



2023 BUSINESS PLAN UPDATE

APPROVED VERSION

DECEMBER 2022

Table of Contents

- Table of Contents..... ii
- Executive Summary iv
- I. Introduction 1
- II. Economic and Business Outlook 1
 - A. Economic Outlook 1
 - B. Business Outlook 3
- III. Strategic Pillars 8
 - A. Smart Growth 9
 - B. Knowledge 15
 - C. Synergies 16
- IV. Key Performance Indicators (KPIs) 19
 - A. Progress on Corporate Targets 19
 - B. Proposed Plan of Operations..... 21

Abbreviations

DELTA	Development Effectiveness Learning, Tracking and Assessment
DRA	Development Related Asset
ESG	Environmental, Social, and Governance
FDI	Foreign Direct Investment
FI	Financial Institution
GDI	Gender, Diversity, and Inclusion
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
KPI	Key Performance Indicator
LAC	Latin American and the Caribbean
MGM	Management Grievance Mechanism
MICI	Independent Consultation and Investigation Mechanism
MSME	Micro, Small, and Medium Sized Enterprises
NSG	Non-Sovereign Guaranteed
PPP	Public-Private Partnership
S&I	Small and Island
SCF	Supply Chain Finance
SLA	Service Level Agreement
TFFP	Trade Finance Facilitation Program
UCP	Unfunded Credit Protection

Executive Summary

In 2022, the private sector in Latin America and the Caribbean (LAC) continued a fragile recovery from the Covid-19 pandemic but is now facing considerable global macroeconomic headwinds. The growing global impact of the Russian invasion of Ukraine is also contributing to rising commodity prices and exacerbating supply chain challenges. While productive investment is increasing in many countries and sectors, high inflation, rising long-term interest rates, and a potential resurgence of Covid-19 all threaten to upend progress. In the context of these complex market conditions, **IDB Invest is on track to deliver its operation program**. As of September 30, total activity has reached US\$5.2 billion,¹ including US\$1.1 billion long-term own account commitments and US\$2.75 in short-term own-account commitments. Despite investor caution due to rising interest rates, IDB Invest has also already exceeded its historically ambitious target, reaching US\$2.3 billion in core mobilization.

As the organization prepares for 2023, IDB Invest Management and its Board of Executive Directors (“the Board”) are in the process of fulfilling a mandate² from its Board of Governors’ to develop a New Vision and Business Model. With the expectation that this process will guide the high-level long-term strategic direction for the organization, Management, in consultation with the Board, opted to develop a business plan update for 2023 instead of a business plan for 2023-2025. This Update aligns with the pillars of the 2020-2022 Business Plan, which continue to be relevant for 2023 as detailed in this document.

Entering 2023, Management is already internalizing key aspects of the New Vision and Business Model, for example by trying to take on more risk, by maximizing mobilization while reducing own-account financing and selling portions of assets to create more lending space, and by continuing to strengthen its efforts in Small and Island (S&I) countries. The scale of these efforts is limited, however, by its existing balance sheet.

Following a three-year period of intensive focus on strengthening the backbone, new systems and processes now support more complex functionalities, enable efficiency throughout the origination process, reduce operational risk, improve reporting outputs, and better meet client needs. In terms of its non-financial value proposition, IDB Invest deepened its commitment to supporting **the climate agenda**, with a focus on executing its commitment for 100% of new operations to be aligned with the Paris Agreements; it strengthened its commitment to the **inclusive economy**, including through a new IDB Group Gender and Diversity Action Plan;³ and deepened the integration of sustainability in its operations. In terms of mobilization, IDB Invest continued to increase the amount it mobilizes relative to its own financing by diversifying the instruments it uses to mobilize and co-investors to which it distributes those assets.

Projected total activity for 2023 is US\$6.7 billion,⁵ including own-account financing of US\$2.0 billion in short-term commitments and US\$2.2 billion in long-term commitments, and a core mobilization target of US\$2.5 billion (thus increasing the mobilization target as compared to 2022, while decreasing its own account lending).

¹ Total activity is the sum of own account commitments and core mobilization, net of unfunded mobilization.

² Resolution CII/AG-3/22. New Value Proposition for the Inter-American Development Bank and the Inter-American Investment Corporation.

³ CII/GN-498-1.

⁵ Total activity may be lower depending on the volume of unfunded mobilization.

Increasing its ambition for Gender, Diversity, and Inclusion (GDI) in 2023, Management will make its best effort to quickly ramp up to the 40% target established in the IDB Group Gender and Diversity Action Plan 2022-2025 (CII/GN-498-1). Management also recommits to its impact objectives for S&I countries, C&D countries, climate finance, and Micro, Small, and Medium-sized Enterprises (MSMEs).

From a corporate perspective, 2023 will continue to present complex challenges: Workloads have increased due to the number of transactions in origination, and the corresponding increase in portfolio supervision needs. This has had an impact on both workforce engagement and IDB Invest's overall competitiveness as an employer. Following several years of high workload and remote work, as well as challenges for recruitment and retention, IDB Invest faces the need to increase workforce engagement. Strengthening the backbone continues to be a priority, with projects that will continue automating end-to-end processes to gain efficiencies, improve controls, and better manage the growing complexity of the portfolio and allowing the scaling of financial and non-financial product offerings. IDB Invest continues to transform itself through digital technologies thus strengthening the backbone, leveraging knowledge, and further enabling a client-focused operation and culture.

I. Introduction

- 1.1 Through its long-standing planning cycle, IDB Invest Management (“Management”) and the Board of Executive Directors (“the Board”) set the organization's financial, operational, and developmental priorities for a three-year period in a business plan. In the intervening two years, Management provides updates and seeks the associated annual authorizations in business plan updates. This approach provides flexibility in the face of changing economic, financial, and operational environments.
- 1.2 Following this practice, in the fall of 2022, Management would have been developing and discussing with the Board the 2023-2025 Business Plan. Considering the Board of Governors’ mandate to present a proposal for a New Vision and Business Model for IDB Invest⁶—which is expected to discuss the high-level long-term strategic direction for the organization—Management, in consultation with the Board, opted to develop a business plan update for 2023. The outcome of the New Vision and Business Model discussion will eventually guide the direction of a prospective 3-year plan; as this discussion evolves, Management will continue engaging the Board in discussions about how to best align the Business Plan process with higher-level strategic guidance. The work program, priorities, and plan of operations presented for 2023—along with the proposed Administrative and Capital Budget proposed to execute them—are based on the expectation that IDB Invest will continue operating with its existing level of capital.
- 1.3 The focus of the 2020–2022 Business Plan is Growth for Sustainable Impact (CII/GA-80-2); as highlighted in Chapter III, the pillars of the 2020-2022 Business Plan continue to be relevant in 2023. The 2021 and 2022 updates included additional priorities: To address the urgent needs of the region in the face of the Covid-19 pandemic, the Covid-19 Response (CII/GN-419) introduced measures to support the private sector, including an increased plan of operations and a Covid-19 lens for investments.⁷
- 1.4 Consistent with the practice for the 2022 Business Plan Update, at the request of the Board, Management is submitting two proposals for consideration: (i) the 2023 Business Plan Update and (ii) the 2023 Administrative and Capital Budget (“the Budget”). This approach allows for a comprehensive and strategic discussion of each proposal separately. Although the Business Plan Update and the Budget are delivered separately, they remain interdependent, and the Budget reflects the resources required to execute the priorities described in the Business Plan Update.

II. Economic and Business Outlook

A. Economic Outlook

- 2.1 The global economy recovered in 2021 with annual growth reaching 6%.⁸ However, deteriorating market conditions and increasing uncertainty in the first half of 2022 have led to a substantially lower growth outlook for 3.2% for 2022 and 2.7% for 2023. Key factors

⁶ Resolution CII/AG-3/22. New Value Proposition for the Inter-American Development Bank and the Inter-American Investment Corporation.

⁷ The elements of the Covid-19 response were approved via resolutions CII/DE-20/20, CII/DE-21/20, CII/DE-22/20, CII/DE-23/20, CII/DE-24/20, CII/DE-25/20, and CII/DE-26/20.

⁸ International Monetary Fund (IMF). 2022. World Economic Outlook: Countering the Cost of Living Crisis, October 2022. Washington, DC: International Monetary Fund.

in this deterioration including global inflation and corresponding policy responses, the ongoing impact of Covid-19 in China, and the Russian invasion of Ukraine. Risks to the outlook—which are tilted to the downside—include sustained inflation and further economic fallout from Russian war on Ukraine, such as further reductions in the Russian gas supply to Europe.

- 2.2 The rise in inflation in 2022 has been more precipitous and persistent than anticipated, causing central banks—including the United States (US) Federal Reserve Open Markets Committee and the European Central Bank—to move quickly to tighten policy interest rates. The speed of rate hikes and the duration of high rates could substantially impact investor risk tolerance, asset values, debt servicing costs, and capital flows. These tighter financial conditions pose an additional risk for emerging markets.
- 2.3 Conditions in China are a second factor affecting the global outlook. In July, China's 2022 growth outlook was 3.2%, down from the previous outlook.⁹ One challenge for the recovery in China is ongoing local lockdowns to control the spread of Covid-19. Continued lockdowns also have the potential to contribute to global supply chain challenges as they impact businesses and consumers downstream.
- 2.4 A third factor in the global economy is the Russian invasion of Ukraine, which accentuated already reduced expectations for 2022. The war contributed to rising prices of¹⁰ agricultural commodities including soybeans, wheat, and corn; and metals including nickel, aluminum, iron, steel, cobalt, and lithium. The Organization for Economic Co-operation and Development estimates the possible loss in Gross Domestic Product (GDP) in the 12 months following the war in the eurozone at around 1.4% of GDP and for the United States at around 1% of GDP.¹¹
- 2.5 The economies of LAC recovered in 2021 with growth reaching nearly 7%. In 2022 growth is expected to slow to 3.5% in tandem with the global economic slowdown.¹² Persistently high inflation and high interest rates are key global factors affecting the economies of LAC, with the war in Ukraine being a potential contributing factor. A possible resurgence of Covid-19 and associated shutdowns and the possibility of new variants spreading in the region itself represent further risks.
- 2.6 High commodity prices have been a boon for commodity exporters including petroleum-exporting countries, however this benefit is mitigated in some cases by the need to finance fuel subsidies and in others by the rising price of chemical fertilizers. Higher food and energy prices have negatively impacted consumers, with the most significant impact on poor and vulnerable populations. Given higher food prices, food security is an important concern for countries in LAC. As the US Federal Open Markets Committee and the European Central Bank seek to tame inflation through policy rates, the prospect of a sustained period of high long-term interest rates is a risk to sovereign and private sector borrowers with, the greatest impact on those with high debt loads.

⁹ *Ibid.*

¹⁰ Cavallo E., Galindo A., Nuguer, V., and Powell A. 2022. *From Recovery to Renaissance Turning Crisis into Opportunity: 2022 Latin America and the Caribbean Macroeconomic Report*. Inter-American Development Bank. Washington, DC.

¹¹ Organisation for Economic Co-operation and Development (OECD). 2022. *Economic Outlook*, June 2022.

¹² IMF, 2002.

- 2.7 Foreign direct investment (FDI) flows to LAC rebounded by 56% in 2021 to \$134 billion. According to UNCTAD,¹³ the rebound in 2021 was propelled by 317 greenfield projects announced in information and communications technologies across the region – a 61% jump compared with 2020. FDI inflows to South America, helped by higher global demand for commodities and green minerals, grew by 74%. The recovery of FDI flows to Central American and Caribbean countries were more modest: 30% and 39%, respectively. Looking forward, the global environment for FDI is expected to reverse in 2022. The Russian War in Ukraine and increased uncertainty about global economic prospects will put significant downward pressure on global FDI in 2022.
- 2.8 Amidst this backdrop, there are also opportunities for the Region. Investors' appetite for sustainable investment continues to grow: In 2021, the sustainable debt markets reached new record highs with total issuances totaling US\$1.1 trillion, a 46% increase over 2020 levels.¹⁴ Downstream effects of the war in Ukraine may open opportunities for private sector investment in the region, including food and energy security.

B. Business Outlook

- 2.9 The outlook and financing needs of businesses in LAC vary substantially by sector. Leveraging IDB Invest's internal expertise and business intelligence, this section highlights the business outlook and potential needs for each of the sectors IDB Invest serves, with a focus on emerging opportunities most aligned with its mandate. Management is directing business development efforts—in conjunction with existing tools including strategic selectivity, the Impact Management Framework, and the portfolio approach—to leverage these opportunities, in particular those in countries that would contribute to de-concentrating the portfolio.

Corporates

- 2.10 In the corporate sector overall, rising interest rates may have an impact on companies' appetite for US Dollar financing which may reduce demand for financing in the segment. On the other hand, demand may be higher as companies look to catch up with capital expenditure needs that were deferred during the pandemic and seek to capitalize on the opportunities arising from global supply chain challenges.
- 2.11 The region's agribusiness outlook has deteriorated due to the dependence on fertilizers imported from Russia—access to which has been limited due to the Russian war in Ukraine—which could reduce yields by up to 50%. Logistics issues, initially arising from the Covid-19 pandemic, including high costs and a scarcity of shipping containers, continue to affect the industry. Moreover, the animal protein segment has been subject of scrutiny due to dietary, animal welfare and climate factors, and food insecurity is a growing concern, particularly in the Caribbean,¹⁵ Ecuador, Bolivia, Colombia and Peru and other net food importing countries.¹⁶ Projects enhancing the sector's efficiency and diversification can contribute to the resilience and safety of the food supply in LAC. In 2023 there are likely to be opportunities to support sustainable management, local supply

¹³ United Nations Conference on Trade and Development (UNCTAD). 2022. World Investment Report 2022: International Tax Reforms and Sustainable Investment, June 2022.

¹⁴ Harrison C., MacGeoch M., Michetti C., Sustainable Debt Global State of the Market 2021, Climate Bonds Initiative 2022.

¹⁵ In 2020, 16.1% of inhabitants in Caribbean countries suffered from malnutrition (ECLAC, 2020).

¹⁶ World Food Programme, 2022.

chains with a focus on MSMEs, traceability, and certifications. Support for agricultural technology solutions (digitalization and automation) in the supply chain is another area of where needs will continue to grow.

- 2.12 Manufacturing value added and output in the region is recovering, value-added grew 9% in 2021 following two consecutive contractions¹⁷, and output grew 2.2% in first quarter of 2022.¹⁸ Manufacturing companies are looking to return to their usual levels of capital investment plans, while also increasingly digitalizing their operations—including the integration with suppliers—and looking for ways to make their business more sustainable. Opportunities in the coming year will likely include the digital transformation of production systems and strengthening regional value chains. Businesses seeking to implement innovative, inclusive, and circular business models will also be relevant opportunities for IDB Invest in the coming years as well as energy efficiency and self-generation of renewable power. Specific opportunities exist to support the increased demand in pharmaceuticals, retail operations and housing projects (mainly through sustainability-linked financial solutions).
- 2.13 As mentioned in the 2022 Business Plan Update, the Covid-19 pandemic accelerated digitalization, whilst the deployment of certain technologies and services has accelerated (e.g., e-commerce, Fintech, e-health, among other) as digital solutions displace analog ones. However, the digital infrastructure and services gap remains wide, especially for vulnerable populations. Lower purchasing capacity of clients and aggressive pricing strategies are deteriorating margins of operators and regulatory uncertainty is halting certain digital infrastructure projects. Nevertheless, the investment outlook remains strong, with the explosion of data traffic and hyper connectivity, a shift to cloud and virtualization mainly driven by large corporates and governments. The emergence of disruptive technologies is improving efficiency, increasing productivity, and allowing innovation, which enables the scaling of development solutions. Opportunities in 2023 include increasing access, affordability, and quality of broadband and digitally-enabled services. Further financial support will be needed to widely deploy advanced technologies and innovative solutions across economic and social sectors. Deepening collaboration with the IDB to update regulatory frameworks will be key to catalyzing investments in the sector. The ongoing work with IDB Lab will also allow a strengthening of the IDB Group private-sector continuum as early-stage concepts scale and require follow on solutions like those provided by IDB Invest.
- 2.14 The tourism sector is experiencing a gradual recovery as travel restrictions are eliminated and leisure and corporate demand recovers. Nevertheless, the sector continues to experience disruptions linked to Covid-19, including the impact of rising costs and labor shortages. Operators face liquidity needs as revenues have yet to recover to pre-pandemic levels, deferred maintenance has become urgent, and lender forbearance is exhausted. In the short-term, recovery of tourism sector in LAC, particularly in C&D and S&I countries, will be an important part of reactivating local value chains and creating jobs. Tourism themes with high potential include leisure-based concepts in emerging destinations, nature-based business models, preservation of historical heritage sites, disruptive and innovative business models, and growth capital to support the need for

¹⁷ World Bank. 2022. World Development Indicators, Manufacturing value added (annual % growth)

¹⁸ UNIDO. 2022. World Manufacturing Production Quarter I 2022 Report

regional expansion as demand progressively returns. Partnerships with local banks¹⁹ have been effective in unlocking capital for the sector and are likely to continue to play an important role in 2023.

Box 1. Food Security in LAC

Following the onset of the Covid-19 pandemic in 2020, multiple converging factors—including supply-chain disruptions linked to the pandemic, extreme weather events resulting from global climate change, and changing consumer preferences—resulted a rapid surge in agricultural commodity prices and, as a result, consumer prices for food staples. In the first half 2022, the tendency of rising prices was further compounded by the Russian invasion of Ukraine. The war substantially reduced Ukraine’s expected agricultural output for 2022, reduced Russian exports of fertilizer and petroleum, and exacerbated existing supply chain challenges. As a result, prices for many commodities—including wheat, soybeans, and corn—reached an all-time high in the first half of 2022, with price spikes similar to those seen in the 2008 food crisis.

Despite important gains since 2000, in 2019 32% of the population of LAC were facing moderate food insecurity.²⁰ That number increased to 41% by 2021, a number which is yet to reflect the impact of the war in Ukraine. The impact varies by country depending on a range of factors including the basic food basket, the structure of the economy and trade, and the diversification of sourcing and production. Countries that are net food importers—which are primarily in Central America and the Caribbean—are most affected. At the individual level, small and medium farmers, who face liquidity constraints, and vulnerable populations, who were already facing food insecurity, are most affected.

IDB Invest has a wide range of tools to strengthen the region’s food security, aligned with the approach defined in the Food Security Sector Framework Document (GN-2825-8). Through long-term financing it can work with corporates and local financial institutions to support projects that increase agricultural production and productivity, support climate adaptation and resilience, and improve logistics. To support producers’ liquidity needs, IDB Invest can work through banks and anchor companies to reach agricultural MSMEs and cover incremental working capital costs. Finally, IDB Invest can support agribusiness value chains with technical assistance.

Financial Institutions (FIs)

- 2.15 Financial markets in LAC have been resilient throughout the Covid-19 pandemic. The impact of the crisis on non-performing loans, provisions and profitability have been heterogeneous, and has varied country by country depending on the behavior of borrowers, fiscal support, regulatory changes, and moratorium policies, among other. Broadly in the sector, loan portfolios are starting to grow and profitability to recover. Capital adequacy is still strong and above pre-pandemic levels because of stringent credit

¹⁹ IDB Invest launched a first-of-a-kind risk mitigation facility in Panama (12174-03), aimed at guaranteeing loan portfolios in the tourism sector, backed by a first-loss guarantee from the Panamanian Government. This innovative instrument is expected to guarantee a tourism loan portfolio of up to \$300 million through different financial institutions in Panama. The first signatory of the facility is Banitsmo.

²⁰ FAO, IFAD, UNICEF, WFP and WHO. 2022. *The State of Food Security and Nutrition in the World 2022. Repurposing food and agricultural policies to make healthy diets more affordable*. FAO: Rome, Italy.

policies, excess loan loss reserves, and stringent regulations. Looking ahead to 2023, financial markets will face a different set of challenges due to the uncertain global economic outlook and a potential increase in non-performing loans driven by worse-than-expected performance of LAC's corporates. In this context, strengthening the financial sector through sustainable long term adequate solutions both financially and non-financially are key. Working with the public sector and regulators, creating capabilities in partnership with Banking Associations, supporting common taxonomies and strengthening of Anti-Money Laundering/Know Your Customer practices will be instrumental for increased sector performance.

- 2.16 MSME finance and financial inclusion continues to be a challenge for LAC. Financing to MSMEs will be critical for increasing productivity and job creation. As of 2021 only 72% of adults had an account and 30% had borrowed from a formal financial institution.²¹ Specific segments including women and the poorest 40% of the population continue to be underserved. There will continue to be important opportunities to generate impact by supporting projects expanding financial services to underbanked, underserved and excluded segments, as well as supporting financial products and services with a focus on gender, diversity, and inclusion. Financing to MSMEs will be critical for increasing productivity and job creation. There are likely to be opportunities in 2023 to support the silver economy, rural finance, food security through agribusiness, indigenous communities, and immigrants.
- 2.17 The financial sector is undergoing a transformation and sustainability and digitalization are becoming the main trends. More FIs across the region are incorporating sustainability into their business strategy—both as part of their risk assessment and business opportunities. The market is also demanding more transparency, accountability, and improved governance practices. Technology continues to transform the operation of diverse types of FIs and is driving open banking and open innovation in the sector with the aim of increasing inclusion. These changes are permeating in an array of actors, from commercial banks to microfinance institutions, creating commitments to different stakeholders. As More FIs embrace sustainability, they will need support to develop corresponding value propositions, e.g. Environmental, Social, and Governance (ESG) risk assessment and disclosures, green finance and decarbonization business strategies, and transition to net zero carbon emissions. Specific opportunities include financial solutions in local and international capital markets, such as green, social sustainable and/or sustainability-linked loans and bonds, that finance green and/or social portfolios, circular economy projects, clean mobility, green building investments, food security and smart agriculture. IDB Invest can also support financial markets and facilitate the ongoing digital transformation and innovation across the sector, as well as financing or investing in digital business directly or through investment funds.

Infrastructure and Energy

- 2.18 Infrastructure investments in the region are recovering, however, there is a high heterogeneity in the number and size of projects for private investment across countries, and few robust markets.²² Total infrastructure investments remain low, and the frequency

²¹ Lower than upper middle-income countries (84% and 35% respectively) and the OECD (97% and 57% respectively).

²² Economist Impact. 2022. Evaluating the environment for public-private partnerships in Latin America and the Caribbean: The 2021/22 Infrascope. New York, NY.

and intensity of climate events is compromising assets and challenging the delivery of basic services in some cases. Public sector fiscal constraints mean governments are looking to increase private investment in infrastructure, yet public capacity to assume obligations in Public-Private Partnership (PPP) projects required to attract investors is low. Institutional investors and private equity funds are increasingly participating in infrastructure financing in the region. As integrity issues continue to affect regional players, there is a growing participation of new international sponsors.

- 2.19 In social infrastructure, the LAC market is seeing an expansion of non-traditional service offerings, such as telehealth and virtual education, but players are small²³ and markets are fragmented. However, regional market forecasts are positive, with expected annual growth rates of 17% for telehealth over the next 5 years, in line with global trends.²⁴
- 2.20 High coal and fossil fuel prices in 2021 and 2022 has increased the attractiveness of renewables including wind and solar. New markets are delivering on supply requirements. Emerging technology, such as green hydrogen, will play a key role in decarbonization. Chile alone has the potential to produce 125 million tons of green hydrogen per year. The development of carbon markets is also expected to accelerate in the short term.
- 2.21 Technology providers are increasingly taking active roles in long term operation and maintenance of projects. In energy, investments in digital systems for electricity grids (transmission and distribution) are rapidly increasing.
- 2.22 In 2023 there are likely to be a wide range of opportunities in the infrastructure sector. Investments include deeper and more resilient ports, dredging to improve maritime access and navigation, increased infrastructure capacity, redundancy and efficiency in water and sanitation networks, desalinization, and nature-based solutions. Support to water and sanitation will be focused on low performing public operators in coordination with IDB sovereign lending, but also seeking opportunities to work with private sector water and sanitation operators and opportunities in desalination. The increasing electrification of transport via private electric vehicles and urban transportation projects will generate further opportunities for financing. Investments in renewables and improved distribution and transmission networks will continue. The energy transition will also imply decommissioning fossil fuel-based generation technology, increased digital investments in electricity grids, distributed generation, and expansion of transmission systems. Supporting batteries, storage, and green hydrogen testing with blended finance, will be key for supporting these new markets.
- 2.23 In health, financing opportunities include the expansion of technological resources, equipment, and telemedicine, as well as technology-based business models. In education, adequate infrastructure and services to support learning will be particularly important as students return to schools and universities and the Covid-19 pandemic continues.
- 2.24 Guarantees, first-loss structures (on a case-by-case basis), subordinated and mezzanine loans can help match investor risk appetite to projects. There will be a great emphasis in developing capital markets through thematic bonds which will raise local and especially international liquidity in US\$ and local currencies. Purchasing future receivables in energy can contribute to promote generation with cleaner technologies. Greater demand for local

²³ Approximately 15% of LAC's hospitals offer Telehealth services. Source: Global Health Intelligence. 2022. The future of Telehealth in Latin America.

²⁴ Global Health Intelligence. 2022. The future of Telehealth in Latin America.

currency, however, could decrease the competitive advantage of IDB Invest in some contexts. Collaboration with IDB on regulatory reforms, PPP development, integrity and increasing the performance of infrastructure state owned enterprises will contribute to create a long-term pipeline of bankable projects.

Impact through Client Relationships

- 2.25 During 2022, Management completed its Client Strategy 2.0. This evolution continues with a client centric approach, improving the client experience and supporting investment officers doing business development through a relationship marketing strategy that helps them to find the best clients/partners and transactions using market and business intelligence.
- 2.26 Attracting new co-investors is also critical to scaling up IDB Invest’s impact by increasing the amount it mobilizes. New financial product offerings that meet the needs of new investors have been crucial to increasing the ratio of own account lending to mobilization in the last few years. For example, UCPs have helped attract insurers which now account for a significant share of IDB Invest’s mobilization. Looking forward, Management will continue to innovate in financial products as it seeks to attract more institutional investors and local investors.²⁵

III. Strategic Pillars

- 3.1 The 2020-2022 Business Plan (CII/GA-80-2) identifies three strategic pillars for the 2020–2022 period: smart growth, knowledge, and IDB Group synergies. Considering the extension of this framework for 2023, the Chapter opens considering the ongoing strategic relevance of the pillars, then highlights progress implementing the pillars in 2022 and Management’s expectations for 2023.
- 3.2 The first pillar, Smart Growth, focuses on key areas of the organization that needed strengthening to achieve the goal of sustainable impact: the backbone, non-financial value proposition, mobilization, and human resources.
- 3.3 In the case of the backbone—as detailed later in this chapter—IDB Invest has made significant progress in consolidating core business systems and processes. Strengthening the backbone is an ongoing priority, with projects that will continue automating end to end processes to gain efficiencies, improve controls, and better manage the growing complexity of the portfolio and allowing the scaling of financial and non-financial product offerings. Since 2020 IDB Invest has made tremendous advances in building core systems; looking forward, to remain competitive and efficient, it will need ongoing investment to manage complexity and introduce new products. IDB Invest continues to transform itself through digital technologies thus strengthening the backbone, leveraging knowledge, and further enabling a client-focused operation and culture.
- 3.4 Mobilization and non-financial additionality are both core elements of the current value proposition, which would be renewed and strengthened under the New Vision. The section outlines efforts to strengthen these areas within the context of existing resource constraints.

²⁵ See more details in Chapter III Section A under the subheading “Mobilization.”

- 3.5 In the case of human resources, IDB Invest continues to face challenges recruiting and retaining staff due to issues with workloads, contract modalities, and compensation.
- 3.6 Knowledge is also aligned with the New Vision and Business Model. Learning from operations and providing knowledge and market intelligence for clients are increasingly core competitive advantages. Strengthening knowledge creation and management is a central part of increasing IDB Invest's impact and ambition for the new business model and will be important for the organization in any future. Likewise, strengthening synergies with the rest of the IDB Group remain a central focus.
- 3.7 Entering 2023, Management is already internalizing key aspects of the New Vision and Business Model, for example by trying to take on more risk, by maximizing mobilization while reducing own-account financing and selling portions of assets to create more lending space, and by continuing to strengthen its efforts in S&I countries. The scale of these efforts is limited, however, by its existing balance sheet.

A. Smart Growth

- 3.8 Over the first four years of operation following the Merge-Out, Management focused on building origination capacity to ensure the organization's financial sustainability by generating earning assets. The purpose of smart growth was to focus on building a non-financial value proposition, along with a back and a middle office, to match the origination capacity.
- 3.9 The countercyclical response to the Covid-19 pandemic greatly accelerated growth in origination and portfolio, significantly increasing strain on investment teams as well as the back and middle-office functions. At the same time, those functions provided critical services in enabling the organization to adapt to remote work, and experienced slower-than-anticipated workforce growth as hiring slowed during the pandemic.
- 3.10 In 2022 IDB Invest origination began converging from its counter-cyclical high to the long-term sustainable-lending level. Total Development Related Assets (DRAs) under management remain high—exceeding US\$ 17 billion at the end of the second quarter—along with the corresponding workload for supervision and portfolio management.
- 3.11 Looking forward, IDB Invest continues to face the need to de-stress the organization following a prolonged period of intense growth and to enhance competitiveness in some labor markets. It also requires targeted workforce growth responding to specific needs.

Strengthening the Backbone

- 3.12 In 2022 Management continued improvements in backbone systems and processes. These have allowed IDB Invest to support more complex functionalities, become more efficient throughout the origination process, reduce operational risk, improve reporting outputs, and better meet client needs.
- 3.13 The consolidation of several backbone support functions continues to be successful and a central part of reinforcing the backbone to enhance internal and external client experience. The consolidated areas perform key functions to support the transaction cycle and have built on the work that has been done over the last several years to support business needs while ensuring alignment with institutional goals. Some focus areas in 2022 include disbursement management, monitoring tools, creation of guidelines and manuals in conjunction with the legal department, document management, treasury operations, and new financial products.

- 3.14 As part of the Client Strategy, and to reinforce the commitment to improve the clients' experience, IDB Invest developed a Client Portal to streamline clients' operational interactions throughout the transaction's life cycle. The Portal provides clients a self-service channel and guarantees client information is protected with high security standards. Currently in phase one, the Client Portal allows project teams and clients to monitor the status of information requests and submissions during the structuring process, thus improving coordination, promoting transparency, ensuring traceability, and maximizing efficiency, with an intuitive and more convenient process.
- 3.15 To achieve scalability and solutions availability, 100% of IDB Invest's systems have now been migrated to the cloud. Moreover, IDB Invest leveraged platforms and best practices on the implementation of the Client Relationship Management System, the Client Portal, and the Data Assets Catalogue, to name a few.
- 3.16 IDB Invest has also employed emerging technologies to speed up services. This year, IDB Invest won a Chief Information Officer Award for its Robotic Process Automation for accounts payable, which makes funds available faster to clients.
- 3.17 Key backbone capital projects were completed in 2022 such as the cash management system, which implemented numerous improvements in areas of payment automation, bank connectivity, local currency transactions and automated cash reconciliation. IDB Invest also automated the long-term solution for processing non-sovereign guaranteed disbursements of cross-booking and third-party funds processes between IDB and IDB Invest, taking in consideration Office of the Executive Auditor (AUG) recommendations to reduce risks involved on manually processes between the two institutions. IDB Invest also launched its Colombian Local Treasury as part of the latest addition to IDB Invest's local currency capabilities.
- 3.18 The Annual Supervision Report was also automated, allowing the Portfolio Management team to better use the data that is readily available in the systems, mitigating the operational risk due to manual inputs. This solution significantly reduces the time that Portfolio Management Officers dedicate to prepare an average of 350 Annual Supervision Reports for clients and it will create a central repository of client information available in real time.
- 3.19 Starting in January 2022, all new US dollar origination has been linked to the Secured Overnight Financing Rate (SOFR). Based on client preferences and market needs the SOFR types offered are term SOFR, daily compounded SOFR, and daily simple SOFR. Efforts are now focused on Phase II - Existing London Inter-Bank Offered Rate (LIBOR) portfolio transition. This phase ensures amendment and transition of existing LIBOR portfolio by the time US dollar LIBOR ceases to exist in June 2023.
- 3.20 The first conversions were completed in the first quarter of this year on a pilot basis. IDB Invest is now in the process of contacting all existing LIBOR portfolio clients and negotiating the details of the amendments. Negotiation has started for about 30% of the portfolio and progress is closely monitored.
- 3.21 IDB Invest continues to strengthen its management of integrity and reputational risks with the evaluation of these risks in the project cycle on a systematic basis, periodic assessment of heightened risk projects in supervision, and monitoring of integrity related conditions assigned to projects in coordination with the Office of Institutional Integrity. Transparency and reporting remain a priority with the quarterly reporting of non-financial risks on a portfolio basis to our Portfolio Supervision Committee and to the Board.

- 3.22 Since 2020 IDB Invest has made tremendous advances in building core systems; looking forward, to remain competitive and efficient, it will need ongoing investment to manage complexity and introduce new products. IDB Invest continues to transform itself through digital technologies thus strengthening the backbone, leveraging knowledge, and further enabling a client-focused operation and culture.

Non-Financial Value Proposition

- 3.23 A key part of smart growth is developing a non-financial value proposition—including Advisory Services and non-financial risk management—that complement and enhance the impact of IDB Invest’s financial products.
- 3.24 **Climate agenda.** IDB Invest has carried out a wide array of activities as it executes a strategic shift to align 100% of new projects and operations with both the low carbon and the resilience goals of the Paris Agreement²⁷ by 2023. IDB Invest has participated in a series of MDB workgroups to develop a joint methodology framework to assess transactions for alignment with the mitigation and adaptation goals of the Paris Agreement. IDB Invest has also been conducting an analysis to examine the level of diversification of the current portfolio from the perspective of the alignment to the Paris Agreement, as well as to identify areas to prioritize in the development of sector-specific Paris alignment guidance.
- 3.25 Implementation of the of Paris alignment will have important operational implications for IDB Invest. The Paris alignment assessment will, in many cases, require more analysis by teams and more information from clients (for example, high-emitting projects may require an analysis of alternatives and carbon shadow pricing). In specific sectors, Paris alignment will also require a careful review of the context of the Article 2 “principle of common but differentiated responsibilities.” Management is building out existing workflows and equipping teams with adequate resources to help solve these challenges.
- 3.26 To raise IDB Invest’s contribution to the green and climate agenda, Management convened a Blue-Ribbon Panel, commissioned with re-envisioning what it will require for IDB Invest to become a green bank for the private sector.
- 3.27 Promoting the circular economy can also be a key enabler for moving towards carbon neutrality. IDB Invest, in collaboration with the IDB, continues to foster a transition to circular economy in the region by (i) providing financing and advisory to circular economy projects in the real sector, (ii) working with financial institutions to unlock financing locally and reach actors along the value chain, and (iii) increasing knowledge.
- 3.28 To better track and report on the impact of IDB Invest’s own operations, Management created a tool for greenhouse gas emission accounting. This tool makes data accessible to more people in the institution from Development Effectiveness to Credit Risk to Portfolio Management to account and report greenhouse gas emissions. Since its release in Q1 2022 a total of 94 evaluations have been processed.
- 3.29 **Inclusive Economy.** IDB Invest has been building internal capacity and supporting the delivery of the Diversity, Equity and Inclusion strategy. Additionally, IDB, IDB Invest and IDB Lab worked in the design and creation of the first joint Gender and Diversity Action Plan (CII/GN-498).

²⁷ Conference of the Parties, Adoption of the Paris Agreement, Dec. 12, 2015. U.N. Doc. FCCC/CP/2015/L.9/Rev/1 (Dec. 12, 2015).

- 3.30 A priority with clients has been to foster the financial inclusion of underserved and vulnerable populations such as the silver economy, migrants, and youth. Moreover, recognizing their role in the economy, IDB Invest continues to foster the financial inclusion and sustainability of MSMEs.
- 3.31 **Integrating Sustainability.** IDB Invest has been working on supporting clients in the readiness and issuance of sustainability linked bonds, thematic bonds and sustainability linked supply chain finance. It has also been supporting clients in developing sustainability strategies and managing sustainable and inclusive value chains through knowledge products and one to one advisory services.
- 3.32 Other strategic priorities include digitalization, which benefits from an integrated value proposition including financing (own capital or blended finance), mobilization, and advisory services and leverages synergies with IDB and IDB Lab. Advisory services has recently been enhanced through the hiring of a head of digital transformation who is leading the advisory services contribution in this topic.
- 3.33 During 2022, IDB Invest has worked on building a common understanding on how to define private sector upstream advisory and analyzed efforts to date and a path for a systematic and focused growth. Examples of these efforts include client support for feasibility studies, pipeline and market building, and ESG compliance readiness. There are clear opportunities for improvement that can allow IDB Invest to build on its experience and increase the impact of its upstream advisory services.
- 3.34 Additionally, IDB Invest has continued its work in standardized offerings. The effort to develop new advisory solutions, particularly those keeping pace with emerging market demand, is directly linked to the progress made in standardizing mature offerings. The closer IDB Invest gets to product standardization goals, the more resources can be dedicated to creating new solutions. This is key in IDB Invest's imperative to achieve greater impact by fostering deeper relations with clients and gain greater relevance in their markets.
- 3.35 In terms of fundraising, IDB Invest, together with the IDB Office of Outreach and Partnerships, has charted a fundraising roadmap to rationalize access from donor resources to support technical cooperation, blended finance, and co-financing. Management expects to raise around US\$77 million in 2022, out of which US\$7 million is for technical cooperation and US\$70 million is for blended finance.
- 3.36 IDB Invest has continued to enhance how it manages non-financial risk. The Environmental and Social Risk Unit (SER) was created in 2022 to manage environmental and social risks at the corporate level, strengthen compliance, deepen impact, and facilitate learning. SER provides additional technical expertise to high-risk projects, develops detailed portfolio analysis, manages the MGM (Management Grievance Mechanism), and delivers lessons learned from Independent Consultation and Investigation Mechanism (MICI) cases.
- 3.37 The implementation of the MGM tool continued in 2022. The tool allows stakeholders of to submit project-related concerns including local communities' issues, environmental, social, or governance issues and any consultation following the Grievances Mechanism Policy of the IDB Invest. While very new, early experience shows the MGM can be effective in facilitating complaint resolution and has potential to improve relationships with civil society by opening new lines of communication.

- 3.38 **Management of Integrity and Reputational Risks.** Integrity and reputational risks remain a significant challenge. For example, ongoing corruption scandals have increased integrity risks for infrastructure transactions. Similarly, “de-risking” has had an adverse impact on financial inclusion and presents challenges in managing Anti-Money Laundering/Combating the Financing of Terrorism risks, particularly in S&I countries. The development of adequate mechanisms to re-engage with entities that have had integrity issues and are seeking rehabilitation by strengthening their integrity and compliance frameworks will continue have an important role in IDB Invest’s ability to enhance its presence in the region. IDB Invest continues to promote compliance and corporate governance practices among its counterparts in collaboration with the Office of Institutional Integrity. For instance, as an element of non-financial additionality and risk mitigation, counterparts to IDB Invest-financed projects have been required to implement improvements to their corporate governance and compliance programs.

Mobilization

- 3.39 In 2022 IDB Invest continued to increase the amount it mobilizes relative to its own commitments. Management set a core mobilization target of US\$2.1 billion. As of September 30, IDB Invest already exceeded its target for the year, reaching US\$2.3 billion, of which US\$617 million is short-term. In recent years IDB Invest continues to diversify the instruments it uses to mobilize—including insurance-like products—with the goal of creating assets that match the appetite of a wider range of co-investors.
- 3.40 To optimize its use of capital and create more space for new operations in 2022, Management increased efforts to offload portions of mobilizable assets.
- 3.41 As more countries move toward local currency financing, the ecosystem needs to be developed to promote greater use of local capital markets. IDB Invest is currently in the process of hiring someone to work exclusively in developing this ecosystem and to work alongside the IDB on regulatory changes.
- 3.42 IDB Invest has also been working on innovative structures for its projects to allow clients to access local currency. For example, in June, the Board approved an unsecured corporate loan to Companhia de Saneamento Básico do Estado de São Paulo (Sabesp), complementing the IDB sovereign guarantee loan for the 4th stage of the Tietê River Depollution Project (12676-02). As part of IDB Invest mobilization strategy, IDB Invest will fund the second loan on behalf of Proparco who will provide an unfunded risk facility covering principal, interest, commitment fees and indemnities, thereby mobilizing additional local currency credit appetite for Sabesp.
- 3.43 In addition, IDB Invest mobilized resources for the PPP Project Ferrocarril Central in Uruguay by securing a US\$250 million B Bond. As such, IDB Invest is providing resources at terms and conditions that are currently not available in the local commercial market and are tailored to the financing needs of the borrower.
- 3.44 Product development has continued to be a priority in 2022. The mobilization team continued its focus on developing new products and optimizing processes. This group is responsible for the innovative structuring for Sabesp and for developing a new version of the B-Bond which would be issued under SEC Rule 144A.
- 3.45 From an internal perspective, the mobilization team has made headway in developing a framework with guidelines to scale up mobilization of debt security instruments. For 2023, IDB Invest is focusing on the necessary backbone and process improvements needed to

scale up mobilization. These efforts will focus on automating manual processes and building a pricing model mechanism, covering product governance around B-loans, funds, parallel loans, co-loans, and unfunded participations.

- 3.46 To support the implementation of IDB Invest’s strategy of developing local markets and catalyzing private sector investment, IDB Invest has engaged in a cross-department project related to the participation of IDB Invest in local public issuances, completing a regulatory framework analysis of local debt capital markets, which so far has covered 22 countries.

Human Resources

- 3.47 Workforce management continues to be a priority for Management. Workload continues to be high across the organization and recruiting continues to be a challenge during telework. As the organization has transitioned to Module 4 of the Return to Office Framework, the workforce will face the new challenges of a hybrid model.
- 3.48 In August, the Board approved the IDB Group’s People Strategy 2022-2027 (CII/GN-345-5). The goal of the strategy is to “Attract, engage, and cultivate the best talent in a fiercely competitive and constantly changing environment”. The human-centered approach in the new IDB Group People Strategy goes beyond the traditional conception of Talent Management and proposes a heightened focus on culture management. It specifies how the institution can become more diverse, embrace new ways of working, and reduce geographical barriers and the divide between national and international employees.
- 3.49 Management is reviewing its Compensation and Rewards Strategy. Management has been conducting interviews internally and with members of the Board of Directors and performing market analysis. Three technical briefings were delivered to the Board of Directors on the topics of staff employment contract modalities and cost, workforce composition and employee life cycle, and segmentation.
- 3.50 IDB Invest’s Management recognizes employee’s engagement as a leading contributor to the organization’s success. Considering the IDB Group’s transition in its engagement measurement tools from Gallup to Peakon, IDB Invest Management launched one last Gallup Pulse Survey in June. The participation rate was 73%, and engagement measured at 44%—as a reference it was 43% in Q4 2021. In July, IDB Group conducted for the first time the Peakon survey. IDB Invest’s participation was 87%, with a 7.7 average engagement score or 31% Net Promoter Score.²⁸
- 3.51 To inform Management’s engagement efforts, the Peakon survey identifies specific engagement drivers. For IDB Invest, the drivers with the lowest scores were (from lowest to highest): rewards, workload, and growth. To enhance engagement, Management is developing plans at the department, division, and unit level to address the drivers with the highest impact and lowest scores and—as noted above—adjusting the Compensation and Rewards Strategy to enhance competitiveness. Management is also planning IDB Invest’s first Knowledge Week since 2019, which will be an opportunity to build engagement and reinforce IDB Invest’s organizational culture. As Management continues its dialog with the Board on the New Vision and Business Model, it also faces the challenge of strengthening workforce engagement in the face of potential changes to the business model.

²⁸ The Average score is an average of the answers to the 3 questions that measure engagement. The NPS score is calculated by taking the percentage of ‘promoters’ (all answers with 9 or 10) minus the percentage of ‘detractors’ (all answers with 1, 2, 3, 4, 5 and 6).

Management is actively working on change management linked to this process—including internal communications and focus groups—which will evolve as the process continues.

B. Knowledge

- 3.52 The 2020-2022 Business Plan set an ambitious agenda for developing IDB Invest's capacity to generate and manage knowledge. In the current context of heightened global uncertainty and economic change, the capacity to couple financial products with knowledge is an ever-greater comparative advantage for IDB Invest.
- 3.53 In 2022, Management continued strengthening the knowledge function and creating the roadmap for the future of knowledge in the organization to position IDB Invest as a thought leader and contribute to capacity building and the creation of new business opportunities across different sectors and markets. As part of these efforts, Management developed a shared understanding of the current strengths, weaknesses, and pain points of knowledge at IDB Invest, how it compares to other organizations, and opportunities for the improvement of knowledge management practices and behaviors. The Knowledge Roadmap will lay out the current and target state and define a roadmap on how to bridge that gap.
- 3.54 Management conducted stakeholder workshops to define a target state based on a shared definition of knowledge for IDB Invest. The vision that emerged is knowledge as a tool for multiplying the organization's impact by enriching its value proposition for clients, influencing the market through example and through publications, and mobilizing resources beyond its own based on the learnings from its work as a practitioner.
- 3.55 Based on the assessment of the current and target states, Management defined three pillars for a Knowledge Roadmap: enhance internal learning, sharpen external influence, and strengthen knowledge management infrastructure and collaboration.
- 3.56 During 2022, the organization continued to be successful in producing a range of high-quality knowledge products. It has also significantly improved knowledge management by strengthening knowledge systems, processes, and governance. Synergies with the rest of the IDB Group have been critical in this process.
- 3.57 In line with its goal of influencing externally, Management has made significant efforts in 2022 to design and implement institution-wide publication procedures. With the support of the IDB Knowledge, Innovation and Communication Sector, IDB Invest is also working on a methodology to create a knowledge agenda. These efforts will contribute to steering the production of impactful knowledge products, strengthening knowledge-related synergies with IDB, and ensure consistency in branding and image for external audiences.
- 3.58 In 2022, IDB Invest organized a new edition of its flagship event, Sustainability Week, the first one after the pandemic. Sustainability week has contributed significantly to IDB Invest's goal of external influence and positioning as a knowledge broker. In 2022, the event was held in a hybrid format, with more than 500 attending in person in Miami and 8,752 virtual registered participants with more than three thousand companies from 41 countries represented. This edition of the Sustainability Week convened experts and leaders to share knowledge and discuss how the private sector can play a leading role in ensuring sustainable economic growth in LAC. The main topics covered were climate action, sustainable value chains, digital transformation, the need for a just ecological transition and financial innovation, and the specific challenges faced by S&I countries.

- 3.59 Regarding internal learning, Management continued with the delivery of targeted training (e.g., data privacy, business conflicts of interest and integrity) and strengthening systems to make knowledge more interactive and accessible for staff, including improvements to the Knowledge Engine (a modular platform for accessing knowledge). As part of its efforts to learn from its operational work, IDB Invest continued working on methodologies to improve the dissemination of lessons learned. One such effort is an overhaul of how lessons learned related to development impact are stored and shared that will make lessons captured by the development analytics platform more accessible throughout the organization. First, machine learning algorithms were used to classify lessons learned by group or category in order to facilitate their search. Second, the lessons learned repository was improved and expanded to include a powerful search engine. Finally, a cross-departmental team launched a virtual assistant to more effectively share results. The virtual assistant automatically pulls lessons learned from several repositories and makes them available in Maestro. Today, more than 1,000 lessons learned from operations are being shared through the Virtual Assistant.
- 3.60 Capturing lessons learned also continued to expand with the pilot of a lessons learned system for origination in S&I countries. The pilot was launched in 2022 with the first event on lessons learned in Haiti.
- 3.61 IDB Invest collaborated with the IDB Knowledge, Innovation and Communication Sector's IDB Academy on a training program for country representatives about the private sector to increase their knowledge about IDB Invest and foster a group-wide approach to private sector-led recovery.
- 3.62 As part of its efforts to foster coordination and knowledge sharing to strengthen the thought leadership function, IDB Invest is piloting communities of practice among different teams that work on transversal agendas.

C. Synergies

- 3.63 Development solutions require a virtuous circle between the public and private sectors. The complementary capabilities and synergies among its public, private, and innovation laboratory functions allow the IDB Group to provide holistic solutions and are part of its distinctive value proposition. In 2022, IDB Invest continued to strengthen synergies with IDB and IDB Lab. One of the core conclusions of the Baranquilla analytical work was that fostering effective private sector development will require public-private solutions, which a well-functioning IDB Group is in a unique position to provide. Over the course of 2022 the Group has sought to strengthen those synergies, both in its ongoing operations and in the development of IDB Invest's New Vision and Business Model.
- 3.64 At the operational level, collaboration has been strong in key areas such as financial inclusion, tech-enabled business models, housing, infrastructure development, support to the thematic bonds market, among others. This coordination has helped i) deliver a stronger value proposition to IDB Invest's clients, ii) create the right environment for private investment and market development and iii) improve project analysis and better understand projects' challenges and risks.. The IDB Group PPP Single Window, through which the PPP Team coordinate biweekly meetings with the relevant business units across all three IDB Group institutions to provide coordinated PPP support, generate applied knowledge, and disseminate best practices. Another example is business units across the IDB Group working on financial markets and financial inclusion have standing

meetings and coordinate closely on financing and knowledge products, as well as the IDB Group financial inclusion hub: FINLAC.²⁹ Collaboration has been critical in innovative operations such as Banistmo (12174-03), a risk mitigation guarantee in Panama to support the country's tourism sector, which leverage expertise from IDB as part of the project team; and the FINCA Haiti Financial Inclusion Partnership (12001-02), a client which previously worked with IDB, and will now benefit from an IDB Invest loan to support its MSME portfolio.

- 3.65 In terms of knowledge, 2022 has been a productive year for the IDB Group. Several Group-level knowledge and learning efforts began or resumed after a pandemic-related hiatus: the annual IDB Invest and IDB Lab meetings with the country representatives resumed and included new training related to the private sector. A separate pilot effort to train Vice Presidency for Countries staff on the private sector kicked off in Country Department Caribbean with a general training on private sector business and instruments and a separate IDB Invest/IDB Lab specific training to be delivered by the end of 2022. All three windows also provide support to the Caribbean Development Bank (CDB) as they try to expand their private sector department, including a workshop in February to transfer lessons learned from the IDB Group to CDB. IDB Invest collaborated with other members of the IDB Group on publications addressing key developing and knowledge gaps in the private sector such as financial inclusion potential of transport network companies and transport platforms,³⁰ and the financing needs of firms in the Caribbean region.³¹ IDB Invest also contributed to the preparation of seven IDB Group sector framework documents in 2022: tourism (GN-2779-12) and innovation, science, and technology (GN-2791-13), long-term financing (GN-2768-9), citizen security and justice (GN-2771-9), fiscal management (GN-2831-10), gender and diversity, (GN-2800-10), and climate change.
- 3.66 At the strategic level the three institutions have worked closely on developing a New Value proposition for the IDB Group. To inform the New Vision and Business Model, IDB Invest coordinated a series of workshops throughout the year with participation from IDB and IDB Lab senior Management as well as MICI and the Office of Institutional Integrity. Strategic cooperation also continued on IDB Group strategic documents including the Gender and Diversity Action Plan (CII/GN-498), the IDB Group's People Strategy (CII/GN-345-5), six country strategies, and two sector framework documents.³²
- 3.67 IDB Invest, IDB Lab, and the IDB have been successful in mutually strengthening their synergies continuously since the merge-out of the private sector in 2016. This has been accomplished through top-down changes in institutional and strategic structure—such as the adoption of a single country representative, the creation of the hub coordinator positions, and the joint IDB Group Update to the Institutional Strategy—and through organic bottom-up collaboration. Nevertheless, there are untapped opportunities to

²⁹ October 26, 2021. "[FINLAC: A New Initiative on Financial Inclusion to Boost Economic Recovery and Transform Lives.](#)"

³⁰ Scholl, Lynn, Alana Fook, and Juan David Barahona. 2022. *Transport for Inclusive Development: Defining a Path for Latin America and the Caribbean*. Inter-American Development Bank: Washington, DC.

³¹ Henry Mooney, David Rosenblatt, Khamal Clayton, Monique Graham, Natasha Richardson, Maria Cecilia Acevedo, and Stefano Pereira. 2022. *Caribbean Economics Quarterly, July 2022: Regional Overview: Finance for Firms—Options for Improving Access and Inclusion*. Inter-American Development Bank: Washington, DC.

³² As of September 1, the Country Strategies approved in 2022 are Dominican Republic (CII/GN-481), Guatemala (CII/GN-482), Belize (CII/GN-483), Bolivia (CII/GN-486), Ecuador (CII/GN-491-1), and Peru (CII/GN-495-2).

deepen synergies that will enhance the IDB Group's capacity to generate impact in LAC. Management looks forward to the opportunity to engage in an IDB Group-wide dialog in 2023 to find mechanisms to realize these opportunities. From the IDB Invest side, Management has identified key potential areas for enhancing collaboration: enhancing strategic convergence through common strategies that take a deep consideration of private sector opportunities and identify public private solutions at the country and sector levels, further aligning operation work through formal arrangements for collaboration and prioritization to ensure the continuum of solutions within the IDB Group tackle development challenges in a deliberate and coordinated way, and forming common knowledge agenda to promote actionable knowledge across sectors and countries for a private sector-led recovery.

Box 2. Implementation Report: Update to the S&I Action Plan

Upstream Work Through Advisory Services: Management has been developing a plan to increase the focus of advisory services in S&I on upstream engagements, with investment in specific sectors with a medium to long-term perspective. S&I countries continue to be an overall focus for advisory services, with 20% of advisory engagements completed and in execution in S&I countries in 2022.

Processes and Portfolio: As it strives to develop and implement a healthy private sector portfolio in the region, Management is working to balance overall portfolio credit risk and ensure credit capacity for projects in S&I countries. To expedite the processing of S&I transactions during 2021, Management approved a series of pilot measures including (i) additional internal delegation to the S&I Head, and (ii) an expected escalation process for S&I transactions to avoid delays. Following the success of those measures in 2021, Management extended the measures through the end of 2022. Management has also allocated budget to offset legal costs on S&I transactions.

Knowledge and Communications: The S&I lessons-learned system was piloted in 2021 and is expanding in 2022. Business travel resumed in 2022 with over 21 missions—with representation from Management including the CEO, the CIO, division chiefs, and unit heads—to S&I countries to conduct due diligence, attend conferences, and engage in business development. There have been over 200 meetings with actual and potential clients. In 2022 IDB Invest also conducted knowledge management exercise focused on legal matters to identify, educate, and develop solutions in relation to common issues with doing business in S&I jurisdictions.

Strengthen the S&I Team: Management has extended the term of the existing staff member as the acting S&I Head, the assignment of an S&I Risk Member for credit decisions, and the S&I Huddle. The total number of staff in S&I countries stands at 19.

Synergies: Management has been working closely with IDB and IDB Lab to strengthen the knowledge agenda for S&I countries. During 2022, IDB Invest published, “Finance for Firms: Options for Improving Access and Inclusion,” documenting how conditions deteriorated considerably during the Covid-19 crisis for firms across the board in Caribbean economies, and showing that the most vulnerable were most severely affected. The report also points to policy and market related interventions with the potential to improve outcomes, and examples of successful IDB Invest interventions from around the Latin American and Caribbean region that have helped to catalyze investment and support faster and more inclusive development.

IV. Key Performance Indicators (KPIs)

A. Progress on Corporate Targets³³

- 4.1 As of September 30, total activity has reached US\$5.2 billion,³⁴ including US\$ 1.1 billion long-term own account commitments, US\$2.75 in short-term own-account commitments, and US\$2.3 billion in core mobilization. The average outstanding for the short-term finance

³³ Unless otherwise noted, all figures for this section are as of September 30, 2022.

³⁴ Total activity is the sum of own account commitments and core mobilization, net of unfunded mobilization.

portfolio is US\$1.8 billion. Year to date totals put the organization on track to meet its year in targets for long-term and short-term.

- 4.2 The median Development Effectiveness Learning, Tracking and Assessment (DELTA) for long-term commitments is 8.3 and Management expects to close the year comfortably above the 8.0 target. The percentage for gender or diversity stands at 35%; management expects to close the year between 30% and 35%. The percent supporting MSMEs stands at 38%, with Management expecting it to reach between 27% and 32% at year end.³⁵
- 4.3 Percent Climate Finance stands at 21% (43% when considering the harmonized measure of long-term commitments only). This indicator is again affected in 2022 by the relatively high volume of short-term finance in the Plan of Operations as IDB Invest continues to wind down its counter-cyclical response to the Covid-19 crisis,³⁶ and by the focus on maximizing mobilization (which is not reflected in the target) over own-account financing. High demand for climate assets from co-investors has left Management with the choice of focusing on reaching its climate target or maximizing the financing to the region even if this results in a lower target following current metrics. Faced with this dilemma, Management opted to favor more mobilization for climate finance—even knowing this would affect year-end targets—thus prioritizing impact over internal KPIs.
- 4.4 Management continues to emphasize innovative approaches such as Simpar (13553-01), which promotes decarbonization in Brazil’s transport sector and has a large own account to mobilization ratio, positioning IDB Invest as a market leader in climate finance in LAC. At the organizational level, IDB Invest is preparing to implement its framework for Paris Alignment of new operations for 2023 and has commissioned a blue-ribbon panel to reimagine its approach to supporting the mitigation of and adaptation to climate change.
- 4.5 The portfolio in C&D countries remains at 42%,³⁷ consistent with the target of reaching 40% of portfolio in C&D countries by 2025. The S&I share of long-term commitments is 3% and the share of short-term commitments is 12%. Based on a strong pipeline for the second semester, Management expects the share of long-term commitments in S&I countries to improve substantially in the second semester, reaching between 8% and 10% for long-term commitments and 10% and 15% for short-term commitments.
- 4.6 The tracking indicator for Digitalization stands at 17%, while the tracking indicator for strengthening regional value chains is 29%. Trade Finance Facilitation Program (TFFP) transactions—which finance international exports or imports—and supply chain financing transactions (principally reverse factoring)—which finance the relationships of exporters with their local MSMEs suppliers—account for a large share of these transactions. To date, 37% long-term commitment volume (35% of the number of long-term commitments) directly benefited poor and vulnerable populations. Pursuant to its commitment in the Poverty and Vulnerability Roadmap (CII/GN-442-2), Management submitted an implementation update to the Board.

³⁵ IDB Invest’s MSME Action Plan (CII/GN-364-1) was approved in 2018. Management will work with the Board to review this Action Plan as proposed in the New Vision and Business Model (CII/GN-504).

³⁶ Short-term finance typically does not contribute towards climate finance and is not counted by other MDBs as part of the target.

³⁷ As of August 30.

B. Proposed Plan of Operations

4.7 As reported in the 2022 Business Plan Update, IDB Invest will enter 2023 as a capital-efficient institution. Having been operating with an excess of capital since the merge-out, capital levels are now the primary constraint on lending levels. The proposed 2023 Plan of Operations is aligned with the long-term sustainable lending level.

4.8 Projected total activity for 2023 is US\$6.7 billion.³⁸ The total commitment target for 2023 is US\$4.2 billion, including US\$2.2 billion in long-term³⁹ and US\$2 billion in short-term investments, a total of US\$ 600 million below the 2022 target.⁴⁰ The target for core mobilization is US\$2.5 billion, an increase from the 2022 target despite an anticipated decrease in IDB Invest’s own account commitments. Management will maintain its median DELTA target of 8.0 for long-term commitments.

Figure 1. Indicative Operational Activity for 2023

	US\$ millions
Financial Institutions	670
Corporates	670
Infrastructure and Energy	860
<i>Subtotal Long-Term Commitments</i>	<i>2,200</i>
Short-Term Commitments	2,000
<i>Total Commitments</i>	<i>4,200</i>
Core Mobilization	2,500

4.9 The segment mix in Figure 1 is consistent with 2022 targets.⁴¹ Consistent with its long-standing practice, Management will deploy anti-bunching measures aiming at a smooth delivery of the program of operations throughout the year.

4.10 Management renews its commitment to Governor-level objectives: reaching 40% of DRAs in C&D countries by 2025; a floor of 10% of commitments—applied separately to long-term and short-term—in S&I countries; 30% of total commitments supporting MSMEs; and 30% of total commitments supporting Climate Finance, also considered a floor.⁴² For projects supporting gender equity or diversity, Management will make its best effort to quickly ramp up to the 40% target established in the IDB Group Gender and Diversity Action Plan 2022-2025 (CII/GN-498-1).

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

4.11

³⁸ Total activity may be lower depending on the volume of unfunded mobilization.

³⁹ Including US\$ 50 million in equity investments.

⁴⁰ Short-term financing accounts for an important portion of IDB Invests' projects supporting MSMEs. Since 2018, financing supporting MSMEs accounts for 33% of TFFP commitments and 45% supply chain finance commitments—a product that was added as part of the MSME Action Plan (CII/GN-364-1).

⁴¹ IDB Invest works with clients in the strategic sectors of Agribusiness, Manufacturing, Telecommunications, and Tourism (grouped into the Corporates segment); Energy, Social Infrastructure, Transport, and Water and Sanitation (grouped into the Infrastructure and Energy segment); and Financial Institutions and Investment Funds (grouped into the Financial Institutions segment).

⁴² Management will continue reporting the percentage of Climate Finance for long-term commitments, a metric aligned with the reporting methodologies of the other MDBs.