Innovation Efforts**

- 2.88. In the first four years of operation, IDB Invest has built a reputation as a market leader in private finance for development. The significance of the achievements to date, outlined in a previous chapter, is underscored by the ambitious geographical and sector coverage of IDB Invest’s operations. IDB Invest’s birth as a “startup with a history” allowed it to begin operations essentially with a blank page and create an institution largely unconstrained by inertia. In many ways IDB Invest was able move fast and become a solutions bank offering clients a wide range of financial and knowledge solutions.
- 2.89. The challenge in the coming years will be to sustain and significantly enhance the culture of innovation even as the institution matures. Maintaining the drive towards innovation to is not a luxury but an imperative.

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<sup>67</sup> Total from 2016 through Q3 2019. Includes staff time devoted to Knowledge Week.

<sup>68</sup> This effort contributes to OVE Recommendation 1 in CII/RE-32-2 “Lessons from IDB Group’s Non-Sovereign Guaranteed Problem Projects. Revised version.”

<sup>69</sup> Additional detail is provided in IDB Invest as Part of IDB Group 2.0.

- 2.90. There is clear evidence that investors are increasing their focus on the impact of their portfolio (on development effectiveness, environmental, social, corporate governance, know your customer among other areas) and are seeking efficient and effective ways to measure impact and to signal priorities. This represents both a risk—as commitment to impact is no longer the purview of DFIs but a growing market standard—and an opportunity—as it creates a bigger community with an equally larger potential for impact. For the 2020-2022 period Management will focus the organization’s innovation efforts on specific themes around three areas: products and projects, processes, and systems.

### **Products and Projects**

- 2.91. In the first four years of operation IDB Invest financed several first-of-a-kind projects such as: (i) *Atlantic* - first ever closing of a total credit guarantee of an infrastructure debenture, (ii) *Patria and Mercado Crédito* - first projects approved using Brazil’s debt capital markets’ FIDC, (iii) *Moni Online* - first equity investment in a Fintech boosted by a gender component, and (iv) *Blue Like an Orange* - first co-financing agreement signed with a fund to mobilize mezzanine transactions.
- 2.92. Looking to the future Management believes product and project innovation can be enhanced through the New Product Development Committee; by improving back-office capacity; through partnership with all members of the IDB Group and by leveraging the innovation component of the DELTA to drive operations. Management has assembled a New Products Committee with a mandate to direct work in three areas: developing new products, enhancing existing products, and scaling products. In each area the committee considers the potential market demand, the capacity of IDB Invest to use the product, and the demand among co-investors. It weights these variables against the substantial fixed costs involved in developing new products and marginal costs in managing a large variety of products on an ongoing basis.
- 2.93. Booking and managing product and project innovation will require scaling up back-office capacity to handle complex transactions. IDB Invest is in the process of completing its derivatives capacity which will allow booking of fixed rate transactions, selected local currency transactions and the ability to manage market risk. It is also in the process of developing local treasuries in select markets to further enhance local currency capacity.
- 2.94. Project innovation is a natural opportunity for synergies with IDB Lab and IDB. IDB Lab is piloting, testing, and measuring innovative solutions which, once tested, can be incorporated at IDB Invest. Two areas with great potential are agribusiness through supply chain and anchor companies, and fintech. In the area of infrastructure, IDB’s Infrastructure Department (INE) can provide valuable insight on innovations which may complement innovative solutions from for public-private structuring through the PPP single window in VPC. Another example is IDB’s CTI Division work with innovation agencies across the region. These agencies are collaborating with companies actively sharing knowledge and developing innovative solutions for the region. Deepening collaboration with these agencies through CTI could lead to new opportunities for IDB Invest that align with country development priorities. IDB Invest will continue to focus on financing projects that incorporate innovative practices and technology, projects that are highly replicable, and projects that may have a demonstrative effect as identified by the business innovation component of the DELTA<sup>70</sup>.

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<sup>70</sup> Business innovation is defined as when the client adopts or operationalizes a product, internal process, technology or financing structure that is new or not widely used in the domestic sector. Innovations in supplier or client relationships are also covered under the Market Linkages section of DELTA.

## **Processes**

- 2.95. Successfully balancing a dual mandate requires innovation not just on what products the institution delivers, but how they are being delivered. Continuing to improve the way the institution approves projects, monitors impact, and conducts business will enhance the organization's impact and market position. IDB Invest has proven capacity in this area. It is a market leader in the field of impact and additionality (through the DELTA) and is continuing to work in this area through the development of the Strategic Selectivity framework. The completion of the Risk Adjusted Return on Capital (RAROC) instrument has enabled the implementation of Portfolio 2.0, a holistic approach to manage the financial contribution and development impact across the portfolio. The Operational Excellence Initiative completed a redesign of the loan approval process to enhance accountability and efficiency and is already showing results including decreased transaction time, faster response times to the client, and higher accountability.
- 2.96. The work of the Operational Excellence Initiative will continue in 2020-2022, further enhancing the origination process and expanding its efforts to include additional core processes (e.g., first phase of a strategic effort to redesign the processes for supervision of operations, covering the period from approval to last payment). The initiative seeks to influence the operational culture of the organization and underscore two core attributes: teamwork and trust. IDB Invest is also exploring other initiatives such as a simplified process for pre-approved transactions and those with existing clients, and a client portal to more efficiently communicate with clients and share all relevant documentation and information.

## **Information Technology**

- 2.97. Technology is one of the key themes of the IDB Group Update to the Institutional Strategy.<sup>71</sup> For IDB Invest, this means being an effective partner for clients, anticipating coming technological changes, understanding how these changes will affect markets, and putting in place strategies to adapt and take advantage of these changes. To be an effective partner for clients IDB Invest must be at the forefront of technology in the management of its internal operations.
- 2.98. In close coordination with the IDB, substantive work is ongoing, to enhance and complete IDB Invest the backbone of its information technology framework. While substantial work remains, especially in finance, systems, and completing end-to-end processing of origination and portfolio management that gradually eliminates manual processes across the organization, important milestones have been reached. IDB Invest's operational system incorporate a wide range of complex processes including risk (the RAROC), treasury, and development effectiveness. IDB Invest has also developed a set of business intelligence self-service tools that have been embraced by the institution.
- 2.99. Looking to the future and in close coordination with the IDB ITE, IDB Invest is prioritizing the implementation of a systems architecture with internal and external connectivity with clients, partners, and vendors, allowing a transformation into a more agile institution with better service for stakeholders. The systems architecture will ensure that front, middle, and back office functions are integrated, including the different tools and platforms used by the institution.
- 2.100. In terms of developing a leading edge, IDB Invest hopes to leverage, in the next three years, the use of mobile, machine learning and artificial intelligence (AI), big data analytics, blockchain, APIs, and cloud services to further IT innovation and better serve clients, partners, and employees.

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<sup>71</sup> Update to the Institutional Strategy 2020-2023. Development Solutions that Reignite Growth and Improve Lives. CII/GN-378-1.

For example, IDB Invest could improve its work with *clients* using AI chatbots and voice assistance in its client portal or use of blockchain to disburse TFFP and local currency transactions more efficiently. Blockchain could also be used to work more efficiently with *partners* by settling transaction payments with FIs. *Employees* could benefit from better access to MAESTRO and other platforms via mobile, and from leveraging connectors to access external data and reference key aggregate sources for knowledge purposes. In addition, IDB Invest will focus on emerging areas of risk with special focus on cybersecurity with respect to the financial sector.

- 2.101. To strengthen its innovation efforts, IDB Invest will continue working closely with IDB ITE and put focus on its relationship with the Knowledge, Innovation, and Communication sector (KIC). This will allow IDB Invest to learn from KIC's use of applied innovation technologies, further promote a culture shift, strengthen innovation processes through consultative design studios, and leverage partnerships with external institutions (e.g., MIT Media Lab).

### **c. IDB Invest as Part of IDB Group 2.0**

#### **Taking Stock**

- 2.102. Establishing the IDB Invest brand created a powerful sense of corporate identity, promoted unity in diversity, and contributed to the institution's emerging culture. The new brand reflects the vision of the Busan Resolution,<sup>72</sup> underscores the reality of an IDB Group greater than the sum of its parts and clarifies IDB Invest's role within the Group. A similar step taken recently by the former MIF, rebranded as IDB Lab, further reinforces the value of the Group. In the context of the next business plan, it also recognizes that IDB Invest's aspiration of sustainable impact will falter unless the potential of the IDB Group can be leveraged.
- 2.103. To reflect on accomplishments and find new opportunities to create shared value, Senior Management from IDB, IDB Lab and IDB Invest engaged in a series of meetings and workshops leading to the ideas described in this section. Given the purpose of this document the ideas presented here represent IDB Invest's commitment to the Group while remaining aware that progress on these objectives will require the ongoing engagement of the entire Group.
- 2.104. At the *strategic level*, governance arrangements enabled the IDB Group to develop a joint framework and operate as a Group. As part of that framework, joint meetings of the Boards of Executive Directors routinely take place; the Chairperson's Committee for the General Supervision of IDB Invest includes IDB and IDB Lab's Senior Management as required, and joint membership in Management Committees and working groups at all levels is encouraged and results in better decisions. Several IDB Invest management level committees include IDB senior managers when the subject of deliberation requires coordination at institutional level. This strategic synergy also takes the form of key documents to guide the Group's activities including the Update to the Institutional Strategy, the Corporate Results Framework, and the Country Strategies. In addition, IDB Group has developed a more robust approach to define actions aimed at key priorities for the Group, such as the Group's Climate Action Plan<sup>73</sup> and the IDB Group Approach to Financial Intermediaries<sup>74</sup>.

One of the most important decisions taken by the Governors in Busan to ensure that the IDB Group became a reality, was to define the role of the Country Representative as an IDB Group function.

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<sup>72</sup> CII/AG-2/15. "Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out"

<sup>73</sup> GN-2848-4. "DB Group Climate Change Action Plan 2016-2020"

<sup>74</sup> CII/RE-18-5. "IDB Group Approach to Financial Intermediaries. Management Response to OVE Recommendations."

Since inception the country representative's role has been strengthened and through dialogue and experience it has become the Group's focal point for key strategic, operational and institutional matters in the field. Management expects the new role of Regional Hub Coordinator will further strengthen IDB Group synergies by leveraging lessons from this success,

- 2.105. At the *operational level*, the participation of IDB/IDB Lab officers in IDB Invest projects and the support from IDB/IDB Lab through a loan or grant to an IDB Invest transaction has been steadily increasing<sup>75</sup>. IDB Invest also works with IDB and IDB Lab on several cross-cutting themes, particularly in gender and in climate change.<sup>76</sup> Beyond specific projects, several efforts to generate a better understanding of IDB Invest's priorities and potential for synergies have been underway such as workshops to illustrate case-study projects with public-private synergies and presentations on IDB Invest products to IDB divisions. In addition, in 2017, IDB Invest worked with the IDB to develop the IDB Group PPP Single Window, whose main goal is to provide end-to-end PPP support for its public and private clients. The PPP Team of the IDB is leading technical assistance to support PPP project preparation and providing institutional strengthening for governments in LAC; while IDB Invest is operating closer to the investment phase, advising in the structuring of project-specific PPP contracts and tender documents.
- 2.106. Knowledge presents a great opportunity to leverage the Group, in line with IDB Invest's ambition to become a learning institution. IDB Invest participated in the IDB Group's Development Effectiveness Overview (DEO) with IDB and IDB Lab, which serves as a learning and accountability report of the IDB Group. IDB Invest has also elaborated joint publications with IDB to share development challenges and opportunities based on the analytical work carried out in the Country Strategy process. This is the case for the country-specific publications on Paraguay, Honduras, Brazil and policy briefs of Central America ("BIDEconomics"). IDB Invest's country specific development gap analysis for infrastructure has also been included in the IDB's flagship report "2019 Latin America and the Caribbean Macroeconomic Report: Building Opportunities for Growth in a Challenging World". In addition, IDB Invest has produced thematic publications and briefs on selected topics (e.g., PPPs in Colombia, Infrastructure Development in Brazil, etc.) in coordination with VPS, VPC, and Country Offices. Further opportunities to leverage Group knowledge include deepening IDB Invest's participation in the development of regulatory frameworks and the structuring of complex financial products, and further leveraging IDB's deep sector knowledge to enhance IDB Invest interventions.
- 2.107. At the *corporate level*, IDB Invest continues to strengthen synergies with the Group through 22 Service Level Agreements (SLAs), allowing the Group to gain efficiencies and save costs. IDB Invest has been providing tailored services in different areas – development effectiveness, legal, credit, SEG, and portfolio management – to IDB Lab at the project, portfolio and corporate level. Overall, these arrangements have allowed IDB Lab to leverage built-in capacity within IDB Invest, while IDB Invest continues to deepen its expertise serving as a center for excellence. In turn, IDB Invest receives services from eighteen IDB departments including KIC, ORP, OVE, HRD, VPS, VPC among others. The relationship between IDB Invest and ORP highlights the efficiencies and advantages of having a single center of excellence.

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<sup>75</sup> For example, an IDB transport specialist was a member of the Posorja Port project: <https://www.idbinvest.org/en/news-media/idb-invest-finances-construction-new-posorja-port-ecuador>.

<sup>76</sup> In terms of gender, IDB Invest has worked with IDB on the Gender Parity Task Force, Women's Financial Partnership and connect Americas for Women. IDB Invest has worked with IDB Lab on Women Empowerment Principles and Women Entrepreneurship Principles. With the group, IDB Invest is involved in the 100% Committed Campaign, EDGE Certification and Women 20. In addition, a joint IDBG Climate Action Plan was approved and has been implemented.



- 2.108. As the SLA process matures, IDB Invest has standardized to the greatest extent possible, the agreements with each of the IDB counterparts while still being flexible enough to deal with the unique circumstances of each SLA. Additionally, more emphasis has been placed on refining the metrics and monitoring the performance of the service delivery. To ensure that all SLAs are working as efficiently as possible, the office of the Executive Auditor conducted an assessment to identify opportunities where the design and effectiveness of the process to manage the SLAs could be improved. As a result, the Group is working on some areas for improvements in the SLAs with KIC, VPF and ITE. For the latter, ITE and DSP agreed on providing a progress update of the commitments made on the meeting held in August 2017 with the Chairman's Committee for the General Supervision of IDB Invest.
- 2.109. Additionally, cross-booking has been crucial for IDB Invest's growth in the 2017-2019 cycle. After initial challenges in the cross-booking implementation, the 2017 revision resulted in more delegation to IDB Invest underscoring the strengths of the Group's adaptability. The rebalancing proposal described before also seeks to leverage this powerful tool.

#### **Aiming for the Future**

- 2.110. Taking full advantage of the Group's sector expertise is the main avenue leading to an IDB Group 2.0. Once again, the country representatives are best positioned to lead the sectoral dialogue around projects to define, early in the process, potential gains or enhancements in design. At the institutional level, Management hopes to participate in a systematic dialogue on sector knowledge and priorities at all levels of the organization. Sharing success stories, without the need for additional bureaucracy or processes, will be essential.
- 2.111. The synergies gained from these actions should result in a better instrument for dialogue at the country level. Country strategies would benefit from coordinated sector inputs and a unified Group presence and strategic engagement with Civil Society. A new country strategy protocol is in place to optimize public-private coordination, reduce the heterogeneity in country strategy preparation and ensure that inputs from each participant add value and avoid inefficiencies and overlap. Constant revision of the country presence model should continue, with special focus on opportunities for decentralization of decision making from headquarters to the field. This should be accompanied by enhanced performance metrics to create the right incentives.
- 2.112. At the Corporate level, information flows have improved but substantial work remains to ensure that, especially in the field, all necessary data is available and accessible on the desk and in front of a client. As stated in a previous section, work is ongoing to integrate systems and build the proper data framework. The recently released audit report on the SLAs will provide key insights on the continued improvement of this instrument. A more complex task will be to ensure that key workforce barriers to provide finance as a group are gradually addressed. These include incentives, mobility and culture cross-fertilization.
- 2.113. As IDB Invest approaches full capital utilization, conversations to overcome the constraints related to the size of its balance sheet; for example, to finance systemically important and emblematic deals, should begin. In the medium to long-term, it will be up to the shareholders to consider alternatives to maximize the Group's ability to adapt to new demands from the countries we serve.
- 2.114. It's clear that the Governors' vision of a Group is emerging with strength and purpose. In the future, a further unified and shared leadership of the Group will emerge around an engrained and holistic view of development; valid for the whole Group and leveraging all resources at the Group's disposal. This leadership should appeal to the collective creativity of all stakeholders and work to consolidate the IDB Group Brand. Creating informal avenues where senior leaders from IDB, IDB Lab and IDB Invest can jointly discuss strategic issues related to the Group on an ongoing basis

could be the first step to promote this sense of shared leadership.

- 2.115. As stated in the opening paragraphs of this section, all these actions require the engagement of the whole Group. The one action that lies squarely with IDB Invest is a sustained effort to truly understand the potential of the public sector to enhance its impact in the region. IDB Invest reaffirms its belief in the Group and its commitment to its success with the development of our region as the final objective.

## D. Actionable Initiatives

- 2.116. To successfully execute the policies outlined in the previous section Management has identified, in consultation with the Chairman's Committee and the Board, a series of key initiatives which will be undertaken to further goals critical to the success of the Business Plan.

### **Deploying the Client Strategy.**

- Continuing to enhance IDB Invest's level of client service is critical to enable the scaling-up of the organization's lending and mobilization capacity. Management has developed a new Client Strategy which will shift the organization from being transaction-based to client-based. The execution of this strategy will require continued optimization of internal processes in order to better serve clients, and enhancements to IT infrastructure to improve client experience.

### **Knowledge Roadmap.**

- The aspirations for knowledge laid out in this document will require a proactive approach to knowledge management. The roadmap will articulate Management's agenda for the design and implementation of knowledge management activities over the course of the planning period.

### **Information Technology "Future" Roadmap.**

- Scalable information systems are a prerequisite for increasing the number and the complexity of the transactions IDB Invest approves and manages. Management will identify the key activities necessary to achieving scalability and develop a roadmap for their implementation that includes the potential of cutting-edge technologies in development.

### **IDB Invest's Branding and Image.**

- A key issue highlighted by country representatives. Building recognition of the IDB Invest brand is an important part of ensuring financial impact, through the acquisition of new clients and co-financiers, and non-financial impact, by enhancing the demonstration effect of projects and the reputation of knowledge products. Management will develop a plan to continue the work of building recognition of the brand among target audiences.

### **Operational Excellence 2.0**

- As part of the ongoing effort to enhance organizational efficiency and client service, IDB Invest created an Operational Excellence Initiative. The efficiency gains from this initiative—already demonstrated by the new approval process adopted in 2019—will make IDB Invest's processes faster, scalable, and align them with the needs of private sector clients. The ongoing work of the Operational Excellence Initiative in the area of portfolio management processes will be critical to ensuring that IDB Invest can maintain quality in approval and management as it grows.

### **Mobilization Roadmap.**

- As IDB Invest approaches the upper limit of its sustainable lending capacity, mobilization of co-financiers will have an increasingly important role in continued growth. Management will develop a roadmap to enhance mobilization capacity using *ex ante* and *ex post* mobilization instruments.

### **Non-Financial Risk Roadmap.**

- The growing portfolio of IDB Invest represents a challenge because of its size and because of the increasing complexity of the transactions. These transactions require rigorous evaluation and monitoring of non-financial risks associated with this complexity.

### **Climate Roadmap**

- The Climate Roadmap will provide an opportunity to engage in a comprehensive dialogue with the Board of Executive Directors on the challenge, guiding policies, actions and resources required to reach and further define the target and mainstream climate in IDB Invest operations.

### **Poverty and Vulnerability Roadmap**

- Poverty and vulnerability are critical development challenges for Latin America and the Caribbean. The Poverty and Vulnerability Roadmap will provide an opportunity to engage in a comprehensive dialogue with the Board of Executive Directors on how IDB Invest can contribute to addressing these challenges by promoting development through the private sector.

## **E. Ensuring Development Impact**

- 2.117. IDB Invest will start the new planning cycle with its Impact model<sup>77</sup> fully completed and operational. It will also work to enhance and proactively pursue its SDG agenda as defined in the central challenge of Growth for Sustainable Impact.
- 2.118. IDB Invest developed a market leading Impact Toolbox that supports (i) the identification of financially viable projects with the highest potential impact; (ii) the preparation and supervision of operations to ensure their relevance, efficiency, effectiveness, and evaluability; (iii) the generation and dissemination of knowledge from operations; and (iv) timely and transparent reporting on development impact to stakeholders. The Sustainable Development Goals (SDGs) are fully embedded in the Toolbox to ensure that IDB Invest's portfolio of investments targets this set of global commitments.
- 2.119. The Strategic Selectivity Tool enables IDB Invest to steer origination towards areas where development gaps have been identified through the country strategy process. Once a project is originated the Development Effectiveness, Learning, Tracking, and Assessment tool (the DELTA), assesses the impact potential and additionality (financial and non-financial) of projects. The DELTA as a metric of development impact and the Financial Contribution Rating (FCR) as a RAROC-based metric of contribution to the institution's financial sustainability combine conform the Portfolio Approach (Portfolio 2.0) as a framework for balancing the organization's dual mandate of development impact and financial sustainability. Once a project has been approved the DELTA is updated annually as part of the DELTA in supervision process, enabling ongoing monitoring of projects in the portfolio.
- 2.120. Once an operation reaches maturity an Expanded Supervision Report (XSR) is carried out. In select cases impact evaluations, which provide rigorous causal evidence of project results, are conducted as well. Sector studies aggregate lessons arising throughout the project cycle to provide a broad view of knowledge in a sector. The Development Effectiveness Analytics (DEA) system provides a data-rich and interactive control panel to monitor the portfolio using the DELTA at origination and extracting lessons throughout the project life cycle.

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<sup>77</sup> See Annex 3 of CII/GA-80. 2020-2022 Business Plan Issues Paper. A detailed technical briefing is suggested for early 2020

## F. Ensuring Financial Sustainability

- 2.121. Management and the Board have put in place a comprehensive, state-of-the-art capital management framework to support the mandate for long-term financial sustainability, consistent with the institution’s development mandate. Following the introduction of the Risk Appetite, Capital Adequacy, and Liquidity policies in 2017, Management developed Operational Guidelines for the Liquidity Coverage Ratio to finalize the implementation of said policies, all of which are now in full force and effect. Management also developed a long-term, financial planning framework to provide ongoing strategic, prudential and operational guidance. The resulting projections reflect Management’s assumptions on key variables and are fully consistent with governance principles and all aspects of the Capital Management framework.

## G. Measuring Results

- 2.122. To avoid “*a superficial statement of the obvious combined with a generous sprinkling of buzzwords*,”<sup>78</sup> the ambition behind “Growth for Sustainable Impact” must be grounded in a pragmatic framework to measure success. More importantly, setting clear expectations and defining performance ex-ante is of paramount importance for an institution accountable to its Governance and subject to independent evaluation.
- 2.123. Management proposes a fundamental departure from the current plan’s dashboard<sup>79</sup> to focus on a single question: How can IDB Invest maximize a “multiplier” attached to the average capital provided by shareholders through the Busan period? The single resulting indicator in the form of “IDB Invest has multiplied average shareholder capital X times between 2016 and 2025” would be composed of four channels derived from smart growth and one “moonshot” channel derived from the work on intellectual capital and leveraging the IDB Group. Although calculating the final metric requires a quantitative approach, *all qualitative concepts related to impact and financial and non-financial risks are measured independently and considered embedded*, as operations would not be eligible otherwise. It’s important to note that Management intends to deploy the framework with full transparency to the fact that ease of calculation and quality of attribution diminish from the first channel to the fifth.

### iii. Smart Growth Channels

- 2.124. IDB Invest Funds: Results from deployment of the institution’s capital across all its financial products. For example, using aggregate commitments<sup>80</sup> as of September 2019 and dividing that total by the average capital provided by shareholders the result is that through this lever IDB Invest has “multiplied” average shareholder capital 8.3 times.
- 2.125. Partners: Results from engaging partners and crowding-in financial resources in support of development projects in the region, alongside IDB Invest funds. Using the same methodology, for

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<sup>78</sup> Good Strategy/Bad Strategy, The Difference and Why it Matters, Richard P. Rumelt. Crown Publishing, 2011.

<sup>79</sup> Progress on the 2017-2019 Business Plan is reported through a dashboard containing thirty-three indicators distributed in five categories: Clients, Development Effectiveness, Synergies, Financial Sustainability and People.

<sup>80</sup> To accurately capture the full volume of IDB Invest’s funds accurately, average outstanding portfolio of short-term activity (i.e., TFFP and supply chain financing with a tenor of less than a year) will be added to the commitment amount.

example, core mobilization<sup>81</sup> to date has “multiplied” average shareholder capital 3.4 times.

- 2.126. **Projects:** Projects that receive funding solely from IDB Invest or from IDB Invest and its co-financing partners may require, deploy or mobilize resources beyond what IDB Invest has provided. Indirect or parallel mobilization refers to financing from entities provided in connection with a specific activity for which IDB Invest is providing financing, where there is no active and direct involvement of IDB Invest in securing the financing (i.e., catalytic mobilization excluding core mobilization). This measure underscores the additionality of IDB Invest projects. And is reflected in the proposed Corporate Results Framework. To date, this concept has accrued amounts that “multiply” average shareholder capital 6.1 times.
- 2.127. In summary, at the close of the third quarter of 2019, the first three “smart growth” channels have generated private sector activity that multiply average shareholder capital 17.9 times.
- 2.128. **Clients:** Projects funded by IDB Invest and its partners have an Economic Rate of Return (ERR) that takes into consideration overall project costs, external environmental and social costs, external benefits, and benefits to the borrower that can be attributed to the proposed project. These results are a proxy for the systemic impact achieved by IDB Invest funded projects. Metric for this channel is under development based on data captured by the DELTA.

#### **iv. Intellectual Capital “moonshot” Channel**

- 2.129. **Ecosystem:** This channel will seek to capture the broader set of systemic effects that have the potential to influence others’ behaviors without necessarily involving direct IDB Invest financing. Activities and products that would be captured under this pillar include knowledge products, advisory services, and demonstration effects of innovative projects among others. For example, understanding the impact of IDB Invest’s provision of expertise on private sector companies’ behavior towards “development impact” objectives (e.g., SMEs, woman entrepreneurs, affordable housing). Metric for this channel is under development.
- 2.130. This channel holds the highest potential to drive systemic impact. Mainly because it does not involve one-to-one IDB Invest portfolio funding and thus would not be limited by the institution’s capital. It is also a channel where IDB Invest would be breaking new ground to identify and measure its contribution and where attribution would be hardest to justify.

#### **v. Other considerations**

- 2.131. In its simplest form, the 2020-2022 performance dashboard would contain only 6 key indicators, the result of the five channels and the total resulting from adding the five channels to create the single top-level indicator. This initiative is not intended to reduce current levels of reporting and accountability to our Governance. Starting from the five channels, the dashboard will be constructed in successive “drill-down” levels through which IDB Invest will continue to track and monitor all core KPIs (including those in the current dashboard) and ensure consistency and alignment with the Institutional Strategy’s Corporate Results Framework. Management will seek to engage the Board to define the right levers for success as it continues to develop this dashboard for implementation in the next planning cycle.

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<sup>81</sup> Volume of commitments from entities other than IDB Invest made available to the client due to IDB Invest direct involvement in mobilizing financing and for which IDB Invest is compensated, such as loan participations (i.e. B-loans); investment cooperation or special funds administered by the IDB Group, (i.e. China Fund, C2F, etc.)

### 3. 2020 Plan of Operations

- 3.1. Over the first four years of operations, IDB Invest has built origination capacity to deliver impact at a scale that lives up to the ambitious expectations for the institution. Approvals went from US\$2.2 billion in 2016 to US\$4.1 billion in 2018. Management expects to approve close to US\$5.0 billion in 2019. Long-term commitments have increased on a similar scale, from US\$0.8 billion in 2016 to US\$2.5 billion in 2018<sup>82</sup>.
- 3.2. Management's Plan of Operations for 2020 contains two changes in reporting standards to better align incentives and reporting with the needs of the private sector and market standards.
- 3.3. **First**, key operational targets will be set and reported in terms of commitments,<sup>83</sup> which aligns IDB Invest with other MDBs and the private sector. This change completes the transition anticipated in the 2018 and 2019 Business Plan Updates and underscores Management's assertion that "commitments, and ultimately disbursements, are the metrics truly tied to client needs, and represent actual deployment of resources to foster development in LAC."<sup>84</sup> Commitments have been monitored as a key operational variable and included in quarterly reports to the board over this same period. A similar change was approved by the Board in 2016<sup>85</sup> when Management proposed core mobilization as the key metric to track IDB Invest efforts to catalyze investment to LAC's private sector.
- 3.4. **Second**, short-term lending will be reported separately from long-term commitments and will be reported as average outstanding. This change is consistent with original Busan projections and with industry standards,<sup>86</sup> and more accurately reflects capital utilization. All key metrics currently being tracked will continue to be tracked for internal business purposes, but top line reporting to the Board and in public documents will change as described.
- 3.5. The business goals for 2020 reflect (i) conversations with the Board and the rest of the IDB Group in the context of the Issues Paper,<sup>87</sup> (ii) maintaining stability in operating capacity, and (iii) the ongoing global macroeconomic challenge. Given these considerations, the proposed target for total long-term commitments is set at US\$5.3 billion including US\$3.3 billion in own account financing and US\$2.0 billion in mobilization. Short-term lending is expected to maintain an average outstanding level of US\$850 million.
- 3.6. Management approaches institutional priorities for 2020 and beyond through the lens of **growth for sustainable impact** and will also shift these targets to commitments, confirming existing targets and in some cases proposing more ambitious targets at the more rigorous standard. To ensure consistency, Management has retrofitted progress on each corporate target following their proposed definitions in terms of commitments. The commitment numbers are presented in Figure 18 below, along with the previously reported approvals for comparison.

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<sup>82</sup> Total own-account commitments were US\$ 1.4 billion in 2016 and US\$ 3.5 billion in 2018.

<sup>83</sup> Approvals will continue to be tracked and reported.

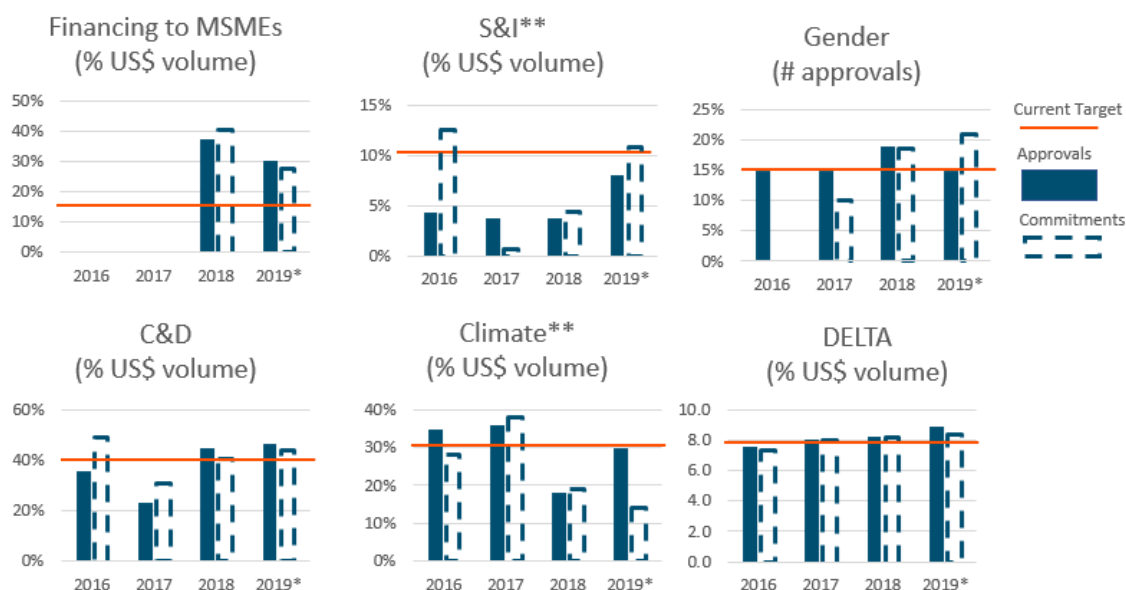
<sup>84</sup> CII/GA-77-4. 2018 Business Plan Update and Administrative and Capital Budget Proposal.

<sup>85</sup> CII/PP-181-2. IIC – Resource Mobilization. Audiovisual Presentation

<sup>86</sup> Starting in 2015, the International Finance Corporation (IFC) changed its reporting of short-term business from cumulative commitments added to long-term commitments, to an average annual outstanding portfolio balance, joining other MDBs such as the EBRD and AfDB. In addition, this method also aligns with commercial banking practices.

<sup>87</sup> CII/GA-80. 2020-2022 Business Plan Issues Paper.

**Figure (9) Corporate Targets Approvals vs. Commitments**



\* Numbers for 2019 are as of the end of Q3.

\*\* Multi-year targets. For details on S&I target see CII/GN-354 for details on climate target see CII/AB-1439.

- 3.7. Management will maintain a median DELTA score target of 8.0, measured on commitments in 2020. Management recommits to the targets of reaching 10% of commitments in S&I countries by 2020 and 40% of DRAs in C&D countries by 2025. IDB Invest will also maintain its commitment to the existing climate finance target of 30%. To build on progress to date, IDB Invest will see this as a 30% floor applied to each period. IDB Invest will have a three-pronged approach to becoming climate capable: 1) Investing in reversing, 2) Risk management, and 3) Transitioning toward a low-carbon economy. IDB Invest and IDB will continue to engage with the Board on a deep and strategic conversation on this target.
- 3.8. Considering performance over the previous planning period, Management proposes adopting more ambitious targets for MSMEs and Gender for the 2020-2022. In the case of MSMEs the proposal is to move from 16% of the annual approval volume to 30% of the annual commitment volume. In the case of gender, Management proposes increasing the target to 30% of the number of long-term commitments and expanding the scope to include operations with either a gender or a diversity component.
- 3.9. The commitment amounts for 2020 outlined in Figure (10) reflect a recommitment to the existing sector mix<sup>88</sup>, which Management believes has been successful in achieving IDB Invest’s aspirations for impact while also supporting financial sustainability. Building on the practice started in 2018, Management will continue to deploy anti-bunching measures, such as quarterly targets linked to staff incentives, aiming at a smoother delivery of the program of operations throughout the year.

<sup>88</sup> IDB Invest works with clients in the strategic sectors of Agribusiness, Manufacturing, Telecommunications, and Tourism (grouped into the Corporate 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).

**Figure (10) Indicative Operational Activity for 2020**

	US\$ million	%
<b>Own Account Commitments by Segment</b>		
Financial Institutions	1,000	30%
Corporates	900	27%
Infrastructure and Energy	1,400	42%
<b>Own Account Subtotal</b>	<b>3,300</b>	<b>100%</b>
<b>Core Mobilization</b>	<b>2,000</b>	
<b>Total Long-Term Commitments</b>	<b>5,300</b>	
<b>Short-Term Average Outstanding</b>	<b>850</b>	
Short-Term Commitments	1,000	

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



## ANNEX I: Taking Stock of the Initial Years

Synthesizing the aspirations of the Merge Out process and seeking close alignment with the now complete IDB Group strategic framework, Management envisioned an institution that embodies the best qualities of *a private-sector culture* and, because it understood that true development requires public and private solutions, *excelled as a member of the IDB Group*. An institution that remained *financially sustainable* in the long-term and *maximized its development impact beyond its financial investments*. As a result, IDB Invest would become *the partner of choice* to promote development through the private sector in Latin America and the Caribbean.

These aspirations are based on the Renewed Vision and nested within the IDB Group framework: at the institutional level, within the Institutional Strategy and its updates, and at the country level within the individual Country Strategies developed with stakeholders in the respective countries and responding to their specific development challenges and priorities. They support achieving the IDB-9 strategic goal of *promoting development through the private sector* and are aligned with the cross-cutting issues, development challenges, operational guiding principles, and Country Strategies.

These six core aspirations, along with the larger IDB Group framework they are nested within, served as the basis to take stock on IDB Invest's first planning period [Startup year (2016) + Consolidation for growth (2017-19)] during the several workshops with Management and Staff and all hand events during knowledge week. The stock taking exercise was part of the process to prepare the launch of the 2020-2022 planning cycle.

The following paragraphs are meant only as an illustration of IDB Invest's work since 2016. To date, Management has worked with the Board of Executive Directors to prepare and present four comprehensive "Merge-out Progress and Implementation Reports"<sup>89</sup> to the Governors, highlights of which were also presented to the Governors by IDB Invest's CEO in each successive Annual Meeting. Furthermore, Management has actively engaged the Board of Executive Directors through the 2017-2019 Business plan and its two updates and through fourteen quarterly presentations addressing institutional, operational and development related issues. These reports offer a more in-depth view of the institution's challenges and achievements; however, they all point to the fact that IDB Invest has become the leading multilateral partner for development through the private sector in Latin America and the Caribbean.

### The Partner of Choice

As imagined in the *Renewed Vision*, IDB Invest has come a long way in building its position as the preferred partner for development for the private sector in Latin America and the Caribbean. In four years, IDB Invest has built a capacity -to generate deals, mobilize resources, provide expert advice, manage non-financial risk, and enhance impact- that exceeds pre-merge out levels. It did so while spending less -in real terms- and delivering the operational efficiency and qualitative gains expected from the reorganization. The market has recognized these achievements through dozens of industry awards including "The 2018

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<sup>89</sup> CII/AB-1543 "Merge-out Progress and Implementation Report;" CII/AB-1505 "Merge-out Progress and Implementation Report"; CII/AB-1473 "Merge-out Progress and Implementation Report" and CII/AB-1440 "Merge-out Progress and Implementation Report". Presented at the Annual Meeting 2019, Guayaquil, Ecuador; the Annual Meeting 2018, Mendoza, Argentina; the Annual Meeting 2017, Asunción, Paraguay; and the Annual Meeting 2016, Nassau, Bahamas, respectively.

Multilateral Bank of the Year” by LatinFinance. These awards signal IDB Invest’s enhanced value proposition and the need to working on brand recognition and market presence.

IDB Invest has built very significant sector expertise on direct interventions and infrastructure. This enables the organization to better address the challenges of productivity and economic integration in the region highlighted in the *Institutional Strategy*. The Infrastructure and Energy sector consolidated its positioning in the region in the transport and energy sectors and made inroads in water and sanitation and infrastructure social sectors. In addition, it expanded its product offering with innovative products. The Corporates sector consolidated its team, making considerable progress in building its expertise, and strengthening its local presence. It also intensified its business development efforts in C&D and S&I countries through its local presence and by exploring opportunities in local currency transactions. Financial Institutions sector had its Action Plan approved by the board and confirmed its commitment to becoming a “Solutions Bank” focused on partnering with other financial institutions to achieve the desired developmental impact.

As part of its value proposition, IDB Invest has strengthened its service offering by developing new products and adapting existing products to client needs in new ways. It has adopted an organizational structure based on a segment-product matrix. This structure underscores its client orientation and enables the organization to cultivate deep industry knowledge via segment specialization while building sophisticated internal product capabilities.

The added complexity<sup>90</sup> and innovation in IDB Invest’s operations reflect its renewed sector focus and increasing expertise. Many transactions approved to date were first-of-a-kind projects aimed at solving development challenges identified through a stronger participation in country strategies and a growing field presence. The issuance of the first social gender bond in Latin America - \$50 million, five-year note<sup>91</sup> issued by Banistmo- illustrates this innovative and client focus approach to development. IDB Invest has expanded its equity offering to serve a wider range of clients, offering flexible terms, tailored to the needs of individual businesses. Since 2017 and as of September 2019, IDB Invest has approved US\$138 million in equity transactions. Nonetheless, equity investments remain at an estimated US\$50 million per year which lacks the scale to build a full business model given the needs of the region and the instrument’s potential for additionality.

As shown in previous sections, post-merge-out approval, disbursement and portfolio activity is significantly above pre-merge out levels and continues to grow. As of September 2019, IDB Invest approved 43 transactions for US\$3.3 billion, compared to 40 transactions for US\$2.3 billion during the same period in 2018 and 47% and 8% of these transaction targeted C&D and S&I countries respectively. Work continues to expand financial and non-financial solutions.

IDB Invest has also improved its field presence to 25 countries with 113 persons in COF, including 12 persons in the S&I countries<sup>92</sup>. The expansion work for three of the four hubs has been completed with efforts in hiring for the hub in Jamaica undergoing. Nevertheless, building a meaningful portfolio in every LAC member country remains a challenge. In this context, IDB Invest will work to efficiently execute small

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<sup>90</sup> More complex transactions, those that include capital markets, equity, mezzanine, and supply chain finance components, represented 25% of approvals in 2019

<sup>91</sup> [Banistmo Gender Bond](#)

<sup>92</sup> As of September 2019

project sizes, step-up origination efforts to offset higher project mortality rates, satisfy demand for local currency, and provide value despite highly liquid markets and low risk ratings.

## Financially Sustainable Growth

During its first years, IDB Invest has worked hard to ensure its long-term financial sustainability. True to its development mandate reflected in the *Renewed Vision*, volume and efficiency gains were aimed at maximizing development impact within a framework of long-term financial sustainability. This effort is reflected in the confidence of the credit rating agencies, shareholders, and capital markets.

Two rating agencies affirmed IDB Invest ratings, as they reflect IDB Invest's robust capitalization and financial management, and strong asset performance (Moody's); and as its operating environment did not result in any adjustment to its solvency (Fitch Ratings). S&P Global final annual rating report is pending; however, its current rating reflects prospects for an upgrade over the next two years. The rating also reflects IDB Invest's strong shareholder support substantiated through timely and, in several cases, advanced payments of capital contributions. Capital markets provide another independent perspective on IDB Invest's enhanced business and financial profile. The first global bond issue under the new brand was enthusiastically received by a growing and increasingly diverse set of investors.

This level of market confidence speaks to the efforts of IDB Invest in boosting its profile as a financial institution, a corporate area of emphasis in the *Institutional Strategy*. An essential component of these efforts is the completion of the IDB Invest's Capital Toolbox. The toolbox is focused on creating a common risk culture across the institution through a comprehensive risk management framework to address all key sources of risk. Management is working on a specific set of actions during 2019 to improve processes and information systems, reduce operational risk and ensure a scalable model is substantially in place by the end of the year.

IDB Invest's Development Related Assets increased 130%, from US\$1.0 billion in December 2015 to US\$2.3 billion by September of 2019. IDB Group NSG portfolio increased 15% from US\$7.1 billion to US\$8.1 billion in the same timeframe. Rating for both IDB Invest and combined portfolio remained at B+. Additionally, IDB Invest manages assets for US\$13.3 billion,<sup>93</sup> consisting of the combined DRA portfolio, B-Loans, and third-party funds.

## Maximizing Impact

IDB Invest has pioneered a market leading Impact Toolbox that allows for the assessment and monitoring of a growing portfolio of DRAs with impact on the ground. This is a significant achievement that positions IDB Invest at the forefront of MDBs working with the private sector. The toolbox operationalizes the three pillars of the *Renewed Vision* - strategic selectivity, systemic impact, and development effectiveness - and incorporates metrics aimed at ensuring the long-term financial sustainability of the organization. It provides practical solutions for selectivity at origination, effective project design at structuring and approval, efficient results tracking and innovation testing during supervision, and an intelligent evaluation approach.

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<sup>93</sup> As of September 30, 2019.

The DELTA tool is embedded in the organization's culture and, in July 2018, IDB Invest officially launched the Portfolio 2.0 approach, an innovative tool in line with the organization's dual mission that allows for going beyond a transaction by transaction discussion to a portfolio one. The median DELTA score at approval for 2019<sup>94</sup> improved from 8.3 by the end of 2018 to 8.7, exceeding the institutional goal of 8, and signaling that operations are delivering high quality development outcomes and are aligned with strategic objectives. As the portfolio matures in coming years final outcomes associated with these investments will be evaluated and independently validated. Furthermore, IDB Invest is actively prioritizing transactions through a stronger and forward-looking link to SDGs.

IDB Invest is piloting a strategic selectivity tool to foster proactive portfolio management. The tool enables the organization to optimize its portfolio impact by allocating its resources on the most strategic areas in terms of development and facilitates achieving corporate and institutional targets by closely aligning with priorities defined by the *Country Strategies*. As of today, IDB Invest is the only private sector focused MDB using this comprehensive approach.

Integrating knowledge into the Group's core business is highlighted in the *Institutional Strategy*. In this context, IDB Invest is currently putting its efforts into becoming a learning-based organization. For instance, in 2018, IDB Invest launched the Development Effectiveness Analytics (DEA) system, which captures development effectiveness data collected throughout the project cycle and produces relevant portfolio-level insights and analytics for IDB Invest and its stakeholders. The system is an integral part of IDB Invest's knowledge base and will be integrated into a broader knowledge platform in the future.

IDB Invest will continue its transition to a learning-based organization while ensuring that knowledge is created with the client at the center and that it positions IDB Invest as a knowledge broker in LAC, increasing its capacity for systemic impact.

## Impact Beyond Financial Contribution

In line with the *Renewed Vision* pillar of systemic impact, IDB Invest has been promoting mobilization; advancing social, environmental, integrity and corporate governance best practices among its clients; and emphasizing knowledge as a catalytic asset. As a result, IDB Invest has enhanced its value proposition becoming an important market reference especially in the climate space and in the region's capital markets.

Mobilization has been a focus for IDB Invest since its creation and has been reinforced as a priority through the *Institutional Strategy*. Becoming a mobilization-driven institution will require additional efforts and culture changes. IDB Invest has already emphasized the deployment of partner resources on par with resources from its own balance sheet and has made mobilization a core metric. As of September 2019, core mobilization reached US\$305 million and is expected to reach US\$1.2 billion by the end of the year.

In line with this cultural shift, IDB Invest has increased its geographical reach and continued the effort to broaden its investor base with innovative financial instruments, such as B-bonds for infrastructure financing. In the last years, IDB Invest executed its first secondary sale of US\$50 million for *Manantiales Wind Project* in Argentina, issued its first three subordinated A/B bonds<sup>95</sup> and approved its first co-

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<sup>94</sup> As of September 30, 2019.

<sup>95</sup> [Campo Palomas](#), [La Jacinta](#) and [El Naranjal y del Litoral](#).

financing agreement signed with *Blue like an Orange*. However, opportunities exist to further broaden the field of partners and instruments.

Sophistication in addressing proactively and reactively SEG issues is a priority in the *Institutional Strategy* and represents an unique value that IDB Group brings to clients. IDB Invest's Environmental and Social Sustainability Policy has a comprehensive set of environmental and social safeguards that improve development value for stakeholders and enable countries and clients to meet international best practices. In 2019, IDB Invest held the annual Sustainability Week initiative that included environmental and social management workshops and a corporate governance symposium for a new record attendance of 611 registered participants from LAC, Europe and the U.S., representing 272 companies from the financial, infrastructure, agribusiness and corporate sectors.

Systemic effects both directly through projects and indirectly through knowledge provide another inlet for development impact in LAC. Through projects, IDB Invest is working on (i) improving and expanding market linkages, (ii) improving country and sector frameworks, and (iii) innovating and transferring knowledge. IDB Invest also has impact through knowledge generated from projects and expertise captured in lessons learned publications such as the DEA, along with impact evaluations, sectoral studies and country studies. IDB Invest has also been expanding the emphasis on knowledge as a catalytic asset for growth in the region, but there is still progress to be made internally and with clients to help them enhance their capabilities.

## Culture

As stated in the *Renewed Vision*, one of the foundational principles of IDB Invest is that successfully promoting development by investing in private sector requires an institution with a private sector culture. Developing a private sector culture in IDB Invest was one of its core ambitions during transition in 2016 and remained a major focus in 2017, 2018, and 2019.

Management has defined the attributes of IDB Invest's culture as flexibility, client focus and agility and has set five core values; innovation, accountability, client focus, technical excellence, and ability to leverage partnerships. These attributes and values have guided the development of IDB Invest's culture. Specifically, IDB Invest has put in place policies and practices consistent with these values including incentives, training, performance management, and rewards framework. However, progress is needed to further develop and embed these cultural tenets, including breaking silos and role-modeling, and essential tools such as systems and internal controls will continue to evolve ensuring accountability and technical excellence.

IDB Invest teams are the most valuable assets and the cornerstone of the organization's success, IDB Invest has assembled a stellar team with technical excellence as a result of both developing a shared vision and culture with staff who worked through the difficult merge-out and attracting new talent. A clear hiring plan that prioritized quality over speed, a strong hiring process, and a robust onboarding practice has produced an exceptionally talented, diverse, aligned, and decentralized workforce. IDB Invest culture has also manifested itself in the annual Knowledge Week events, team building events, as well as the small group breakfasts with James.

Management has implemented measures to promote a culture of innovation internally with management efforts, corporate initiatives and ideas such as antibunching incentives, and innovation methodologies training. The organization has moved away from mono-product, mono-currency by developing new

financial and non-financial products in response to market needs. More complex transactions, those that include capital markets, supply chain finance, equity and mezzanine components, represented 25% of approvals in 2019.

IDB Invest's work on operational excellence is aligned with the *Institutional Strategy* and further signals the commitment to innovation and continuous improvement. To this end, Management hired a Lead Officer to further the Operational Excellence initiative through the coordination of the Process Improvement Working Group (PIWG). The PIWG has launched new transactions approval processes in addition to new templates for the preparation of the Investment Proposal and guides to assist Team Leader/Team Members in the preparation of additional templates. During the transition period, four support channels were made available to ensure a smooth adoption of the new processes.

## Working as a Group

The new IDB Invest brand has created a powerful sense of corporate identity, promoted unity in diversity, and contributed to our emerging institutional culture. The brand leverages the well-known reputation of the IDB—underscoring the *Busan's vision* of an IDB Group greater than the sum of its parts—and clarifies IDB Invest's role within the Group. It has also strengthened the country representative's role as the main IDB Group presence in the field.

IDB Invest has made a commitment to realizing the full value of the Group's complementary strengths. To this end, at the strategic level, IDB Invest has in place a governance framework including joint meetings of the Board of Executive Directors, the Chairperson's Committee for the General Supervision of IDB Invest and joint membership in Management Committees and working groups at all levels. This strategic synergy is also manifested in the preparation of joint documents that guide the Group's activities, including the *Update to the Institutional Strategy*, IDB Group's Development Effectiveness Overview, Overview Papers and *Country Strategies*.

At the operation level, there is ongoing formalization of the participation of IDB officers in IDB Invest projects and vice versa. IDB Invest also works with IDB and IDB Lab on several cross-cutting themes. In terms of gender, IDB Invest has worked with IDB on the Gender Parity Task Force, Women's Financial Partnership and connect Americas for Women. IDB Invest has worked with IDB Lab on Women Empowerment Principles and Women Entrepreneurship Principles. With the group, IDB Invest is involved in the 100% Committed Campaign, EDGE Certification and Women 20. In addition, a joint IDB Group Climate Action Plan was approved and has been implemented. In Management's view, knowledge is a major pending issue and presents the single greatest opportunity to leverage the Group in the future.

At the corporate level, IDB Invest continues to strengthen synergies with the Group through several Service Level Agreements. The Service Level Agreements, as defined in the *Renewed Vision*, allow the Group to gain efficiencies, adopt common standards and save costs. IDB Invest provides tailored services in areas such as: development effectiveness, legal, credit, SEG, and portfolio management to IDB and project portfolio and corporate level services to IDB Lab. Furthermore, IDB Invest receives services from 18 IDB departments through Service Level Agreements including KIC, ORP, OVE, HRD, VPS, VPC among others. Opportunities exist to constantly push limits, reimagine the Group and evolve collaboration at all levels.

## ANNEX II: 2020 Administrative Budget Proposal

	2019 Approved Budget	2020 Proposed Budget	Increase (decrease) Over 2019 Approved US\$	%	Real Increase %
<b>Workforce</b>					
Salaries & Bonuses	42,976,335	45,006,230	2,029,896	4.7%	
Staff Benefits	15,534,700	16,078,781	544,081	3.5%	
Complementary Workforce	10,516,225	10,695,261	179,036	1.7%	
<b>Total</b>	<b>69,027,259</b>	<b>71,780,272</b>	<b>2,753,013</b>	<b>4.0%</b>	<b>1.9%</b>
<b>Consulting</b>					
Project Consulting	2,577,143	3,255,000	677,857	26.3%	
IT Consulting	1,708,570	1,820,000	111,430	6.5%	
Other Corporate Consulting	3,011,839	3,905,515	893,677	29.7%	
Outsourced Support	800,000	1,633,000	833,000	104.1%	
Litigation	900,000	1,000,000	100,000	11.1%	
<b>Total</b>	<b>8,997,551</b>	<b>11,613,515</b>	<b>2,615,964</b>	<b>29.1%</b>	<b>27.0%</b>
<b>Administrative</b>					
External Relations	390,000	800,000	410,000	105.1%	
Business Meetings	280,400	345,500	65,100	23.2%	
Translations	100,000	268,000	168,000	168.0%	
External Auditing	417,000	450,000	33,000	7.9%	
Funding Capital Markets	830,000	1,117,200	287,200	34.6%	
Business Development & Travel	4,890,713	5,121,120	230,407	4.7%	
Sponsorships, Conferences & Events	1,153,297	1,334,000	180,703	15.7%	
Communications	750,000	897,537	147,537	19.7%	
Sustainability & Environmental Outreach*	300,000	-	(300,000)	-100.0%	
General Maintenance	656,000	732,600	76,600	11.7%	
IT Software & System Maintenance	2,935,126	3,230,000	294,874	10.0%	
Subscriptions & Memberships	697,960	917,012	219,052	31.4%	
Staff Development	1,932,400	2,389,200	456,800	23.6%	
<b>Total</b>	<b>15,332,896</b>	<b>17,602,169</b>	<b>2,269,273</b>	<b>14.8%</b>	<b>12.7%</b>
<b>Discretionary Expenses Total</b>	<b>93,357,706</b>	<b>100,995,956</b>	<b>7,638,250</b>	<b>8.2%</b>	<b>6.1%</b>
<b>IDB Services and Others</b>					
Office Occupancy	5,500,000	5,530,000	30,000	0.5%	
Service Level Agreements	10,723,341	11,868,115	1,144,774	10.7%	
<b>Total</b>	<b>16,223,341</b>	<b>17,398,115</b>	<b>1,174,774</b>	<b>7.2%</b>	<b>5.1%</b>
<b>Board of Governors/Executive Directors</b>					
BOG/Executive Directors	1,100,000	1,116,077	16,077	1.5%	
<b>Total</b>	<b>1,100,000</b>	<b>1,116,077</b>	<b>16,077</b>	<b>1.5%</b>	<b>-0.6%</b>
<b>Non-Discretionary Expenses Total</b>	<b>17,323,341</b>	<b>18,514,192</b>	<b>1,190,851</b>	<b>6.9%</b>	<b>4.8%</b>
<b>Administrative Budget GRAND TOTAL</b>	<b>110,681,047</b>	<b>119,510,148</b>	<b>8,829,101</b>	<b>8.0%</b>	<b>5.9%</b>

\*Note that the Sustainability & Environmental Outreach event takes place every other year.

## ANNEX III: 2020 Capital Budget Proposal

	Initiatives	USD
(US\$ million)		
<b>TECHNOLOGY</b>	Client 360 View	1.1
	Computers & Conference Rooms	0.6
	Knowledge	0.6
	Maximize Data Assets Utilization	0.5
	Middle and Back-offices	4.4
	Product Enablement	1.2
	Risk & Compliance	1.9
	Synergies IDBG	1.4
	Treasury Management	1.3
		<b>Subtotal</b>
<b>FACILITIES</b>	Floor Renovations	1.4
	Basic Needs	0.4
	<b>Subtotal</b>	<b>1.8</b>
<b>PROCESS IMPROVEMENTS</b>	Management Tools	0.4
	<b>Subtotal</b>	<b>0.4</b>
	<b>Total</b>	<b>15.1</b>



## ANNEX IV: Administrative and Capital Budget Execution

The preliminary projected execution for 2019 amounts to US\$108.7 million of the approved budget of US\$110.7 million that will result in an under execution of US\$2.0 million or 1.8%. The figure below shows the estimated execution by discretionary and non-discretionary lines.

### *Estimated Administrative Budget Execution 2019*

(US\$ million)	2019 Approved Budget US\$	2019 Projected Execution US\$	Variance Exec - Approved	
			US\$	%
Discretionary Expenses	93.4	91.6	-1.8	-1.9%
Non-Discretionary Expenses	17.3	17.1	-0.2	-1.2%
<b>Administrative Budget GRAND TOTAL</b>	<b>110.7</b>	<b>108.7</b>	<b>-2.0</b>	<b>-1.8%</b>

### *Estimated Capital Budget Execution 2019*

(US\$ million)	2019 Approved Budget US\$	2019 Projected Execution US\$	Variance Exec - Approved	
			US\$	%
Computer Hardware & Software and Conference Rooms	0.9	0.7	-0.2	-18.6%
Systems Development	7.1	6.0	-1.1	-15.6%
<b>GRAND TOTAL</b>	<b>8.0</b>	<b>6.7</b>	<b>-1.3</b>	<b>-16.0%</b>

(US\$ million)	2019	2019	Increase (decrease)	
	Approved Budget	Projected Execution	Over 2019 Approved US\$	%
<b>Workforce</b>				
Salaries & Bonuses	42,976,335	42,396,154	(580,181)	
Staff Benefits	15,534,700	15,324,982	(209,718)	
Complementary Workforce	10,516,225	10,374,256	(141,969)	
<b>Total</b>	<b>69,027,259</b>	<b>68,095,391</b>	<b>(931,868)</b>	<b>-1.4%</b>
<b>Consulting</b>				
Project Consulting	2,577,143	2,474,057	(103,086)	
IT Consulting	1,708,570	1,640,227	(68,343)	
Other Corporate Consulting	3,011,839	2,891,365	(120,474)	
Outsourced Support	800,000	768,000	(32,000)	
Litigation	900,000	864,000	(36,000)	
<b>Total</b>	<b>8,997,551</b>	<b>8,637,649</b>	<b>(359,902)</b>	<b>-4.0%</b>
<b>Administrative</b>				
External Relations	390,000	378,300	(11,700)	
Business Meetings	280,400	271,988	(8,412)	
Translations	100,000	97,000	(3,000)	
External Auditing	417,000	404,490	(12,510)	
Funding Capital Markets	830,000	805,100	(24,900)	
Business Development & Travel	4,890,713	4,743,992	(146,721)	
Sponsorships, Conferences & Events	1,153,297	1,118,698	(34,599)	
Communications	750,000	727,500	(22,500)	
Sustainability & Environmental Outreach*	300,000	291,000	(9,000)	
General Maintenance	656,000	636,320	(19,680)	
IT Software & System Maintenance	2,935,126	2,847,072	(88,054)	
Subscriptions & Memberships	697,960	677,021	(20,939)	
Staff Development	1,932,400	1,874,428	(57,972)	
<b>Total</b>	<b>15,332,896</b>	<b>14,872,909</b>	<b>(459,987)</b>	<b>-3.0%</b>
<b>Discretionary Expenses Total</b>	<b>93,357,706</b>	<b>91,605,949</b>	<b>(1,751,757)</b>	<b>-1.9%</b>
<b>IDB Services and Others</b>				
Office Occupancy	5,500,000	5,500,000	-	
Service Level Agreements	10,723,341	10,508,874	(214,467)	
<b>Total</b>	<b>16,223,341</b>	<b>16,008,874</b>	<b>(214,467)</b>	<b>-1.3%</b>
<b>Board of Governors/Executive Directors</b>				
BOG/Executive Directors	1,100,000	1,100,000	-	
<b>Total</b>	<b>1,100,000</b>	<b>1,100,000</b>	<b>-</b>	<b>0.0%</b>
<b>Non-Discretionary Expenses Total</b>	<b>17,323,341</b>	<b>17,108,874</b>	<b>(214,467)</b>	<b>-1.2%</b>
<b>Administrative Budget GRAND TOTAL</b>	<b>110,681,047</b>	<b>108,714,823</b>	<b>(1,966,224)</b>	<b>-1.8%</b>

\*Note that the Sustainability & Environmental Outreach event takes place every other year.