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The conversation around what it means to invest for impact was gaining momentum even before COVID-19 took over our collective consciousness. As this unparalleled crisis jeopardizes lives and livelihoods, it also exposes societal inequalities, climate vulnerabilities and the financial risks of indebtedness and informality.

Billions in foreign investment are exiting developing markets, as we enter the “Decade of Action” to achieve the Sustainable Development Goals (SDGs) by 2030. As the world focuses on crisis response, we run the risk of halting, even reversing progress on critical SDG and climate targets.

Fortunately, preliminary capital flow data from the first quarter of 2020 suggest both greater investor demand in investments that have impact and greater performance of sustainable funds. The public, private and civil society sectors are working together to channel investment dollars to close remaining gaps.

To support this trend, impact management is key. Impact investors can connect resources to those who need them most and mobilize additional investment. This means having agile tools in place to both target and select new high-impact investments and manage the impact of existing portfolios.

For IDB Invest, the tools that make up our end-to-end Impact Management Framework, described in detail in this publication, have helped us adapt to this rapidly evolving reality. Impact management guides pipeline prioritization and the structuring of new operations in line with our COVID-19 response. We monitor how the development impact and SDG contributions of our portfolio may be affected by the ongoing crisis, performing portfolio stress tests and working with clients to weather market uncertainty.

While our collective focus continues to be on protecting and alleviating, IDB Invest also seeks to reignite growth. This is a unique opportunity to build back a better more sustainable, inclusive and resilient private sector. To make this happen, impact investing is central.

In turn, the impact investing industry’s growth is being reinforced by advances on the standard-setting front. Along with other signatories to the Operating Principles for Impact Management, the Global Impact Investing Network and the Impact Management Project, IDB Invest is active in ongoing conversations around establishing common indicators for measuring social and environmental impact in areas such as climate, gender and direct jobs, as well as for measuring contributions to the SDGs. This will lend greater clarity, credibility and comparability across investments, helping to channel more capital through impact investing to developing markets.

Reshaping the private sector starts now. As we build a strong pipeline of sustainable investments across Latin America and the Caribbean, we will put our Impact Management Framework to work for clients and co-investors and amplify our impact together.

James P. Scriven
General Manager and Chief Executive Officer
IDB Invest
The Evolving Impact Landscape

A transformation is underway in the private sector.

From the CEOs of the world’s biggest companies to institutional investing giants, a more holistic view of stakeholder value is taking hold. Startups rooted in an impact mindset are cropping up all over the globe, in parallel to more intentional sustainability strategies taking root within industry incumbents. Investors of all types are increasingly seeking opportunities to achieve social and environmental impact alongside market-rate financial returns.1 Simply put, impact is fast becoming an integral part of the traditional risk-return conversation.

Continuing this ongoing transformation is now more important than ever as the world grapples with the far-reaching social, economic, and financial consequences of the coronavirus pandemic. Out of this crisis comes an unparalleled opportunity to amplify impact investments towards building a more inclusive, sustainable, and resilient private sector.
Drivers of Change

This shift is in part driven by the Sustainable Development Goals (SDGs), which have gained traction as a universal roadmap for measuring, managing, and communicating social, environmental, and economic impact. With an annual SDG funding gap estimated at $2.5 trillion in developing countries alone, the call to action for private capital to bridge this gap has become louder, as has the call for multilateral development banks (MDBs) and development finance institutions (DFIs) to mobilize an increased amount of private resources, from billions to trillions of dollars.2

Changing generational priorities is another factor, as millennial investors and asset owners are more focused on generating positive impacts than their predecessors. There has also been a broader reckoning across the corporate and investment worlds about the private sector’s contribution to pressing global problems, such as climate change and inequality. Likewise, the coronavirus pandemic has elevated the issue of how companies address the health and safety of employees, customers, and communities. These and other sustainability and integrity risks are being seen through a different lens, with sharpened focus on their ability to both create long-term business value when addressed accordingly, and destroy it when not. Leading financial institutions and asset managers are starting to step up to climate change through their commitment to either do or refrain from doing certain things: For example, to invest more in areas such as clean energy and sustainable transport, and less in coal production companies.

Diverse stakeholders, from customers and employees to shareholders and investors, are increasingly demanding accountability from companies. Integrating and reporting on material environmental, social, and corporate governance (ESG) issues is becoming a business imperative. While the quality of ESG data and corporate reporting still vary widely, pressure for greater uniformity is rising. For instance, investors are pushing for more consistent disclosures on how companies are managing imminent climate volatility risks, as well as standardized reporting on sector-specific ESG issues.3

Impact is fast becoming an integral part of the traditional risk-return conversation.”

In parallel, mounting evidence has solidified the business case for sustainability. For example, a meta-analysis of 2,000 studies shows that 48% found a positive relationship between ESG factors and financial performance and 90% found a non-negative relationship.4 The evolving perceptions of corporate leaders and investors echo these findings. According to McKinsey,2 not only do a majority of executives and investment professionals surveyed in 2019 (57%) think that ESG programs create shareholder value, but the share of respondents who think they create both short- and long-term value has risen since the last survey on this subject was conducted a decade earlier. This trend will likely get stronger as the COVID-19 pandemic has shown that companies with sound ESG practices are better prepared to weather market adversity.
Clarifying What it Means to Invest for Impact

As the appetite for impact continues to grow and more investors adopt the impact label, it is increasingly important to converge around a shared understanding of what it means to invest for impact. It is one thing to integrate ESG factors into responsible investment decision-making as a screening tool, and another to intentionally pursue investments with the purpose of generating a net positive, measurable social or environmental impact alongside financial returns.

To address this challenge a group of MDBs, DFIs, banks, impact asset managers, asset owners, and industry associations, including IDB Invest developed the Operating Principles for Impact Management,\(^6\) which provide common guidelines for managing investments for impact. As more investors commit to these principles and their alignment is independently verified, the stronger and more transparent the impact investing market will become.

This recent initiative builds on ongoing market-enabling efforts by the Global Impact Investing Network (GIIN), the Global Steering Group for Impact Investment (GSG), the Impact Management Project (IMP), and others. For instance, the IMP has been building consensus around shared definitions for impact and standards for impact measurement and management, which is critical for enhancing comparability across investments. While attaining common standards is still a work in progress, efforts to harmonize impact reporting metrics for both the investment and corporate worlds are converging. There has also been a relatively swift shift among impact investors from building consensus around why measuring and managing impact is important to focusing on embedding impact into investment processes.\(^7\) To this end, initiatives such as the IMP-led Impact Frontiers collaboration are helping investors merge impact with financial management by distilling key elements of integrated practice.\(^8\) In addition, the market is experimenting with placing a monetary value on impact and integrating this into financial accounting (impact-weighted accounts).\(^9\) Doing so would provide stakeholders with a fuller picture of the sustainability and financial performance of companies, enhancing comparability and investment decision-making.

All of this bodes well for the further maturation of the impact investing industry, which still represents a fraction of capital markets in spite of its growth.\(^10\) To turn heightened interest in impact into action, investors are hungry for credible demonstrations of impact and returns. They need to be able to systematically assess the expected impact of investments on par with financial risk and return to make resource allocation decisions. Greater transparency and adoption of comprehensive impact measurement and management approaches and integrated reporting standards, coupled with growing pipelines of SDG-linked investment opportunities, will help to propel the impact investing industry in the right direction.
How IDB Invest Fits into the Impact Landscape

The appetite for impact is clearly growing.

Mainstream investors and asset managers are developing more impact and SDG-focused products in response to this mounting demand. This is all good news. While there are many new faces entering this space, some have been around much longer. Multilateral development banks (MDBs) and development finance institutions (DFIs) are often considered the original impact investors given their mandate to finance developing countries’ economic and social development, while measuring and reporting on the impact achieved. They play an increasingly critical role in mobilizing private capital towards SDG investments by mitigating risk and paving the way for other investors to enter new markets. Amplifying private sector mobilization also means translating countries’ development needs into financial products that fit the market’s appetite.

As the private sector arm of the Inter-American Development Bank Group (IDB Group), IDB Invest is leveraging decades of experience as an impact investor to serve as a gateway to SDG impact in Latin America and the Caribbean. IDB Invest’s mandate is to maximize development impact while maintaining financial sustainability, a two-sided objective shared with many impact investors. To crowd in private capital, we offer our strong capacity to select and structure projects with the greatest impact potential, manage ESG risks, and build a strong pipeline of SDG-enabling investment opportunities in the region. As a member of the IDB Group—the largest provider of development financing and technical assistance to Latin America and the Caribbean—we also have the ability to leverage the IDB’s public policy and regulatory expertise, as well as IDB Lab’s capacity for building innovation ecosystems and financing inclusive early-stage ventures.
On the Cutting Edge of Impact Measurement and Management

IDB Invest also brings to bear our technical expertise and practical experience in impact measurement and management, honed by years of innovating, testing, and adapting tools to measure development impact on par with financial returns. The IDB Group has always been on the cutting edge of impact measurement and management, with IDB Invest at the forefront of impact through the private sector. In fact, in 2008 IDB Invest—known as the Inter-American Investment Corporation at the time—was the first MDB to implement a portfolio approach for private sector operations, whereby investment decisions were made by assessing projects both for their individual merits in terms of impact potential and financial returns, as well as their contribution to the overall portfolio. This new portfolio approach and the use of an impact rating system to score projects and establish minimum impact thresholds in relation to financial return expectations was a departure from common practice at that time.

In 2016, we had the unique opportunity to further adapt and improve our impact management approach when the IDB Group consolidated its private sector operations into IDB Invest. This institutional change included merging several different approaches to impact management, giving us room to rethink what had not been working and further build on and nourish what had, taking into consideration evolving regional needs and the broader changes sweeping across the private sector. For this new private sector entity, we knew we needed an end-to-end impact management system, founded on the portfolio approach, to rigorously assess, track, and report on project impact. The impact rating system embedded in this framework had to be rigorous, predictable, flexible, operational, comparable, and cost-effective in order to help steer investment decision-making.

“...In 2008 IDB Invest was the first MDB to implement a portfolio approach for private sector operations.”
Building on the Past to Manage Impact in the Present

IDB Invest has actively integrated impact and financial management into investment decision making for over 12 years. In 2008, the organization, then called the Inter-American Investment Corporation (IIC), was at a crossroads. At the time—and as is still the case today—there was no generally accepted metric for development impact. Without a rating, it was difficult for the IIC to fully manage its portfolio for impact and clearly communicate to its shareholders that both the financial viability and development impact of its transactions were two sides of the same coin. So, it decided to create one.

The IIC took the pioneering step to launch a new portfolio approach, which integrated an innovative impact rating methodology alongside the financial contribution scoring system applied to each transaction. More than ever before, this new portfolio approach allowed the organization to truly capture the dual nature of its mandate to achieve development impact though the private sector while remaining financially sound.

Instead of assessing potential investments in isolation, the portfolio approach allowed the IIC to have a broader perspective, taking into account both the individual characteristics of each transaction and how they fit into the overall “financial return-development impact spectrum” of the portfolio. The intention was not for all projects to achieve the same level of development impact and/or financial contribution, but rather to build a balanced portfolio combining projects that maximize development impact with those that may have lower impact potential but contribute more to the institution’s financial sustainability.

Placing projects along this spectrum required an impact rating system based on sound impact metrics that could also be feasible from a day-to-day operational perspective. Known as the DIAS (Development Impact and Additionality Scoring System), the IIC’s rating system was unique among DFIs and MDBs working with the private sector. It provided a systematic way to quantify the development outcomes and additionality of each project, while also ensuring the inclusion of relevant indicators for impact monitoring and evaluation. The IIC also established minimum thresholds for development impact scores for projects with high financial returns to guide decision-making.

Returning to the present, as the impact investing industry matures, investors are increasingly grappling with how to effectively integrate impact and financial management into decision-making, just as the IIC did over a decade ago. IDB Invest has inherited this history of innovation, building on what came before it to continually improve its Impact Management Framework and help other investors do the same.
Fast forward to today and our comprehensive Impact Management Framework, which is described in detail in the next section, is recognized among market-leading practices for integrating financial, impact, and sustainability considerations throughout the investment process at both the project and portfolio level. Our framework embeds the SDGs, and we have pioneered a methodology to measure the expected contributions of each transaction to specific SDG targets upfront and track actual progress achieved over time. Our impact is then aggregated at the specific SDG and IDB Group level.

This framework has allowed IDB Invest to build and manage a growing portfolio of over $12 billion in SDG-enabling investments across Latin America and the Caribbean. Since 2016, our portfolio has helped create 43,000 new jobs and has supported financing for at least 550,000 micro, small and medium-sized enterprises (MSMEs). Over this period, IDB Invest has doubled its climate financing, which represented 27% of the total $4.7 billion approved in 2019, thus helping to avoid an equivalent of 9.5 million tons of CO₂ emissions.¹⁴

While there is no one-size-fits all approach to impact measurement and management, given the individual characteristics and needs of different investors, we believe our proven track record can inform broader market practices, and serve as a building block toward developing common standards.

Furthermore, our experience has shown that investing time and resources in impact measurement and management pays off when data is transformed into actionable knowledge that can be used to better target deals, transform markets and industries, and catalyze more investment to where it is needed most. This is more important now than ever, given the pressing need to channel trillions in private finance towards meeting the ambitious SDG targets by 2030, as well as to address the sweeping economic and social impacts of the global coronavirus pandemic.

This urgent need to ramp up resource mobilization is reflected in IDB Invest’s Business Plan for 2020-2022. Our role is to connect countries in the region to private sector investment. In addition to deploying our own capital, we are working to help investors better understand the markets where we operate. We are also leveraging the IDB’s public sector capacity in terms of regulation to help broaden the pool of local institutional investors that can gain access to different asset classes, such as infrastructure projects.¹⁵ Connecting countries and capital also means continuing to improve and making our Impact Management Framework work for our clients and co-investors, helping them capture the SDG impact value of their operations and investments. In turn, we are jointly contributing to the broader global agenda by making a measurable dent in the SDGs in Latin America and the Caribbean.
DB Invest’s Impact Management Framework is an end-to-end series of tools and practices that support the complete project lifecycle and integrate impact and financial considerations into portfolio management. In short, it allows us to build, measure, and manage a portfolio of financially sustainable investments that contribute to reaching the Sustainable Development Goals (SDGs). While our focus is on Latin America and the Caribbean, our framework is region and sector agnostic. It can be adapted to the strategic, geographic, sectoral, and other priorities of other MDBs, DFIs, and impact investors. It is also fully aligned with common market practices, such as the Impact Management Project’s five dimensions of impact.¹⁶
Strategic Pillars and Objectives

When IDB Invest was created in 2016, our shareholders defined three founding strategic pillars for our work: Strategic Selectivity, Development Impact, and Systemic Approach. In turn, these pillars shaped the design of the tools making up the Impact Management Framework.

Strategic Selectivity
Select projects with the biggest impact potential, focusing on key priority areas: climate change, gender equality and diversity, MSMEs, and serving the region’s smaller economies and small and island countries.

Development Impact
Maximizing development impact comes first, from deal origination to ex-post evaluation, in addition to ensuring financial sustainability.

Systemic Approach
Generate impact above and beyond individual projects. To make the most out of IDB Invest’s limited resources, focus on projects with the potential to transform markets or industries through demonstration effects, market linkages, or knowledge and innovation, as well as those with strong catalytic capacity to mobilize private investment for development.

Our Impact Management Framework was designed to meet the following key objectives:

- **Fulfill our mandate** by helping us select projects with high social, environmental, and economic impact potential that are also financially viable, thereby operationalizing the portfolio approach.

- **Ensure strategic alignment and effectiveness**. Operations must be relevant in terms of country and institutional strategic priorities, and designed to be efficient, effective, and evaluable. Projects must have a strong theory of change, as well as clear objectives, indicators, and targets to measure results.

- **Manage our portfolio for impact**. In addition to monitoring project results for accountability and learning purposes, managing a portfolio for impact means partnering with our clients to help them maximize the impact and sustainability of their operations and investments.

- **Foster continuous learning**. Ensuring that we are learning from our operational experience, effectively managing knowledge, and sharing lessons both internally and externally is key. Through disseminating the results of our evaluations, studies, and analytics, we strive to transform learning into actionable knowledge.

- **Ensure accountability**, or timely and transparent reporting on development impact to our shareholders, as well as our broader stakeholder community.
The Impact Management Framework is rooted in a portfolio approach which seeks to balance impact and financial sustainability. Building on more than 12 years of experience implementing a portfolio approach for private sector operations, IDB Invest’s revamped method—Portfolio 2.0—systematically integrates impact and financial management into investment decision-making and portfolio management.

Making investment decisions through a Portfolio 2.0 lens calls for determining one’s “development appetite”. In other words, within the broad spectrum of impact-return possibilities, what types of projects are we willing to fund, and which ones we are not. When should we fund projects with high development impact potential but more uncertain risk-weighted financial returns, and vice versa? In turn, setting these parameters informed the architecture we constructed to put Portfolio 2.0 into action. This includes an impact rating system (the DELTA, described below) to systematically assess new deals and manage the portfolio, together with the Financial Contribution Rating (FCR), which measures the financial contribution of each operation to IDB Invest, based on the risk-adjusted return on capital (RAROC). The FCR ranges from zero to 10 and is based on the concept of Economic Value Added, which translates the RAROC into a dollar amount.

Proposed investments need to meet certain impact and financial contribution rating thresholds in order to advance. These “hurdle rates” are on a sliding scale, with decreasing financial contribution requirements for highly impactful projects. In this way, we are purposefully building a balanced portfolio across the two dimensions.
The Impact Management Framework across the Project Lifecycle

The following sections describe the various tools that make up the Impact Management Framework along the project lifecycle, from how we target high-impact sector opportunities and systematically assess the expected impact of each investment to how we track, evaluate, and disseminate the impact achieved.

Origination: Selecting the right projects and clients

Clearly, the scope of need for private sector investment in Latin America and the Caribbean is vast. The infrastructure investment gap alone is estimated at 2.5% of GDP or $150 billion a year. For MDBs/DFIs, funds, and other investors, being able to narrow down the universe of investment opportunities and screen them effectively is key.

At a high level, as part of the IDB Group, IDB Invest’s activities are guided by the overarching institutional strategy, aiming to promote economic growth, poverty reduction, and social inclusion in Latin America and the Caribbean. This strategy is monitored through the IDB Group’s Corporate Results Framework, which sets institutional targets that map directly to the SDGs and is linked to the country strategies prepared with each IDB Group borrowing member country to define priority areas for public and private sector operations.

In line with IDB Group country strategies, and at a more granular level, IDB Invest’s Strategic Selectivity Scorecard identifies country private sector investment needs by industry, helping us pinpoint sectors where the development gaps are relatively deeper. Coupled with business intelligence on-the-ground from investment officers and portfolio-level insights, this tool helps us guide project selection and resource allocation, in line with our development appetite and corporate targets, including a focus on small economies, small and island countries, MSMEs, climate change, gender equality, and diversity.

The scorecard is tailored to IDB Invest’s three business segments: Infrastructure and Energy, Financial Institutions, and Corporates, which includes operations in agribusiness, manufacturing, tourism, and
telecommunications, media, and technology. Each sector has a matrix that shows where countries stand in relation to different sector-specific impact areas. For instance, in the energy sector, impact areas include access (i.e., access to reliable, affordable energy sources), sustainability, and quality of energy infrastructure. In turn, each sector-specific area is aligned with relevant SDGs.

A transparent, replicable methodology is used to determine which sector-specific areas are potentially most impactful in each country, given the intensity of its development gaps. The depth of sector development gaps is determined by first comparing each country to others within Latin America and the Caribbean and then to countries outside the region with comparable income levels. Because of the selective nature of the tool, only a few impact areas are chosen for each country-sector matrix, and there is a limit on the number of countries that can be selected for each area. The result is a focused picture of each country’s priority needs within each sector, which helps target our origination efforts.

“The Strategic Selectivity Scorecard identifies country private sector investment needs by industry, helping us pinpoint sectors where the development gaps are relatively deeper.”
Structuring: Assessing potential impact and designing projects for results

Impact Valuation

When thinking about how to integrate impact and financial management into investment decisions, perhaps the most straightforward way would be to assign a monetary value to impact on par with financial return expectations. However, monetizing impact by estimating the economic and social rate of return of an investment (i.e., the costs and benefits of the investment to the economy and society) is inherently challenging. It is difficult to capture the full range of potential positive and negative effects of an investment when calculating the dollar value of impact and boil them down into a single metric, let alone compare these values across diverse sectors and countries. Accessing appropriate data and robust evidence of impact outcomes to substantiate valuations also poses a challenge. Alternatively, another approach to impact valuation is an impact rating, which places a value on impact based on a weighted sum of various impact indicators.

Our impact measurement system, called the DELTA (Development Effectiveness Learning, Tracking, and Assessment), is a hybrid approach, encompassing both the impact “monetization” and “rating” archetypes. By building monetization into our impact rating approach we are making room for future innovation on the valuation front. We expect that more efficient ways to estimate impact returns will become available and more widespread as digitalization continues to accelerate access to big and low-cost data and the evidence base on impact returns expands.

What is the DELTA?

The DELTA is a rigorous, fact-based scoring system that systematically assesses the expected impact of each investment, facilitating decision-making and portfolio management. At origination, each project is assigned a score ranging from zero to 10, which is tracked and updated throughout implementation. Embedded within this score is an approximation of the economic and social rate of return (monetization) of each investment, complemented by a stakeholder analysis to ensure that the most important direct and indirect effects are considered, a sustainability assessment, and an assessment of the additionality that IDB Invest brings to the project. A counterfactual approach, comparing with and without project scenarios, underpins the DELTA assessment across the project cycle. Likewise, the DELTA serves as a management tool, collecting data from individual projects to help visualize the evolution of the portfolio as a whole and identify patterns, gaps, and key predictors of impact success.

However, the DELTA is not the only tool used to ensure projects are well-designed for achieving impact results. Assessing development impact is about much more than the DELTA score. In addition to the comprehensive
impact analysis that goes into the score itself, each project has a results matrix with specific indicators and targets relevant to its theory of change and impact objective, including indicators to track the project’s contribution to identified SDG targets. Each project also has a monitoring and evaluation plan that outlines how these indicators will be tracked and measured throughout implementation, and ultimately, evaluated at the end of a project to determine whether or not objectives were achieved. Whenever possible, indicators are aligned with standardized metrics from the Harmonized Indicators for Private Sector Operations (HIPSO) or the IRIS+ system. Designing projects for results also means generating insights about sector knowledge gaps that can be fed into the pipeline of new operations.

Before delving into how the tool works, it is helpful to first look at the core attributes of the DELTA in order to understand why we developed this tool for IDB Invest in the first place.

1. **Rigorous.** It is based on the well-established concept of economic and social rate of return, complemented by a detailed stakeholder analysis. Counterfactual analyses and risk assessments are embedded within these approaches. Likewise, the additionality assessment is based on international best practices across MDBs working with the private sector.

2. **Predictable.** It provides a standard way to assess all transactions. All internal stakeholders—from investment officers who are originating deals to our shareholders—know what to expect and understand how projects will be assessed in terms of development impact.

3. **Flexible.** While maintaining its foundational architecture, the tool’s modular structure can be adapted to different sectors and financial instruments. In fact, we have already developed four versions of the tool for IDB Invest operations with financial institutions, real sector operations, funds, and for the Trade Finance Facilitation Program. We have also adapted the tool to the needs of IDB Lab, the Group’s innovation laboratory, which has two versions of the “iDELTA” for its grant and investment fund operations. It is a “living” tool that can be adjusted as needed to continually improve impact management practices.

4. **Operational.** It serves as a practical, hands-on tool that teams can use as a checklist to guide project design.

5. **Consistent and comparable.** It produces a project score that can be used as a tool to manage a diverse portfolio and make resource allocation decisions. At a higher level, the range of scores assigned to projects reflects our development impact appetite across the portfolio. The scoring system also facilitates more granular comparisons of projects within the same sector, sub-sector, country or region.

6. **Cost effective.** Given the combination of these attributes and the benefits of standardization, the DELTA is cost effective, helping to reduce the transaction cost of structuring projects for IDB Invest and our co-investors.
How does the DELTA Scoring System Work?

The DELTA provides a common, objective set of criteria by which projects are assessed. Each category has detailed, data and fact-driven guidelines to determine the degree to which a project meets the criteria. The guidelines are also context-specific, in that they require analysis of the specific conditions and trends in the areas and industries where the project will produce effects. Points are summed up into the overall section score.

Higher scores are driven by the level of impact and value added determined in each category, as well as the quality of supporting evidence provided. For example, if a project intends to increase farmer productivity through the application of climate-smart agricultural practices, what evidence is available from the client and from external research to substantiate this intention? What indicators will the project use to track and measure outcomes such as increased productivity? Risk assessment is thus embedded within the DELTA categories and their resulting scores. There is also an element of expert judgement involved in the scoring process. IDB Invest has an independent team of development economics and finance professionals who bring in their expertise when evaluating the available evidence and applying the DELTA to rate individual transactions.

The DELTA scorecard includes three sections. While the Alignment and Evaluability Score sections generate a numeric score, they are not factored into the overall impact rating (called the “Project Score”) for each project.

Alignment to Country and Corporate Priorities and the SDGs
Ensures the investment’s alignment with the strategic priorities of the IDB Group, IDB Invest, and countries. It also identifies to which SDG targets the transaction is expected to contribute. Alignment with key sector development gaps identified in the Strategic Selectivity Scorecard is also considered.

Project Score
Generates an impact rating based on two elements: Development Outcome and Additionality. This is the score used in Portfolio 2.0, together with the Financial Contribution Rating.

Evaluability Score
Assesses the project’s logic at entry to ensure that results can be properly measured and evaluated at project completion. This score is not factored into the Project Score.
What Makes Up the DELTA Project Score?

The heart of the DELTA scoring system is the Project Score, which feeds into Portfolio 2.0 together with the Financial Contribution Rating. Conceptually, it is comprised of four key building blocks. In turn, the structure of the DELTA Project Score is comprised of a Development Outcome and Additionality assessment.

Economic Analysis

Estimates the net benefits of the investment to the economy and society (Economic & Social Rate of Return).

Stakeholder Analysis

Complements the economic analysis by assessing the types of beneficiaries reached and the type of benefits generated.

Sustainability

Ensures that the project is financially sustainable and meets ESG requirements.

Additionality

Ensures that IDB Invest provides financing beyond what is available in the market and contributes to better project outcomes.

DELTA Project Score

Score 0 - 10

Development Outcome

Contribution to Social & Economic Development

Company/Project Business Performance

Environmental, Social & Corporate Governance Sustainability

Additionality

Financial Additionality

Non-financial Additionality
Development Outcome and Additionality

Contribution to Social and Economic Development

This category of the Development Outcome section of the DELTA carries the most weight in calculating the Project Score, and includes an economic analysis and a stakeholder analysis.

Economic Analysis

The economic analysis measures the effect of the operation on the economy and society considering both direct and indirect effects and externalities. This analysis varies depending on whether the operation is a direct transaction with a company, a project finance transaction channeled through a special purpose vehicle, or if IDB Invest financing is intermediated through a financial institution or fund for on-lending to MSMEs.

For real sector projects, the economic analysis identifies, measures, monetizes, and compares the main relevant costs and benefits deriving from the investment, resulting in an economic and social rate of return that can be compared across projects. The types of societal benefits monetized vary by project. For example, for renewable energy projects, one of the main benefits calculated is the amount of CO₂ emissions avoided by investing in clean energy versus conventional methods. For transport projects, we generally quantify benefits such as travel time savings, cost savings for vehicle operation, and emission reductions. Similarly, the overall equation also values and factors in the potential negative effects of a proposed investment. For instance, in the agriculture sector regulatory policies involving import tariffs can have a negative impact on local prices, consumer welfare, and firm competitiveness. Therefore, for agribusiness projects, the implicit subsidies received by companies through import tariffs are netted out in the economic analysis.

Since most social benefits and some costs take place in the future, we use a social discount rate to determine their present value. To consider the uncertainty carried by future costs or benefits we perform sensitivity analyses to test the robustness of the economic rate of return against different scenarios, such as a drop in commodity prices or energy demand. This helps us determine how the main risk factors can affect the economic and social returns of the transaction and what mitigation measures may be required.

In the case of financial sector operations, we partner with financial intermediaries to help them grow and develop new solutions, products, and services for underserved people and firms, thereby expanding IDB Invest’s capacity to reach target beneficiaries. Given this indirect relationship with end beneficiaries, quantifying the social benefits and costs of IDB Invest financing, and consequently the economic rate of return, is inherently more challenging. That is why IDB Invest developed a tailored methodology to assess the economic and social impact of these operations.

This methodology takes into account two main elements: (1) the effect that further financial development has on the country’s economic growth; and (2) the operation’s expected impact on sector-specific development gaps, which includes analyzing the magnitude of the gap and the expected growth of the portfolio. For instance, if the operation aims to expand MSME lending, the analysis focuses on the operation’s contribution to closing the MSME financing gap in a given sector and country. Similarly, for operations supporting green lending, the analysis focuses on its contribution to reducing green lending gaps.
Stakeholder Analysis

Since the economic analysis focuses on the net economic benefit for society without considering how costs and benefits are distributed, we complement this assessment with an in-depth stakeholder analysis, taking into account both direct and indirect benefits. In essence, this analysis covers who will benefit and how they will benefit.

At a high level, the stakeholder analysis is designed to assess how projects contribute to reducing the pressing challenges of social exclusion and inequality. To this end, projects are assessed according to the beneficiaries they intend to reach—MSMEs, poor and vulnerable populations, women, and/or excluded or diverse populations. For example, will the project be implemented in a high-poverty region or target poor or vulnerable populations? Will it promote gender equality or have specific benefits for groups that may be excluded due to race, color, sexual orientation, disability, or other factors? Will the final beneficiaries be MSMEs through improved access to finance or advisory services?

Projects are rewarded with higher rates based on the degree to which they can improve, and have indicators and targets to measure, specific development outcomes for these beneficiary groups. We expect each project to focus on one or a limited number of development objectives in order to have a strong impact for a particular beneficiary group. Consistent with our portfolio approach, these concentrated efforts at the project level result in a range of development outcomes across beneficiary groups at the overall portfolio or sub-portfolio level.

In addition, projects are assessed by the type of benefits they generate, focusing on key sustainable development drivers for developing economies. Specifically, categories of analysis include climate change and environment, productivity, and improved products and services. Renewable energy projects, for example, typically score high related to the direct environmental benefits they generate by reducing CO₂ emissions.
In other cases, the types of benefits generated are driven by improving firm productivity, which is a particularly salient development challenge for Latin American and Caribbean economies, or the extent to which a project will improve access to and quality of goods and services for target populations, such as by using new technologies to deliver services more efficiently or tailoring lending products for MSMEs.

While all criteria in this part of the DELTA have the same weight, for some projects, the stakeholder analysis sub-score is driven by the beneficiaries to be reached, and for others, by the type of benefits they aim to generate. Some projects score high in both areas.

The stakeholder analysis also assesses the indirect systemic effects on market creation and sector development catalyzed by the investment. This is especially important for ensuring the long-term sustainability of development results at a system level and to have a broader reach beyond the direct beneficiaries of a given project. To this end, the analysis considers the extent to which projects benefit the broader private sector by expanding market linkages, improving regulatory frameworks or the business environment, or promoting innovation and knowledge spillovers.

For example, a project that specifically aims to create an entirely new value chain in a given sector or country, and includes indicators and targets to measure these effects, will score higher under the market linkages category than a project that is expected to strengthen value chain integration to a lesser extent. Similarly, given the proven impact that fostering innovation, knowledge, and technology transfer has on industry and economic development, projects that aim to help companies adopt business innovations or foster knowledge transfer between large and smaller companies, for example, will score higher in this category than projects that may generate new knowledge but do not have a clear plan for transferring this knowledge to other stakeholders.
Sustainability

**Company or Project’s Business Performance**

This category assesses the financial sustainability of the company/project. This assessment is not meant to reward private returns, but rather to analyze the client’s potential for financial sustainability, without which there would be no impact for the stakeholders we are trying to benefit. This is also a way to account for the potential financial risks that could affect the overall likelihood of achieving impact objectives.

**Compliance with ESG Requirements**

This category aims to assess the sustainability of each project from an ESG perspective. In general, IDB Invest assesses the potential ESG risks and negative impacts of each operation based on standard criteria and methodologies. Projects are categorized based on their level of ESG risk and binding action plans are developed with clients to improve ESG-related business practices as needed. In turn, the client’s level of compliance with IDB Invest’s ESG requirements is factored into the Development Outcome score in the DELTA. All projects must meet our ESG requirements and the DELTA rewards those that exceed IDB Invest standards with higher scores in this category. If compliance with ESG standards deteriorates during the supervision stage, the DELTA score may be downgraded accordingly.

Following the overall DELTA scoring logic, this category is meant to ensure that the main negative effects of a project are mitigated and/or compensated to the extent possible. For instance, by engaging with local communities that may be affected by big infrastructure projects. Of course, any negative effect that is not fully mitigated or compensated as part of the project itself would be accounted for in the economic and stakeholder analysis when we calculate the project’s net positive benefits. For example, if a new port construction project could potentially deviate trade from other smaller ports or reduce jobs due to greater operational efficiencies, these losses are netted out in the economic analysis.
**Additionality**

The DELTA scores both the financial and non-financial additionality that IDB Invest brings to the investment. In other words, what is IDB Invest contributing to the project that would not have been available otherwise? How are we stepping in to fix market failures rather than competing with private markets? Projects must demonstrate financial additionality in order to move forward.

Valuing financial additionality through the DELTA creates incentives to allocate IDB Invest resources where they are needed most, without crowding out the private sector. This means addressing market failures, in particular missing market problems, by providing financing to clients in terms and conditions, or through innovative financial structures and instruments, that the local financial market would not otherwise provide, such as local currency loans or extended tenor financing. It also means closing funding gaps for companies or projects that may have exhausted the capacity of local lenders who are unwilling to allocate more resources given the risk/return profile of the investment.

In addition to directly providing capital, catalyzing capital is a core aspect of the financial additionality assessment, particularly in light of the region’s major private investment funding gap and IDB Invest’s reinforced focus on increasing private resource mobilization towards SDG-enabling investments. In general, projects can mobilize resources directly from co-investors/co-lenders contributing to the same project or fund, or indirectly by helping give investors the confidence they need to invest in a given market. Projects with higher mobilization ratios relative to the economy where the project will take place will get higher scores in this category.

In particularly innovative projects in new markets or sectors, mobilization is typically more challenging, making the first-mover role of MDBs such as IDB Invest all the more important for increasing mobilization in subsequent transactions. For instance, a recent study looked at the catalytic mobilization capacity of MDBs, finding that for each US$1 MDBs invest in a loan syndication in a given country and sector over a three-year period, commercial banks lend about US$7. Similarly, the provision of blended finance resources, whereby we combine concessional donor funds with IDB Invest financing, is factored into the assessment. This is increasingly important to mobilize private capital into higher-risk investment projects that may not be bankable otherwise, as well as to test innovative financial structures, such as outcome-based incentives.
Similarly, scoring non-financial additionality encourages the use of our advisory services to further support clients in achieving impact objectives and mainstreaming sustainable business practices. This means helping clients adopt higher environmental and social standards through advisory services to support climate risk assessments, energy and environmental management audits, and sustainability certifications, among other activities. We also work with clients to strengthen their corporate governance practices in line with international standards through targeted action plans.29

Another top priority is integrating gender equality, diversity, and inclusion into our private sector operations. This includes helping our clients better understand where they are in terms of gender equality or diversity and inclusion policies and practices across business functions, and developing targeted action plans. For instance, to improve gender equality, some clients may set targets to increase the number of women on their Boards or offer childcare services for employees, while others may be more focused on increasing procurement from women-led SMEs. Finally, IDB Invest also leverages the public sector side of the IDB Group to help countries develop conducive regulatory frameworks, particularly for pioneering markets or sectors such as renewable energy where public-private partnerships can be developed to attract more private sector investment.
The ex-ante impact assessment is just the beginning. The DELTA’s structure paves the way for ongoing tracking of impact results against expectations throughout the lifetime of the project, together with the client. In addition to the results matrix, which includes key indicators and targets, each project has a monitoring and evaluation plan that specifies the frequency, methods, sources, and responsibilities for data collection and analysis.

As part of the annual supervision exercise that integrates both financial and impact performance, the DELTA Project Score is updated to reflect actual performance toward achieving impact targets set in the results matrix, allowing for a portfolio view of ongoing impact achievements. To actively manage our portfolio for impact, each project is classified as “satisfactory”, “alert” or “problem”, helping us identify clients who may need additional support to achieve targets.

Managing for impact also means continually learning, both for us and our clients. The monitoring process allows us to shorten the learning curve by extracting lessons learned from projects early on that can then be applied to improve performance both at the individual project and portfolio levels. Monitoring information is captured in an analytics dashboard and key data points, aggregate sector benchmarks, and trends can be shared with clients to cultivate a two-way learning channel.

Changes in project DELTA scores are factored into the overall tracking of portfolio-level progress toward delivering development outcomes. Similarly, the expected SDG contributions of each project in supervision are updated annually as part of the monitoring process, allowing for more precise accounting of SDG impact.
Impact Measurement and Evaluation: Building an impact evidence base

Our Impact Management Framework is designed to ensure that we, along with our clients, co-investors, and the broader private sector learn from what we measure. In turn, we can continually improve how we assess and manage impact to design better projects, transform markets and industries, share knowledge, and mobilize private investment where it is needed most. Meanwhile, IDB Invest’s shareholders and other stakeholders have access to timely and transparent reporting.

IDB Invest conducts a mandatory final self-evaluation for each operation in the portfolio once it reaches early operating maturity. This evaluation compares the expected and actual impact of each project through a systematic assessment of its relevance, efficiency, effectiveness, and sustainability, as well as the main lessons learned. The final performance rating of each evaluation is validated by the IDB Group’s independent Office of Evaluation and Oversight, strengthening both the transparency and credibility of the operational knowledge produced. Aggregate performance results are published annually in the Development Effectiveness Overview. The lessons learned from these evaluations are classified and stored in our knowledge management system to feed into the design of new operations.

In addition, to further build the impact evidence base, we select some investments for more in-depth evaluations. By generating and sharing rigorous causal evidence about what works and does not work from our investments, we can help bolster the effectiveness of the broader impact investing industry as it continues to grow.
We select impact evaluations based on four key criteria:

- **Will the knowledge generated be relevant for the markets and industries we target?** Impact evaluations should focus on bridging the knowledge gaps identified in particular sectors.

- **Is the project representative of existing or potential lines of business?** The more representative it is, the more widely we will be able to apply and disseminate the knowledge we accumulate and the good practices we identify.

- **Does the project involve innovative business solutions with a development impact?** By learning which solutions work—and, just as importantly, which ones do not—we can add value and help clients and impact investors implement the most effective ones.

- **How relevant is the project?** Sometimes the sheer size or prominence of an investment demands a thorough evaluation. This provides greater accountability to stakeholders and can inform public policy.

The type of impact evaluation carried out depends on a variety of factors, including project characteristics, learning objective, data availability, cost, timeline, and client needs, among others. Impact evaluations measure the causal link between our investments (and those of our clients) and the effects we observe. Depending on the context and/or the type of project, different methodologies are used to construct the counterfactual scenario that can help us understand what would have happened if the intervention had not taken place. While this cannot be performed in all cases, **producing rigorous knowledge from a sample of our portfolio is a critical component of our Impact Management Framework**. Impact evaluations produce the highest standard of knowledge by demonstrating what types of interventions work best, under what circumstances, and for whom. In turn, having rigorously produced evidence about the effectiveness of a private sector intervention can be a game changer for our clients who can use the results to inform strategic decision-making, as well as for the broader market in which they operate.

In other cases, **we work with clients in the early stages of an investment** to test whether an innovative product or approach is effective before scaling it up. For example, an agribusiness may want to test a new technology solution for small farmers before implementing it across the supply chain, or a bank may want to test different messaging approaches for encouraging saving among low-income clients. In these cases, we design structured experiments (which may include A/B testing) or support data collection and analysis (for example, surveys with potential end-beneficiaries or focus groups) to measure impacts or anticipate potential impacts quickly and inform client decision-making. In turn, these actions can help strengthen the project’s implementation and development impact.

To expand learning opportunities, we are continuously searching for **new sources of information that can be used to monitor and evaluate impact in a more cost-effective way** for us and for our clients. New opportunities continue to emerge thanks to technological advancements and greater availability of high frequency and big data. For example, we have been using satellite data and crowdsourced data generated by mobility apps to evaluate the impact of road rehabilitation and transportation projects.
Impact Analytics, Learning, and Dissemination

Impact Analytics: Managing knowledge and applying learning to new operations

IDB Invest’s knowledge management system ensures that learning from project implementation and evaluation is accessible across the organization and applied to improve the design of future operations. Information on project results and impact is housed in our Development Effectiveness Analytics (DEA) platform.

The DEA visualizes data collected by the DELTA to help us analyze how the portfolio is evolving. Like the cockpit of an airplane, these dashboards provide management with real-time data to inform decision-making. For instance, at the approval stage, the dashboard provides a snapshot of the portfolio’s development impact by sector, business segment, priority impact area, and country, among other variables. Management can analyze average DELTA Project Scores at approval, as well as the specific sub-scores of different categories such as gender equality or climate change, across projects in the same sector or region to identify patterns or potential gaps to help steer decision-making.

In parallel, the supervision dashboard shows how projects are performing and whether or not average DELTA scores have changed as projects mature. It helps us determine which projects in the portfolio are on or off track in terms of development impact targets, and when we should provide additional support to clients to help them achieve their business and impact objectives. We can also analyze the data to determine the key factors driving projects’ impact performance. Additional dashboards capture portfolio-level SDG contributions.

To close the project cycle’s learning loop from evaluation back to origination, the DEA also includes a repository of lessons learned from completed operations, showcasing which projects succeeded or failed in meeting their objectives and why. Lessons are then fed into current or new projects, through products such as concise sector reviews of lessons learned, as well as through the help of technology. For example, we have developed a machine learning tool that automatically links relevant lessons learned to projects in the pipeline, making it easier for investment officers to distill and integrate pertinent findings when designing new projects.
Impact Dissemination: Sharing knowledge internally and externally

Coming full circle, ensuring that we share the knowledge and learning generated from our operations and evaluations with clients, investors, and within the IDB Group is a cornerstone of our Impact Management Framework. As an MDB with a long track record of managing a portfolio for impact with financial sustainability, we are well-positioned to contribute to the evidence base around what works and what does not when investing for impact. Likewise, we are committed to sharing our deep-seated experience with managing non-financial ESG and integrity risks in projects across Latin America and the Caribbean to help instill best practices in the private sector. This knowledge sharing imperative is especially important as the impact investing industry continues to mature.

IDB Invest publishes the results of our impact evaluations, sector knowledge gap analyses, and other studies in the Development through the Private Sector peer-reviewed technical note series. We distill study results further through concise two-page summaries (DEBriefs) and blogs (Negocios Sostenibles), and regularly share them through various social media channels. In addition, we publish the SDG-aligned results and impact of our projects annually in the IDB Group’s Development Effectiveness Overview. We also actively participate in key impact investing industry initiatives such as the Global Impact Investing Network’s (GIIN) Investor’s Council and the Impact Management Project’s Impact Frontiers initiative, as well as various MDB working groups, to share and continually improve our approach to impact management.

Knowledge sharing also involves imparting practical knowledge about how to measure and manage impact and other advisory services. IDB Invest has helped clients create internal data collection systems, allowing them to better track the social and environmental impact of their businesses and be more precise in their alignment to the SDGs. For example, IDB Invest is working with financial institutions to help them measure the impact of their green lending portfolios in areas such as water savings, energy savings, and reduction of GHG emissions, in line with the SDGs.
A s the SDG countdown marches on, expectations around impact measurement and reporting continue to increase across the corporate world. Similarly, the coronavirus pandemic has put a spotlight on how companies address the “social” aspect of ESG in particular, centering on the health and safety of employees, customers, and communities. The bar is also rising for investors seeking to demonstrate the impact returns of their investments. Having a solid impact measurement and management foundation from which to start is therefore critical. While the shape of this foundation will surely vary across organizations, there are certain elements that can help strengthen it from the ground up.

To recap, for IDB Invest, the defining features of our Impact Management Framework include:

• It is an end-to-end, comprehensive framework with tools designed to support the full project lifecycle from deal origination and structuring to monitoring, evaluation, learning, and knowledge dissemination.

• It is grounded in a portfolio approach that integrates impact and financial sustainability to steer investment decision-making and portfolio management.

• It allows us to manage our portfolio for impact. Assessing ex-ante impact alone is not enough. Impact is generated throughout implementation of an investment and expectations need to be verified with actual results achieved. This also means actively partnering with our clients throughout the monitoring process to help them reach development objectives and maximize the impact of their operations.

• It has a strong knowledge focus. A knowledge current runs throughout our framework, from how we manage knowledge internally to continually improve our and our clients’ operations, to how we help build the impact evidence base through studies and impact evaluations. In turn, by generating and sharing knowledge on what works when investing for impact, we can help channel private capital towards investments with the biggest impact returns.

As a whole, the framework IDB Invest has created for measuring and managing impact helps us fulfill our role as a connector and resource mobilizer, linking countries in Latin America and the Caribbean with private sector investment. This means offering other investors our installed capacity to select and structure projects with the greatest impact potential, track and evaluate the impact achieved, manage ESG risks, and cultivate a strong pipeline of SDG-enabling investment opportunities in the region.

Aside from deal flow, we can help shorten the learning curve for other investors looking to develop or strengthen their own impact measurement and management systems by sharing the key elements of what we know works best, keeping in mind ongoing advances toward shared standards in the broader impact investing space. Ultimately, effectively managing for impact alongside financial returns allows everyone to build the portfolios the world needs, full of well-targeted, high-impact investments that help advance the SDGs and create a more inclusive, sustainable, and resilient private sector.
Endnotes

1. According to the GIIN’s 2020 Annual Investor Survey, just over two-thirds of impact investors target market-rate returns.
2. The IDB, several other MDBs, and the IMF articulated their vision for contributing to implementation of the 2030 Sustainable Development Agenda in a joint statement and discussion note: From Billions to Trillions: Transforming Development Finance.
3. For example, leading standard-setting frameworks include the Task Force on Climate-related Financial Disclosures and the Sustainability Accounting Standards Board, which has guidelines for companies to report financially material ESG concerns across 77 sectors.
6. Launched in April 2019 with 60 signatories representing $350 billion in impact AUM, the Principles have gained traction with over 90 signatories as of the one-year anniversary. IDB Invest published its first disclosure statement and independent verification of alignment with the Principles in April 2020.
10. For example, impact investing AUM were estimated at $715 billion by the 2020 GIIN Annual Impact Investor Survey. This represents about 0.8% of the total $86 trillion in AUM of signatories to the Principles for Responsible Investing in 2019.
11. For more information, see the 2019 IDB-IMF study Mobilization Effects of Multilateral Development Banks and brief.
12. The IDB Group comprises the IDB, which has worked with governments for 60 years; IDB Invest, which works through the private sector; and IDB Lab, which tests innovative solutions to enable more inclusive growth.
13. Prior to the consolidation in 2016, the IDB Group’s private sector operations were carried out by the Inter-American Investment Corporation (IIC) and various private sector windows within the IDB, each of which had different impact management systems.
14. Cumulative amount of CO₂e for 2016-2019. See the IDB Group’s Corporate Results Framework website for more information on development results.
15. In many cases, regulators treat infrastructure investments as an alternative asset, thus limiting the ability of local institutional investors such as pension funds to invest in these transactions.
16. The IMP reached consensus that impact can be measured across five dimensions: What, Who, How Much, Contribution, and Risk.
18. See IDB Group institutional strategies.
19. See IDB Group Corporate Results Framework and the SDGs.
20. See IDB Group country strategies.
21. For example, to help build our telecommunications project portfolio, IDB Invest produced the study, The Evolution of Mobile Telecommunication in Latin America and the Caribbean which informed pipeline development in this sector.
22. As defined by the MDB Task Force on Additionality. See the MDB Harmonized Framework for Additionality in Private Sector Operations.
24. For example, the Panama Canal expansion project financed partly by IDB Invest had a significant effect on market linkages by increasing international trade and catalyzing nearly US$10 billion in private investment from the time it was announced in 2006 to 2011, 1.8 times the project cost. See this study and DEBrief for more information on the catalytic effects of the canal expansion.
25. For more information on IDB Invest’s ESG risk management approach, visit our Sustainability page.
26. The MDB Harmonized Framework for Additionality in Private Sector Operations is largely based on IDB Invest’s approach to assessing additionality.
27. IDB and IMF, 2019. The Mobilization Effects of Multilateral Development Banks. Also see the brief.
28. For more information, see the Factsheet on IDB Invest’s 2019 Blended Finance Investments.
29. For more information on IDB Invest’s approach, see our Corporate Governance page.
30. While the definition of EOM varies across project types and financial instruments, in general, EOM is defined by the date when the loan has been fully disbursed, the project has been implemented, and is expected to have development impact.
Let’s continue the conversation

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