



SUMMARY: Update to the Institutional Strategy 2016-2019

Partnering with Latin America and the Caribbean to Improve Lives

OVERVIEW

The alignment of the Bank's work with its mission guided the development of the Institutional Strategy. The purpose of the Bank, as originally stated in the Agreement of its establishment in 1959, is to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively. With the approval of the Ninth General Capital Increase of the Resources of the Inter-American Development Bank (IDB-9) in 2010, the Board of Governors (the Governors) endorsed the Institutional Strategy (IS) that would serve as the Bank's "core strategic guidance" to fulfill its mission in the following years. This IS established two overarching objectives for the Bank: sustainable growth and the reduction of poverty and inequality. It also established a Corporate Results Framework (CRF) to measure development results.

The Governors also stipulated in 2010 that the Bank's IS and CRF would be reviewed every four years and updated in the context of emerging challenges in the Region. The update would serve to hone the strategic

direction of the IDB Group (IDBG) ¹ for 2016-2019, while remaining true to its commitment within IDB-9 to continue to enhance the effectiveness and efficiency with which it serves the development needs of the Region. In this sense, the two overarching objectives of sustainable growth and the reduction of poverty and inequality remain valid.

The Update to the Institutional Strategy (UIS) provides strategic direction to the IDBG and complements the efforts for continuous improvement set by the "Agenda for Better Bank (ABB)". As established by the IDBG's Governors, "The UIS refers to the public and private sectors in an integrated manner, with the intention of having a single strategy that takes advantage of synergies and provides the right incentives, and that will reflect the IDB Group once NewCo is established"^{2 3}.

The UIS approved by the Governors in March 2015, addresses emerging challenges in the Region and, thus, establishes what the IDBG should focus on over the next four years. The Latin America and Caribbean

¹ IDB Group (IDBG) refers to the IDB, the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).

² Document AB-3008, paragraph 4.26

³ NewCo is the name used throughout this document to refer to the entity that would consolidate the IDBG's non-sovereign guaranteed (NSG) operations. NewCo will operate under the existing IIC Charter and its legal name will be the IIC, but the use of NewCo in this document aims to avoid confusion with the IIC as it exists today.

region (LAC) has made significant progress in the last decade; however, the Region must still overcome several challenges to successfully reduce the major barriers to development. To ensure that development gains are preserved and LAC continues to converge toward becoming a prosperous and inclusive region, the UIS identifies three main development challenges:

- Social exclusion and inequality
- Low productivity and innovation
- Lack of regional economic integration

The UIS also identifies three cross-cutting issues that need to be considered when addressing each of the three development challenges:

- Gender equality and diversity
- Climate change and environmental sustainability
- Institutional capacity and the rule of law

Addressing these challenges will make the Region more productive, participatory, and dynamic through gains in economic growth, human development, productivity, and per capita income.

The UIS also provides guidance on how best to support countries in overcoming these challenges by leveraging and strengthening the IDBG's comparative advantages: client focus, development effectiveness, and catalytic role. To best leverage the IDBG's comparative advantages, the UIS defines six operational guiding principles:

- Responsiveness
- Multi-sectorality
- Effectiveness and efficiency
- Leverage and partnerships
- Innovation and knowledge
- Strategic alignment

The adoption of these principles will guide decision making, planning and execution at all levels of operations at the IDBG by being mainstreamed into corresponding policies, instruments and frameworks.

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VISION

The vision of the IDBG as expressed in the Update to the Institutional Strategy is to increase productivity and reduce inequality in a sustainable way so that Latin American and Caribbean nations become more inclusive and prosperous societies.

This vision will be pursued by working in partnership with the Region—with member country governments, subnational governments, development counterparts, other multilateral development banks, public agencies, and private sector partners. IDBG will also engage with other donors and civil society to advance this vision.

The IDBG will place the full strength of its reputation as an honest broker and its ability to convene relevant actors, generate and disseminate knowledge, and mobilize financial resources in support of fulfilling the vision of a more productive and more equal Region.

Successful implementation of the Update to the Institutional Strategy (UIS) will depend on proper alignment within the organization. Specific IDBG policies, country strategies, frameworks, and programs on the ground will follow the guidance of the UIS.

The work of IDBG personnel, departments, divisions, financial and non-financial instruments, policies, and products will reflect the principles of the UIS. Similarly, the IDBG's human, capital, and physical resources, and its capacities as an organization will be synced with the Strategy. The Update to the Institutional Strategy will become part of the IDBG's corporate culture, and all personnel should take ownership of the Strategy, be able to explain its principles, and ensure that its goals are met.

“The Update to the Institutional Strategy reflects our member countries’ priorities, hopes and concerns. By putting it in practice, the IDB Group will continue to be a vital partner that helps a constantly changing region grow, adapt, prosper and improve lives.”



HOW THE UIS WAS DEVELOPED

The 2016-2019 Update to the Institutional Strategy is the product of an ambitious participatory process. A wide range of clients, stakeholders, technical experts, academics, and observers throughout the Region provided advice and opinions to develop the UIS.

The IDBG commissioned studies, conducted surveys, organized an advisory council, and set up focus groups to tap the minds of nearly 300 officials, partners, and opinion-makers. Dialogue was promoted within the organization by sharing findings and gathering the opinions of IDBG personnel.

These consultations sought replies to two fundamental questions:

- What challenges are we facing?
- What role should the IDBG play to help address these challenges?

The participants in the IDBG's year-long consultation process—including public sector officials, partners, beneficiaries, clients, academics, journalists, civil society organizations, and IDBG employees—came up with over 500 comments to define the challenges the IDBG should focus on to improve the prospects and performance of the Region.

This process generated the key elements of the Update to the Institutional Strategy: the three development challenges and the three cross-cutting issues that permeate those challenges, as well as guidance on how to strengthen the IDBG's role in meeting the needs of the Region.



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- What challenges are we facing?
- What role should the IDBG play to help address these challenges?



Nearly 300 partners, public sector officials, beneficiaries, clients, academics, journalists, civil society organizations, and IDB employees weighed in.



They answered through studies, surveys like the External Feedback System, an expert advisory council, focus groups and internal dialogue.



Over 500 ideas were generated which revealed the **three development challenges**, the **three cross-cutting issues**, and guidance on how to strengthen the IDBG's role in meeting the needs of the Region.



An ambitious participatory process gave origin to the **Update to the Institutional Strategy 2016-2019**.

12
months

THE DEVELOPMENT CHALLENGES 2016-2019

While many of the countries in the Region are on their way to becoming high-middle-income economies, they still must overcome several risks and challenges to reduce the major barriers to development.

Latin America and the Caribbean remains the most unequal region in the world. Deep income inequality is present both among the region's countries and within each nation. Some development indicators—especially those regarding extreme poverty, health, the environment, and diversity—still lag behind those of other emerging regions and reveal structural weaknesses in the economies. Extreme poverty persists, and infant and maternal mortality rates are higher than in other emerging regions. Growth rates and productivity in Latin America and the Caribbean are lower than those of other emerging regions.

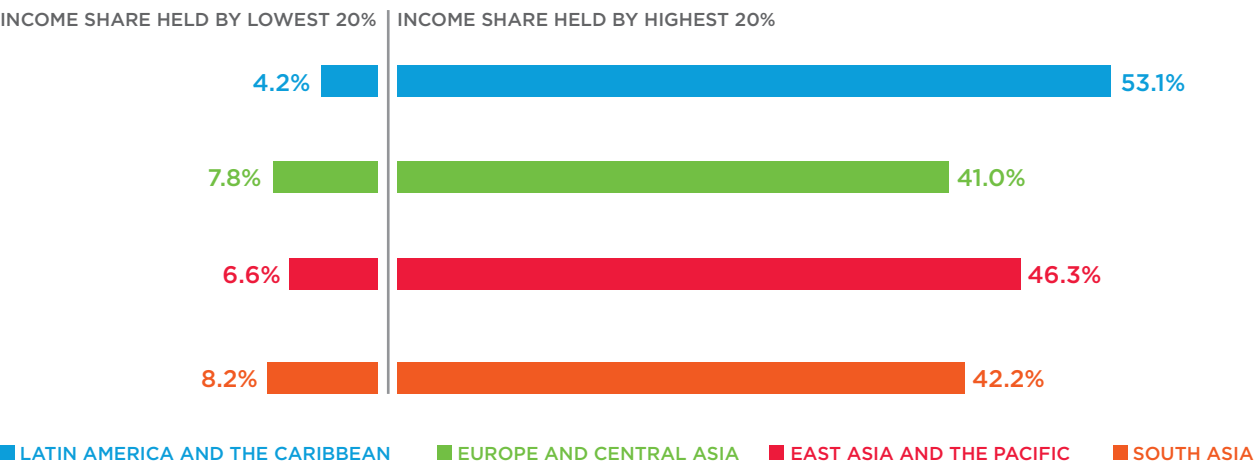
Over the last twenty years, a growing middle class has been emerging in many countries and is becoming consolidated in others. During this period, the number

of the people living in poverty has been cut in half. Their incomes, however, place the new middle class in Latin America and the Caribbean closer to the poor than to the rich. It is a fragile middle class, and its families are vulnerable because they have unstable incomes and jobs. Many thousands of new members of the middle class could slip back into poverty if they were to be afflicted by serious illness, become disabled, lose the head of household, or become victims of a natural disaster.

Addressing these challenges becomes even more critical in the less favorable economic forecasts with which the period starts. Estimates suggest that in 2016 the Region's GDP will grow 1.7%, which is less than half the growth rate registered in the previous half decade. In this context, Latin American and Caribbean nations will need to build and strengthen their resilience to maintain growth—not only to safeguard the progress they have made, but also to continue to build on it.

Social Exclusion and Inequality

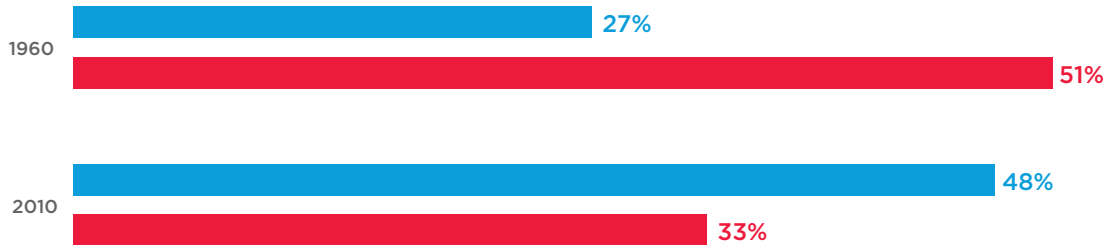
Income share percentages for the highest and lowest 20% of the population, 2015



Source: World Bank (2015) World Bank Poverty and Equity Databank.

Low Productivity and Innovation

Productivity gap in relation to the United States (as percentage of the U.S. Total Factor Productivity)



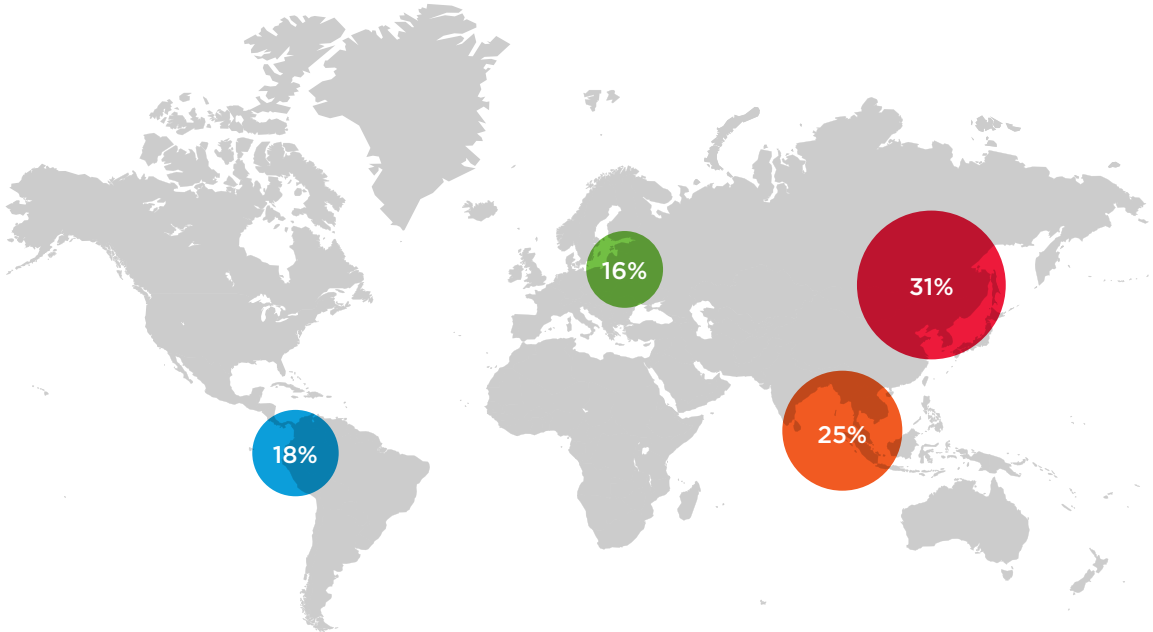
■ MEDIAN LATIN AMERICAN COUNTRY

■ MEDIAN ASIAN TIGER COUNTRY

Source: Inter-American Development Bank (2014). *Development in the Americas*. Washington, DC.

Limited Economic Integration

Intraregional trade of merchandise (% by destination), 2014



■ LATIN AMERICA AND THE CARIBBEAN

■ EUROPE (EMERGING ECONOMIES)

■ EAST ASIA

■ SOUTHEAST ASIA

Source: UNCTAD (2015). *UnctadStat*.

THE DEVELOPMENT CHALLENGES: CAUSE

The three development challenges are tightly bound together. Each can be thought of as a cause and consequence of the other. Inequality and exclusion hinder productivity; low productivity inhibits integration; and lack of integration aggravates inequality. In periods of macroeconomic turbulence, the three become even more tightly bound.

Tackling these challenges, therefore, requires a multi-disciplinary approach. To ensure that development gains are preserved and that Latin American and Caribbean nations continue to converge toward middle class societies, it is clear the Region must reduce inequality and poverty, increase productivity and innovation, and improve economic integration.



Social Exclusion and Inequality

Eighty million people in the Region continue to live in extreme poverty, which is disproportionately concentrated among women, children and particular groups, such as indigenous peoples, Afro-descendants, residents of rural areas and urban slums. These groups share common circumstances that either mire them in poverty, make them more vulnerable to macroeconomic shocks, or both.

Social policies cannot be considered in isolation from the challenge of sustaining high growth rates over time. Well-designed social policies can help boost productivity, enhancing potential economic growth and the general well-being of society.



Low Productivity and Innovation

The Region as a whole lags behind other emerging market economies in productivity, and this gap is wider in rural areas. Some of the causes of these low rates include a poorly trained labor force, shallow and underdeveloped financial markets, the prevalence of informal labor, inadequate infrastructure, and complex business regulations. Latin America and the Caribbean underperform in innovation, and this is explained in a large part by the low levels of public and private sector investment in research and development.



Limited Economic Integration

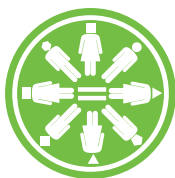
Economic integration in Latin America and the Caribbean advanced in the 1990s but has slowed since 2005. The causes of sluggish progress in integration include the failure to harmonize trade and market-based linkages with long standing complex political agreements, the Region's limited offering of export goods, and the exclusion of Latin America and the Caribbean from supra-regional trade negotiations. The logistics of trading across the Region are hampered by bureaucratic customs and border crossing procedures and deficient transport and port infrastructure. As a result, Latin American and Caribbean firms are blocked from becoming competitive globally and so firms of all sizes have difficulty developing value chains and production sharing schemes. Greater economic integration is needed to generate synergies among the countries of the Region.

THE THREE CROSS-CUTTING ISSUES

The UIS defines three cross-cutting issues: gender equality and diversity; climate change and environmental sustainability; and institutional capacity and the rule of law. It is critical that all three development challenges be examined using these three cross-cutting issues as a lens, allowing the IDBG to provide solutions that address each development challenge in ways that are both sustainable and inclusive.

As a result, IDBG programs and policies will give special attention to these elements in all areas of work, adapted to each client's context including sector strategies, action plans, and Country Strategies (CSs).

If these cross-cutting issues are addressed properly, pathways can be created to improve the lives of all people in Latin America and the Caribbean.



Gender Equality and Diversity

A substantial proportion of income inequality in Latin America and the Caribbean is determined by characteristics such as race, place of birth, the education levels of one's parents, gender, and sexual orientation. These deep inequalities call for an intense focus on fairness to ensure that those underserved or excluded—primarily women, minorities, and the disabled—are given equal opportunities for growth and social mobility.



Climate Change and Environmental Sustainability

The countries of Latin America and the Caribbean are highly vulnerable to the effects of climate change—physical damage as well as losses that are concentrated among the most vulnerable populations, the poor and indigenous. The effects of climate change create a vicious cycle; losses in biodiversity and physical and environmental damage also threaten the achievement of poverty reduction and equality objectives.



Institutional Capacity and the Rule of Law

Developing capable institutions is fundamental for delivering social benefits, creating economic opportunity, and maintaining a functioning justice system. How institutions work determines the volume, quality, timeliness, and accessibility of public services. Institutions have the ability to create a facilitating business environment that provides certainty for contracts and the settlement of disputes, enhances productivity, and stimulates economic growth. Strong and ethical institutions are also crucial for enforcing the rule of law and combatting impunity and corruption.

DELIVERING ON THE VISION: THE IDBG AS A PARTNER FOR THE REGION

Latin America and the Caribbean is a decidedly heterogeneous region, and there is no single recipe for IDBG operations that will fit all partners. The keys to successfully delivering on the vision of the Update to the Institutional Strategy are getting the right combination of finance and knowledge, backed by the IDBG's reputation as a trusted partner and the Group's ability to convene actors and mobilize resources.

To increase its ability to help clients meet their development challenges, the IDBG will tailor its work with clients to the development problems of each country and upgrade its menu of products and services. The IDBG will leverage its financial resources and mobilize public and private development finance in innovative ways and will use them to contribute to smooth flows during times of macroeconomic instability.

To facilitate and increase the IDBG's focus on more comprehensive, effective, innovative and cross-cutting solutions, the Update to the Institutional Strategy defines strategic policy objectives for each of the challenges (see Box 1). These policy objectives provide a broad, though not exhaustive, view of the way the IDBG can focus its support to address the Region's barriers to development.

More importantly, each policy objective can be achieved through different kinds and combinations of solutions, allowing for flexibility, adaptation and tailoring to the different contexts found across the Region.

BOX 1. STRATEGIC POLICY OBJECTIVES



Social inclusion and equality

- Eradicate extreme poverty
- Create a more distributive fiscal policy
- Strengthen the capacity of the state
- Include all segments of the population in financial markets
- Provide Inclusive infrastructure and infrastructure services



Productivity and innovation

- Develop quality human capital
- Establish smart institutional frameworks (healthy business climate, quality and ample services, efficient, fruitful, transparent interactions with governments)
- Provide urban planning and rural infrastructure
- Provide adequate knowledge and innovation ecosystems



Economic integration

- Improve regional infrastructure
- Insert firms into value chains
- Converge integration policies and instruments
- Leverage South-South and Triangular cooperation to produce regional public goods, exchange knowledge and best practices, harmonize regulations

HOW TO IMPROVE THE IDBG'S WORK

The IDBG brings valuable assets to its partners. IDBG's leading clients are national and subnational governments and the private sector. The IDBG's role as a partner, however, is highlighted by its nature as a financial cooperative in which borrowers and donors share corporate governance and decision-making powers.

To support its country partners, the IDBG offers a wide range of financial and nonfinancial products and services, including technical cooperation. The Group also works with regional groups, civil society, other Multilateral Development Banks (MDBs), and donors to deliver the greatest impact.

Country partners work with the IDBG because they recognize the Group's unique combination of assets and strengths: country knowledge, client ownership, reputation as a trusted partner, local presence, depth of expertise in sectors, and knowledge products.

At the same time, the IDBG is committed to tackling its weaknesses, identified by country partners, stakeholders and experts in the studies, surveys and focus groups carried out to prepare the UIS.

Their message is that the IDBG must be more innovative and flexible, less complicated in processes, and even quicker to act. Other areas for improvement include giving more decision-making capacity to field operations, stimulating multi-disciplinary approaches, coordinating between public and private sectors, and upgrading the offer of financial and nonfinancial instruments.

ENHANCING OUR COMPARATIVE ADVANTAGES

To improve service to client countries and strengthen our position as the most effective development partner in the Region, the IDBG will enhance its comparative advantages through:

Client focus: The client is the center of IDBG operations. In-depth knowledge of each country is applied to design financial tools and technical solutions that match each reality.

Development effectiveness: The IDBG enhances its effectiveness through evaluating successes and failures. Knowledge is shared and lessons learned are applied to reduce risk and improve the impact of development efforts.

Catalytic role: The IDBG is able to mobilize financial resources, knowledge, experience, and relevant parties that, acting together, enhance progress and development. Experience, local knowledge, and technical soundness allow the IDBG to select and back customized programs that provide the greatest impact.

The IDBG will enhance its comparative advantages by applying six operational guiding principles that will permeate all areas of work at the IDBG.

PRACTICING SIX OPERATIONAL GUIDING PRINCIPLES

The IDBG will also align the way it works with the UIS by putting into practice six operational guiding principles:

Responsiveness: Capitalize on the IDBG's proximity and familiarity with the Region to develop tailored solutions.

Multi-sectorality: Collaborate across sectors and disciplines to address the Region's complex development challenges.

Effectiveness and Efficiency: Enhance tools and management systems to use the IDBG's resources more efficiently to meet development objectives.

Leverage and Partnerships: Engage more with partners to design and implement development solutions.

Innovation and Knowledge: Constantly look for new or improved ways to solve development challenges by applying lessons learned from the IDBG's own work and from others.

Strategic Alignment: Ensure that the Update to the Institutional Strategy is understood and applied throughout the entire IDB Group—from how it works, to how it is organized and what resources are used.

MONITORING THE UPDATE'S IMPLEMENTATION

As part of the UIS, the IDBG is updating and streamlining its **Corporate Results Framework (CRF)**. The CRF will continue to serve as the primary tool for monitoring and measuring the IDBG's performance and the achievement of its strategic objectives.

The revised CRF 2016–2019 will track indicators on Regional Context, Country Development Results and Performance of the organization. In addition, the enhanced CRF will capture not only the results from the IDBG-supported interventions aimed at addressing the three development challenges, but also how the IDBG puts into practice the six principles that will guide its day-to-day work.

Comparative Advantages*

Operational Guiding Principles*

Client Focus

Development
Effectiveness

Catalytic
Role

Responsiveness

Multi-Sectorality

Effectiveness & Efficiency

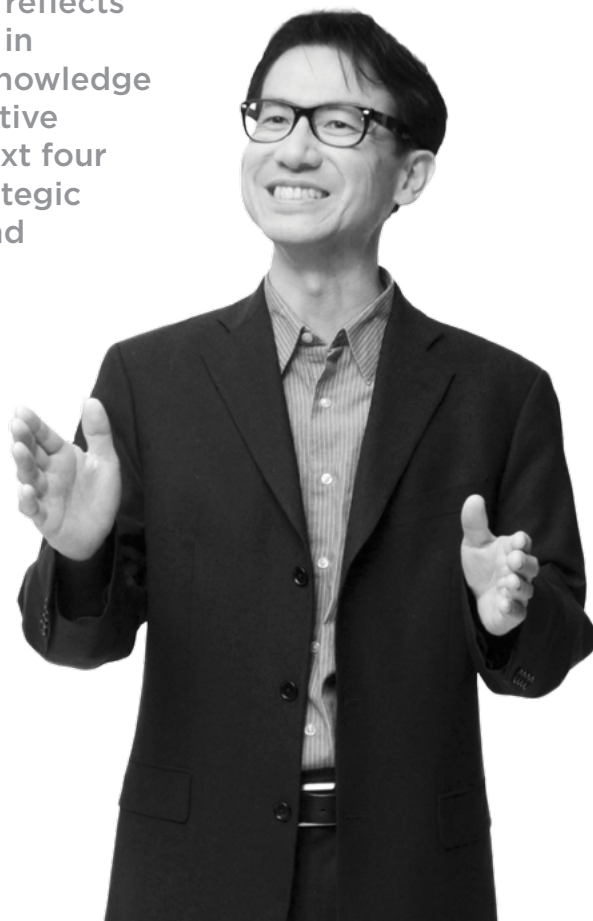
Leverage &
Partnerships

Innovation &
Knowledge

Corporate Results Framework

Strategic Alignment

“The Update to the Institutional Strategy reflects how we will be more selective and agile in leveraging resources and in delivering knowledge and technical know-how through innovative projects. It will steer our work for the next four years, as well as ongoing and future strategic discussions at the corporate, country, and operational levels.”



THE UPDATE TO THE INSTITUTIONAL STRATEGY IN ACTION

Beginning on January 1, 2016, the Update to the Institutional Strategy will set the IDBG's course for the next four years. The Update will help the IDBG respond to specific client needs in a quicker and more proactive way.

The IDBG will identify, mobilize, and leverage more internal and external resources and knowledge to resolve the Region's most pressing development challenges. Better and stronger incentives will be put in place for collaboration between the public and private sectors and across disciplines to find more innovative and comprehensive solutions to these complex problems.

Given the ongoing efforts for continuous improvement, management prioritized: 1) creating incentives to drive performance; 2) providing guidance on priorities; and 3) assessing and improving the Bank's instruments to respond better to changing client needs to identify five complementary Lines of Action. These five complementary Lines of Action constitute the Action Plan to implement the UIS and consist of:

- 1) updating the Corporate Results Framework (CRF) to monitor the UIS and better reflect the progress on the IDBG's priorities at the corporate level;
- 2) revising the Country Strategy (CS) guidelines to more carefully balance country focus with selectivity;
- 3) implementing a continuous review process of the IDB's lending instruments to ensure alignment with changing client needs;
- 4) update of the Human Capital Strategy (HCS) to implement incentives for staff to better align with the "what" and "how" of the UIS; and
- 5) modifying the Ordinary Capital (OC) Special Programs to ensure that the use of resources allocated to fund them continues to be efficient, effective and strategic, and prepares the Bank for future work.

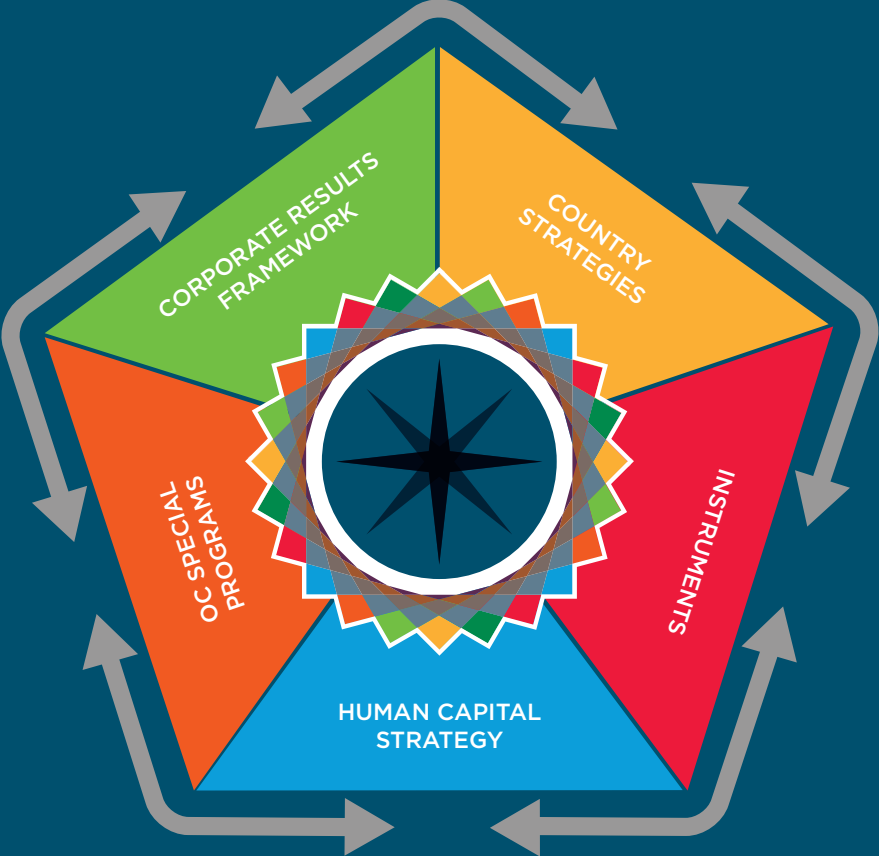
Implementation of the Lines of Action provides the necessary foundation required for the IDBG to give a more proactive, focused, flexible, and efficient response to meet client countries' different

development needs, achieve greater impact, and help them reach their specific development objectives.

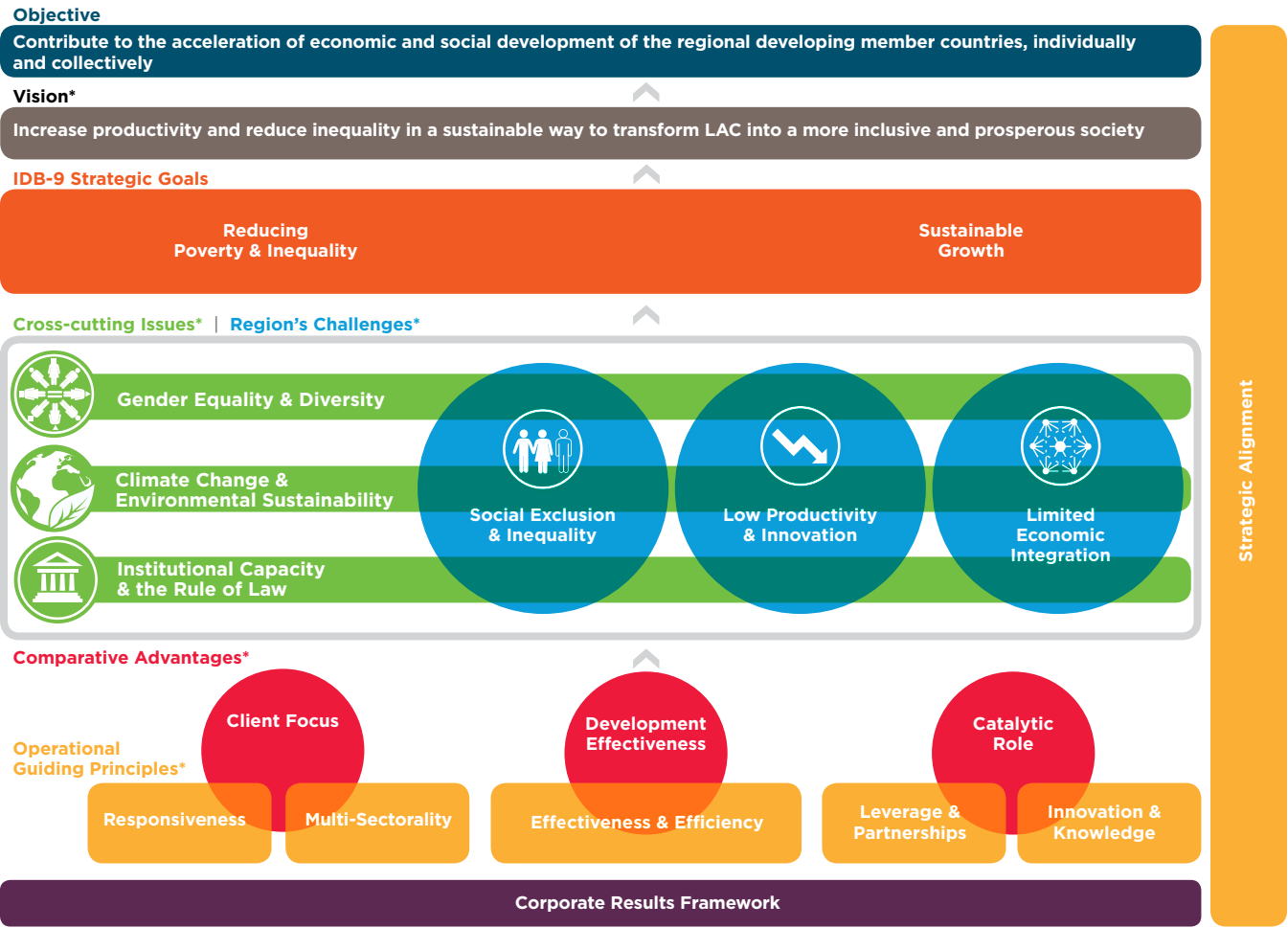
The Lines of Action have been designed with the six operational guiding principles in mind, acknowledging the need to incorporate these into corresponding policies, instruments and frameworks of the IDBG's core areas of business. Each of the five Lines of Action considers how the UIS changes not only the focus of the work, but also how it is done. The changes and improvements outlined in each Line of Action respond to the need to adopt these principles, albeit to differing extents, as relevant to the particular area of business.

Implementation of the Action Plan will be done as a joint exercise of management, and will be led by the business units that have been charged with the corresponding institutional responsibility. The Action Plan was designed to be led by four areas of management: the Vice Presidency for Countries (VPC), the Office of Strategic Planning and Development Effectiveness (SPD), the Human Resources Department (HRD), and the Office of Outreach and Partnerships (ORP), in coordination with the other areas of the IDBG, including the Office of Implementation Management for NewCo. This direct approach, embedded in the IDBG's organizational functions and existing monitoring systems, will help ensure efficient and effective alignment with the UIS by increasing the ownership, engagement and accountability of the IDBG's management and personnel for implementation of the Action Plan. The proposed Lines of Action outlined will also be reviewed by the corresponding Committees of the Board of Executive Directors for the IDB. In the case of NewCo, the review will be done by counterpart committees within its governance structure. SPD will accompany the process to guarantee consistency. Additionally, management is implementing a communications plan so that all personnel are knowledgeable about the UIS, are capable of articulating its principles, and ultimately will have a sense of ownership regarding its goals, particularly those to which they contribute.

LINES OF ACTION OF THE UPDATE TO THE INSTITUTIONAL STRATEGY 2016-2019



PUTTING ALL THE PIECES TOGETHER



* = Changes to the Institutional Strategy as a result of the Update