

IDB Group Institutional Strategy: Transforming for Scale and Impact

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Acronyms

BSO	Balance sheet optimization
CAF	Capital Adequacy Framework
CCLIP	Conditional Credit Line for Investment Projects
CDC	Country Development Challenges
CLIMA	Biodiversity and Climate-Linked Mechanism for Ambition
CRF	Corporate Results Framework
G20	Group of Twenty
GDI	Gender, diversity, and inclusion
GDP	Gross domestic product
GEMs	Global Emerging Markets Risk Database Consortium
IDB	Inter-American Development Bank
IDB-9	IDB's Ninth General Capital Increase
ICRL	Institutional Capacity and Rule of Law
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
LGBTQ+	Lesbian, gay, bisexual, transgender/transsexual + other diverse gender identities and sexual orientations
MDB	Multilateral development bank
MIF	Multilateral Investment Fund
MOPAN	Multilateral Organization Performance Assessment Network
MSME	Micro, small, and medium-sized enterprise
OCNI	Ordinary capital net income
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
SDG	Sustainable Development Goal
SOE	State-owned enterprise

Note: All dollar amounts are in U.S. dollars, unless otherwise noted.

Executive Summary

Our Mission

The IDB Group shall be the partner of choice for Latin America and the Caribbean, committed to addressing the region's vulnerabilities and unlocking its potential to foster transformative social and economic progress while actively combating climate change. We are dedicated to delivering impact and improving lives, by harnessing knowledge, scaling up financing, promoting development through the private sector, and maximizing synergies internally and with our peers in the multilateral system. Acting as a cooperative, we acknowledge our role in contributing to the provision of regional and global public goods and we embrace our mission with renewed transparency, accountability, and partnership with all development stakeholders, including civil society.

The Triple and Global Challenge

For decades, Latin America and the Caribbean has been viewed through the lens of its needs, such as its need for financing, or its need to reduce debt. But today, it's no exaggeration to say the world needs Latin America and the Caribbean as well. That is because of the region's potential to meet its own development goals while being part of the solution to some of the world's biggest shared challenges.

First, in the realm of nature and biodiversity, the region is home to the Amazon Rainforest, which absorbs a quarter of all the CO₂ absorbed by all land on earth,¹ playing a vital role in mitigating climate change for the whole world. Second, concerning food security, the region produces enough food to feed 1.3 billion people and contributes approximately 40 percent to net global food exports.² Finally, as the world moves toward clean energy, the region already derives approximately 30 percent of its energy from renewable sources, double the global average.³ For example, the region could export at least a third of the 12 million tons of green hydrogen that Europe will need annually by 2030.⁴ The region also holds two-thirds of the world's lithium and 38 percent of its copper,⁵ crucial elements to the green transition and the global production of products ranging from solar panels to electric vehicles.⁶ This is in addition to the existing talent in the region, that can serve as a source of innovation and productivity growth.

With the right reforms and investment, the region could be at the center of the effort to protect the world's biodiversity, alleviate global food insecurity, and provide the world with clean energy. Simultaneously, it can make strides in reducing poverty and inequality and bolstering sustainable growth.

The region currently faces a triple challenge. Citizens are growing increasingly impatient, demanding better public services and reductions in inequality and poverty. However, meeting those demands becomes challenging as governments grapple with limited resources. Their fiscal space is constrained by tight budgets and the imperative to maintain sustainable levels of debt. Moreover, the region has struggled to generate additional resources, following decades of modest growth, stemming

¹ Gatti et al. 2021.

² Morris et al. 2020.

³ Energy Institute 2023.

⁴ Gischler et al. 2023.

⁵ ECLAC 2023b and IEA 2021a.

⁶ IEA 2021b.

from low investment and productivity. This triple challenge is exacerbated greatly by the more frequent and devastating impacts of climate change, which all the countries in the region now evidently face.

A Bigger and Better Group

To overcome the triple challenge and help the region realize its potential, the IDB Group must maximize the scale and impact of its work. Scale and impact must complement each other to drive development. Scale is related to the magnitude of resources the IDB Group needs to support the region in accelerating progress in tackling regional and global challenges. However, scale is not enough. Increased financing, assistance, and knowledge sharing must reach millions of people in a way that tangibly improves their lives.

In essence, **the IDB Group must evolve to become bigger and better**. Simply expanding in size without being better would not be productive, while solely becoming better, without growing, risks delivering a level of results insufficient to meet today's challenges. Our approach will fulfill the expectations of the G20 for multilateral development banks to reform by becoming better, bigger, and more effective to address regional and global challenges and maximize developmental impact.⁷ In line with the MDB evolution roadmap, the new IDB Group Strategy focuses efforts on four elements to evolve: its vision, incentives, operating model, and financial capacity.

To that end, we need to concentrate on the effectiveness of what we do. What matters is the impact we bring. It is not about the financing, it is about the results, such as reductions in poverty, improvements in health and education, avoidance of CO₂ emissions, and improvements to the number of women and diverse groups in the workforce and reaching leadership positions. The IDB Group is committed to addressing the region's social, economic, and environmental vulnerabilities and unlocking its potential to foster transformative social and economic progress while actively combating climate change. To deliver the results the region needs, the IDB Group must increase its impact by strengthening its three entities: IDB, IDB Invest and IDB Lab.

The New Institutional Strategy for Scale and Impact

The IDB Group is presenting a new Institutional Strategy to maximize the scale and impact of its work. This will enable Latin America and the Caribbean to better meet its own development goals while being part of the solution to some of the world's biggest most pressing shared challenges.

The new Institutional Strategy, called ***Transforming for Scale and Impact***, provides a roadmap for guiding the IDB Group over the next seven years (2024-2030), aligning with the world's 2030 Agenda for Sustainable Development. The strategy positions the IDB Group to fulfill its final goal of improving lives by intensifying efforts to assist Latin America and the Caribbean in realizing its potential while simultaneously tackling today's most daunting development challenges.

The IDB Group will focus on five main channels to increase its scale and impact.

First, we will increase scale by maximizing lending capacity. To accomplish this, we recognize the need for more resources, which can be sourced from the IDB Group's own balance sheets, shareholder contributions, and the private sector. The IDB and IDB Invest could increase financing capacity by up to \$112 billion over a decade: \$50 billion from IDB through balance sheet optimization; and \$62 billion

⁷ See the G20 New Delhi Leaders' Declaration in September 2023 for details.

from IDB Invest through balance sheet optimization, increased capital (currently under consideration), and mobilization. The latter can be achieved thanks to a new approach at IDB Invest, that envisions a shift toward an impact-driven originate-to-share business model. This transformation is designed to elevate risk appetite and facilitate the deployment of innovative products to manage risks and deliver better results at both the project and portfolio levels. Likewise, IDB Lab is pursuing a new replenishment of funds under a new funding model designed to boost portfolio income and mobilize third-party resources at a higher rate, thereby expanding the scale of its impact. The IDB will continue to implement a series of financial transactions and policy reforms outlined in the Bank's G20 Capital Adequacy Framework Review Implementation Roadmap (document [GN-3143-7](#)).

Second, we will increase scale through financial innovation. Beyond optimizing its balance sheets, the Group will continue to develop innovative financial instruments, such as debt for nature swaps, Contingent Debt Relief Clauses, and IDB CLIMA to expand its financial reach.⁸ This approach will boost lending capabilities by redistributing risk, attracting additional capital, and mobilizing more private-sector resources.

Third, our focus on increasing scale and impact means working with other MDBs as part of an integrated system. This entails strategic reforms to work better with other multilateral development banks and make it easier for both public and private-sector partners and client countries to work with MDBs as a system. The IDB Group will align its processes and harmonize, as appropriate, operating standards to be more efficient and agile.⁹ This will help the IDB Group work together with other MDBs to achieve greater scale. In doing so, the IDB Group and other MDBs will learn from each other's best practices and coordinate action to ensure that each institution stays on track and united in its effort to maximize impact and the resources available to help countries address their specific local and regional challenges. These efforts will strengthen mutual collaboration and commitment to maximizing impact and efficiently addressing local and regional challenges.

Fourth, we will increase impact by focusing on results. Impact will be the IDB Group's yardstick. The IDB Group will embed impact and development effectiveness into the fabric of its structure, operations, and organizational culture. In pursuit of this, the IDB Group will adopt a more selective approach, leveraging the best available evidence to define and design high-quality strategies, programs, and projects. A central element of this approach will be the proposal to introduce a new development effectiveness framework, which could draw from the experience and lessons learned from IDB Invest's Development Effectiveness Learning, Tracking, and Assessment Tool (DELTA). The IDB Group will assure that focusing on results is at the center of the Group's relationship with executors, with incentives to measure, report and—when needed—adjust course throughout the project cycle to meet development objectives. Recognizing its vital role in this endeavor, the IDB Group will provide more direct support to governments to strengthen their own development effectiveness capacities. A key part of this process will be ensuring that the IDB Group and its partners proactively seek feedback to learn about the evolution and implementation of projects and programs and use the most appropriate,

⁸ In 2023, the IDB launched the world's largest debt for nature swap in Ecuador, a deal that will save Ecuador over \$1 billion and allow it to invest millions to protect the Galapagos. This was the first time a multilateral institution combined a guarantee with political-risk insurance to mobilize resources. The IDB also announced IDB CLIMA in 2023, a program which lowers borrowing costs for countries that meet key verifiable performance indicators, making the IDB the first multilateral development bank to launch this results-based approach. This initiative will help countries use the indicators to mobilize resources from the private sector with our technical assistance.

⁹ Harmonization efforts might involve financial, procurement and safeguard standards, methodologies to measure indicators and diagnostic tools.

rigorous methods to measure their progress and impact, making any required adjustments along the way to ensure the intended results are being achieved.

Fifth, we will keep mainstreaming operational innovations, transforming the way we finance development and significantly enhancing impact. These identified innovations have been tested by the IDB and other MDBs, and good practices can be identified for each. They include (i) becoming more program-based as opposed to project-driven, allowing the better planning of assistance and more focus on outcomes; (ii) emphasizing the use of country platforms to improve coordination and focus to different sources of development financing, country ownership and transparency; (iii) actively seeking opportunities for standardization of projects, reducing preparation costs and increasing replicability across country-programs; (iv) designing programs that foster a minimum level of institutional capacity for achieving impact; and (v) prioritizing instruments that are more results-oriented rather than input driven, directly (e.g., Loan Based on Results, LBR) or indirectly (e.g. supporting debt for nature swaps).

Three Strategic Objectives

To maximize impact, the IDB Group needs to selectively choose its priorities. A strategy that disperses attention across numerous priorities risks diluting its impact, as an excess of objectives can result in a loss of focus.

To increase the scale and impact of its work and tackle the triple challenge alongside shared global challenges, the IDB Group will prioritize three critical objectives in line with a new vision for the region. These objectives can be translated into concrete ambition as shown in Box E.1. Emphasizing the interconnected and mutually reinforcing nature of these objectives, the IDB Group aims to ensure that its investments significantly contribute to the attainment of each goal.

- **Reducing poverty and inequality:** The IDB Group is devoted to eradicating extreme poverty and to investing in human capital, encompassing education, health, and early childhood initiatives. This includes enhancing social protection, fostering food security, promoting gender equality, ensuring the inclusion of diverse population groups, and addressing citizen security concerns.
- **Addressing climate change:** The IDB Group is dedicated to combating climate change through initiatives such as striving for zero deforestation in the Amazon, curbing greenhouse gas emissions, preserving nature and biodiversity, and strengthening countries' climate resilience and adaptation capabilities, including disaster risk management.
- **Bolstering sustainable growth:** The IDB Group is committed to increasing the region's real GDP per capita by promoting investment in sustainable, resilient, and inclusive physical and digital infrastructure. This includes empowering the private sector to drive productivity and innovation. Moreover, the IDB Group actively promotes initiatives geared towards enhancing regional integration.

Box E.1 The IDB Group Institutional Strategy Objectives

For each objective under the new Institutional Strategy, at least one related aspirational Sustainable Development Goal (SDG) indicator has been identified to which IDB Group efforts will contribute.



Reduce poverty and inequality

- Eradicate extreme poverty in Latin America and the Caribbean (SDG Indicator 1.1.1)
- End hunger (SDG Indicator 2.1.1)



Address climate change

- Zero deforestation in the Amazon (SDG Indicator 15.1.1)
- Reduce greenhouse gas emissions consistent with reaching net-zero emissions by 2050 (SDG Indicator 13.2.2)
- Strengthen resilience and adaptive capacity (SDG Indicator 13.1.1)



Bolster sustainable regional growth

- Boost annual growth of real GDP per capita to levels on par with the rest of the world (SDG Indicator 8.1.1)

The IDB Group will achieve these objectives with an operational focus in seven areas, with approaches tailored to the realities of each country. Through dialogue and the country strategy processes, the IDB Group will focus its efforts in each country where the country's IDB Group priorities and comparative advantages are aligned to maximize the scale of our impact.

The first three of these areas will be treated both as vertical priorities and cross-cutting issues (dual focus). That is, the IDB Group will foster investments with a general or specific objective of targeting these issues and will also mainstream considerations of these cross-cutting issues throughout projects with diverse objectives to strengthen their development impact.

1. **Biodiversity, natural capital, and climate action.** The IDB Group will strengthen partnerships with borrowing countries, subnational entities, and private-sector clients for a net-zero emissions by 2050, resilient, and nature-positive future aligned with the Paris Agreement. It will prioritize biodiversity, natural capital, and climate action across sectors and countries. The Group will focus on adaptation, a just green transition, ecosystem conservation, pollution reduction, and governance enhancement.
2. **Gender equality and inclusion of diverse population groups.** The IDB Group will advance gender equality and the inclusion of diverse population groups across sectors and countries, recognizing that equal participation in economic, political, and civic life is not only a moral imperative but also a strategic necessity. It will focus on closing gender and inclusion gaps comprehensively, recognizing their interconnectedness with core objectives. The Group will prioritize reaching women and diverse population groups, including indigenous peoples, Afro-

descendants, persons with disabilities, and LGBTQ+ individuals, throughout its portfolio and activities. This will include enhancing access to education, improving economic opportunities, increasing agency and voice, and building institutional capacity related to equality and inclusion.

3. **Institutional capacity, rule of law, and citizen security.** Institutional development will be addressed in two ways. First, as a foundational condition for inclusive and sustainable development, especially in a natural resource rich region. To drive results in this area, the IDB Group will strengthen public policy and management, support transparency and integrity, contribute to improved citizen security and justice, support digital transformation of the public sector, and support the ecosystem for entrepreneurship, investment, and private sector development. Second, as a necessary condition for operations in the other sectors: by ensuring that the minimum institutional capacity for project implementation is in place, impact of IDB Group operations will be substantively enhanced.
4. **Social protection and human capital development.** The IDB Group will strengthen social protection systems and human capital development as a critical element to address poverty, economic vulnerability, and inequality, while enhancing the capacity to adapt to climate change and technological shifts. The IDB Group will employ a multi-sectoral approach, with a special focus on the poor and vulnerable, across the entire lifecycle. This includes creating a more efficient and adaptive social protection model that reaches the neediest and most vulnerable and adapts to transitory shocks (e.g., preparedness for pandemics, natural disasters) as well as long-run trends (e.g., aging). It also includes supporting tax policies to combat poverty and inequality, enhancing the quality and efficiency of human capital formation services amid technological changes, and promoting productive inclusion.
5. **Sustainable, resilient, and inclusive infrastructure.** In a region grappling with a substantial infrastructure deficit, the Group will promote investment in energy, transportation, water, sanitation, and social and digital infrastructure and services. The IDB Group's commitment encompasses a multifaceted approach to bridge knowledge gaps, promote sustainability, foster digital infrastructure, improve governance, and increase private sector participation. The IDB Group will prioritize collaboration with partners to boost public investment and mobilize unprecedented levels of private-sector capital.
6. **Productive development and innovation through the private sector.** The region's productivity lag exacerbates its struggle to close its per capita GDP gap with other regions. To change this, the IDB Group will prioritize support for a more dynamic, competitive business environment. Leveraging synergies, the IDB Group will align interventions to address market failures, emphasizing the need to promote human capital development, improve financial markets, facilitate trade and investment, and bolster physical and digital infrastructure.
7. **Regional integration.** Integration has been in the DNA of the organization since its creation. The IDB Group pledges to strengthen its role as a regional development bank by promoting productive integration, enhancing physical and digital infrastructure, emphasizing cross-border projects, and supporting social regional initiatives in areas such as health and education. This requires building regional approaches to support the provision of regional and global public goods.

IDB Group Reforms

The IDB Group will pursue reforms and other actions to generate stronger incentives and more effective, larger-scale investments to meet our objectives. Key areas include:

Development effectiveness and impact orientation. Recognizing the importance of heightened development effectiveness in addressing the region's challenges and unlocking its full potential, the IDB Group is committed to enacting reforms that ground initiatives in the most robust evidence and expertise available. This reshaping extends beyond mere processes and decision-making; it involves a holistic transformation of incentives, fully embedding an impact-oriented approach that spans both the public and private sectors and permeates all aspects of our operations. Reforms to our strategy and programming processes, and the incentives around these processes, will focus on progress against results and impact indicators, adjusting approaches based on this feedback. A new development effectiveness framework will operate not only in *ex ante* design but throughout the project and portfolio cycle.

Measuring outcomes including poverty, inequality, and vulnerability. The Group will emphasize the definition of top-line indicators and metrics and their corresponding assessment tools to send clear, coherent signals within and beyond the institution that impact is what matters. The Group will also define stricter criteria to analyze and classify projects based on their potential impact on poverty, inequality, and vulnerability. This will also entail the development of indicators and systems for better monitoring, measuring and analysis of the results of IDB operations and portfolios in this area, and will be connected to the development effectiveness efforts to support countries' own data systems.

Knowledge. Developing and sharing cutting-edge know-how will be the centerpiece of the IDB Group's value proposition, guiding the Group's understanding of regional contexts and the design of solutions. The Group will redouble efforts to generate and disseminate operational knowledge as a core asset for supporting clients, aiming to create a database of cases on what works, identifying and addressing current and emerging development challenges. This will also help the IDB Group drive innovation in both its public and private sector interventions. To do this, the Group will engage in novel research and generate data and analysis while leveraging external partnerships, including with other MDBs, to amplify its reach and influence.

Country work and strategic selectivity. The Group will revamp its country dialogues, strategy, and programming processes for focus and strategic selectivity to deliver tangible impact, including through results-based programmatic approaches. This will help the Group better respond to client priorities, exploiting interdependencies and synergies across public and private-sector projects and programs. Improving the Group's approach to country dialogue and strategies will strengthen long-term partnerships with countries, enabling the Group and its members to better identify the most pressing needs and cost-effective solutions, in alignment with the Group's institutional priorities.

Financial innovation. The IDB Group will reform financial instruments to maximize scale and impact at both the country and regional levels. To increase scale, the instruments developed by the IDB need to be simple and replicable. But the financial instruments will reflect a deep understanding of heterogeneous contexts to tackle countries' priorities and drive both domestic and private resource mobilization. The Group will prioritize a comprehensive, strategic medium- and long-term approach to support countries. In doing so, the IDB Group will position itself as a platform for third parties to invest in the region, leveraging its influence to foster collaborative efforts.

IDB lending instruments. Lending instrument reform anchors the new strategy through the development of a single Unified Investment Lending Policy that allows for the easy combination of instruments; consistency and flexibility in preparation, implementation, and adjustment of investment projects; co-financing; and reduction of menu costs through harmonization and effective management tools, particularly for disaster risk management instruments. Management will propose measures to enhance the quality of policy-based lending to ensure that its driver will be the support to high-impact policy reforms, with the liquidity feature of the instrument treated as an additional incentive for the country engagement.

Concessionality. The IDB Group will revisit its concessional framework both to strengthen the existing structure to better tackle the challenges of the poorest countries in the region, and create positive incentives that address vulnerability and promote regional and global public goods, in compliance with the Bank's financial policy framework. By aligning the Group's financial mechanisms with the region's unique needs and challenges, the Group can strengthen its role as a catalyst for positive and sustainable development in the region.

Private sector development and synergies. The IDB Group boosts the role of the private sector in driving development. It will do so by creating synergies that optimize strengths, resources, and expertise across the Group in all aspects of work, including operations, strategic planning, knowledge production, and innovative solutions. This approach will deploy comparative advantages of each of the IDB Group's institutions, to foster a cohesive approach, harnessing private sector involvement to deliver scalable and sustainable development results in the region. The capitalization of IDB Invest and the replenishment of IDB Lab would further empower these efforts.

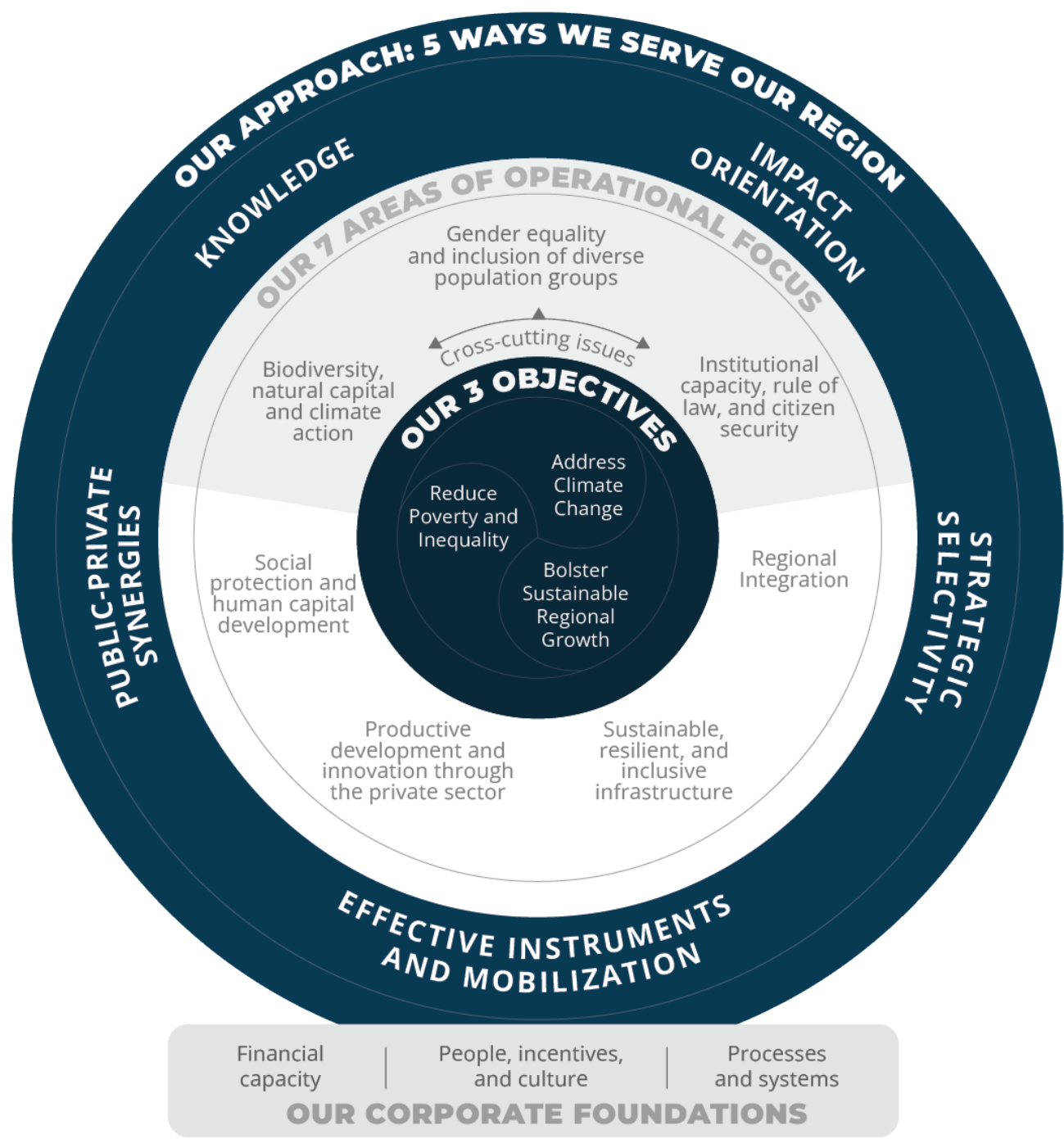
Key enabling factors, depicted in our corporate foundations, highlight the significance of financial capacity, streamlined processes and systems, and an engaged workforce oriented toward impact. Both financial and non-financial incentives emerge as pivotal drivers for the profound transformation outlined in the strategy. These incentives ensure alignment with new priorities and foster a deep sense of employee engagement, making our collective vision a reality.

Looking Ahead

The new strategy will be the basis for an ambitious, rigorous, and parsimonious set of performance metrics embodied in a new Impact Framework (former Corporate Results Framework). This framework will be the basis for regular tracking of progress against objectives. Implementation of the strategy will be based on the roadmap set out in Annex A.

The IDB Group looks forward to a bigger and better future, delivering more resources, more knowledge, and greater impact to keep serving as the development partner of choice for the region and its countries.

Our Strategy at a Glance



1. Introduction

- 1.1 **Latin American and Caribbean (LAC) countries have vibrant diversity and economic potential but face persistent social, economic, and development challenges.** With more than 652 million people, the region is home to 8.2 percent of the world’s population (ECLAC 2023a) and accounts for 6.4 percent of global GDP (OECD et al. 2022). It also contains more than 40 percent of the earth’s biodiversity (UNEP-WCMC and IUCN 2016) and is home to 57 percent of the world’s remaining primary forests, including one-fourth of the planet’s mangroves (Quiroga et al. 2016). Furthermore, the region is the world’s largest food exporter, producing 40 percent of globally traded food (Morris et al. 2020) and possesses almost 60 percent of global lithium reserves (ECLAC 2023b), which are fundamental for a clean energy transition. Latin American and Caribbean could be at an inflection point, as it is perceived as part of the solution to key global challenges, such as climate change, biodiversity loss, and food insecurity, leveraging its abundant natural and human capital. This represents an enormous potential opportunity, but it needs to be seized using the right approach and policies.
- 1.2 **The Inter-American Development Bank (IDB) Group has a fundamental role as the leading source of development finance and a platform for third-party engagement in LAC to collaboratively address local, regional, and global challenges.**¹ Harnessing its cooperative spirit, the Group collaborates closely with the region. Through a broad network of donors and partners, the Group serves as a platform offering financial and non-financial solutions, expertise, knowledge, and environmentally and socially responsible practices—both to public sector institutions and private sector clients—supporting the development objectives of the region.²
- 1.3 **The IDB Group Institutional Strategy: Transforming for Scale and Impact (the “Strategy”) sets the Group’s strategic direction and approach to serve clients and deliver results in a highly dynamic regional and global context.** The new strategy covers the period from 2024 through 2030 as part of efforts to align with the global commitments under the Sustainable Development Goals (SDGs). It will be complemented by a new Impact Framework (to replace the 2020-2023 Corporate Results Framework, CRF)) that will include quantitative targets to reflect the IDB Group’s increased ambition and measure its progress over time. It is complemented by a roadmap for reforms (see Annex A), outlining its timeframe and key deliverables. Once approved by the IDB and IDB Invest Boards of Governors, this Strategy replaces the current Institutional Strategy (“Update to the Institutional Strategy. Development Solutions that Reignite Growth and Improve Lives”), approved pursuant to Resolution AG-10/19 and CII/AG-3/19.³ The Strategy shall

¹ The IDB Group is composed of the Inter-American Development Bank, which works through the public sector, the Inter-American Investment Corporation (IIC), which works through the private sector and the Multilateral Investment Fund (MIF), which works with the innovation ecosystem. The IDB and the IIC (which was rebranded as IDB Invest in 2017), are two separate legal entities. The MIF, rebranded as the IDB Lab, is a trust fund administered by the IDB that serves as the IDB Group’s innovation laboratory.

² The IDB has 26 borrowing member countries in the region: Argentina, The Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

³ The strategy update approved by the Governors in 2019 was the second such update to the strategy approved under the Ninth General Capital Increase of the IDB (IDB-9) in 2010. IDB-9 (AB-2764) established that the Institutional Strategy and CRF should be reviewed and updated every four years (see paragraph 4.15), and the most recent strategy update (AB-3190-2) proposed that the next one consider a longer time horizon (see paragraph 5.4). At the time of approval, the strategy applied only to the IDB. Following the “merge-out” in January 2016 that consolidated the IDB Group’s private sector operations in the Inter-American Investment Corporation (IIC, now known as IDB Invest), the Management of IDB Invest confirmed its commitment to achieving the objectives set forth by the Institutional Strategy and the CRF was approved by the IIC’s Board of Directors.

remain in effect until a new IDB Group Institutional Strategy enters into effect. This Strategy has been prepared in response to the mandates given to the IDB and IDB Invest by Resolution AG-6/23 and CII/AG-3/23 of March 19, 2023, paragraphs 2 and 4, respectively.

- 1.4 **The Strategy draws upon the analytical work on the IDB Group’s positioning in several critical areas, reviews of progress against corporate targets, and independent evaluations on aspects of the Group’s work.** The strategy builds on analytical work carried out in 2021 and 2022 (as part of the Washington Resolution, AG-7/22 and CII/AG-3/22) to analyze the IDB Group’s positioning in several domains outlined by the Governors and progress on key reforms associated with them. The Strategy also considers advances under the previous strategy as measured by the 2020–2023 CRF to continue to enhance ambition in the coming years. Furthermore, the Strategy integrates the findings and recommendations from independent evaluations of its work by the IDB Group’s Office of Evaluation and Oversight (OVE) as well as by independent expert bodies such as the Multilateral Organization Performance Assessment Network (MOPAN), which assessed both IDB and IDB Invest in 2021–2022.
- 1.5 **The Strategy was informed by a robust consultation process with internal and external stakeholders as well as by advances in strategic proposals for the future direction of IDB Invest and IDB Lab.** Internally, six focus groups were conducted with participation from more than 40 members of IDB Group leadership to garner suggestions about the Group’s vision for the future. Additionally, 16 internal working groups were formed to prepare technical inputs and propose objectives, lines of actions, and key reforms in a range of areas to guide work through 2030. Each of these proposals was discussed with the IDB and IDB Invest Boards of Executive Directors in a dedicated session to provide orientation and shape their integration into the Strategy proposal. In addition, through the public consultation process, the IDB Group received contributions from more than 1,800 representatives of governments, the private sector, and civil society through face-to-face and virtual (synchronous) formats, as well as an online (asynchronous) modality.⁴ Finally, the Strategy takes into consideration the concurrent development of proposals for (i) the capitalization and implementation plan for the New Vision and Business Model for IDB Invest; and (ii) IDB Lab’s evolving value proposition in preparation for the replenishment process that is under development (MIF IV). The process benefitted from consultation with an Expert Panel set up to provide feedback to Management on the core elements of this document.
- 1.6 **The Strategy embodies our aim to evolve our model and work synergistically as part of a system of multilateral development banks (MDBs) to increase scale and enhance impact for partner countries and for the region as a whole.** Through technical communities of practice in diverse areas, the IDB Group sustains an ongoing and dynamic exchange with its peers, enabling harmonized approaches (for example, the Paris Alignment methodology) as well as insights and knowledge from the experiences of others. This strategy supports the IDB Group’s role in the evolution agenda: scaling up impact, tackling cross-border challenges, and helping to prevent, prepare for, respond to, and recover from crises. The IDB Group also embraces the calls for MDBs to revisit their business models and instruments to enhance mobilization of public resources and private capital, scale, and impact—including the continued implementation of the G20 Capital Adequacy Framework recommendations—as well as to work synergistically as a

⁴ For more information on the public consultation process, see the [Report on IDB Group 2023 Public Consultation for the New Institutional Strategy](#).

system to deliver coordinated solutions to eliminate extreme poverty, address climate risks, and contribute to the provision of global public goods.⁵

- 1.7 **In line with the agenda on strengthening MDBs, the Strategy proposes as its core objectives to reduce poverty and inequality, address climate change, and bolster sustainable regional growth.** The IDB Group's operational focus and organizational resources will aim to advance these three pivotal goals, seeking to achieve tangible progress on each one by 2030. Specifically, the Group will support the region in eradicating extreme poverty by 2030, ending hunger and food insecurity, and reestablishing a sustained trajectory of reducing inequality. Additionally, the Group will back the region's efforts to curb greenhouse gas emissions to reach net-zero emissions by 2050 and will work to halt deforestation and preserve biodiversity in vital biomes like the Amazon, the Mesoamerican corridor, and the Caribbean reef barrier. In addition, it will promote reductions in losses from natural disasters through enhanced adaptation and disaster resilience measures and by continuing to apply the IDB Group's environmental and social policy frameworks. Finally, the Group will help countries achieve higher long-term growth rates to progress towards per capita income convergence with Organization for Economic Cooperation and Development (OECD) peers, relying more heavily on regional integration and the involvement of the private sector. As necessary foundations to accomplish these three core objectives, the Group will focus on establishing strong institutions, fostering safe communities, and ensuring a robust rule of law. Furthermore, it will emphasize gender equality and the inclusion of diverse population groups as critical.
- 1.8 **The Strategy will steer a transformation of the IDB Group to meet today's unprecedented challenges, anticipate emerging ones, and deliver greater impact for Latin America and the Caribbean.** Addressing the region's structural and emerging challenges demands a renewed IDB Group firmly grounded in the pursuit of maximizing development, scale, and impact, and capable of adapting swiftly as needs and technologies evolve. The IDB Group is committed to a comprehensive transformation of its engagement with the region as well as its internal processes, systems, culture, and incentives. The central guiding principle will be an unwavering focus on impact, based on previous prioritization, which will shape analysis, decision-making, and action. Under the Strategy, the Group will undertake ambitious reforms to reshape and aim for greater efficiency, effectiveness, and an enhanced impact in the region. This means being selective and strategic about how and where we support the region, considering the Group's comparative advantages and opportunities to bring the greatest added value through a public-private perspective, robust local presence, and profound sectoral knowledge. The future IDB Group will harness strategic partnerships and resource mobilization to bring client-centric solutions to Latin America and the Caribbean, while also assisting the region in contributing to address global challenges.
- 1.9 **This document provides context on the region and the IDB Group, strategic orientation to guide the Group's work through 2030, and a roadmap for reform.** Following this introduction, Sections 2 and 3 provide a high-level overview of the context for this strategy discussion, focusing on the current challenges faced by the region and the IDB Group's position. Section 4 proposes the mission of the IDB Group looking forward that includes three core objectives. Section 5 outlines a set of operational focus areas for the IDB Group's work in the region through 2030.

⁵ See, the [Triple Agenda on Strengthening MDBs \(G20, 2023\)](#), proposed by an independent expert group commissioned by the G20 Presidency in 2023.

Section 6 describes how the IDB Group will transform its approach to serving countries and clients, highlighting key reforms needed to enhance impact for the region. Section 7 describes foundations that will enable success on each of the other elements of the Strategy. Section 8 describes how the Strategy will be operationalized, highlighting aspects of implementation and monitoring. Section 9 describes potential implementation risks, Section 10 sets out the recommendation for approval by the IDB and IDB Invest Boards of Executive Directors and the IDB and IDB Invest Boards of Governors. Annex A provides a roadmap for reform and Annex B provides details on recent mandates for MDBs stemming from the G20. Appendix I and Appendix II contain the proposed resolutions for the consideration and approval of the IDB and IDB Invest Boards of Executive Directors and the IDB and IDB Invest Boards of Governors, respectively.

2. Challenges Facing Latin America and the Caribbean

- 2.1 **The Latin American and Caribbean region is facing a triple challenge of increasing social demands, limited fiscal resources, and slow growth that are mutually reinforcing and that compound one another.** This context is further exacerbated by low institutional capacity, persistent poverty and inequality, and increasing violence and insecurity associated with weak rule of law. Global challenges, such as climate change, global supply chain shocks, pandemic risks, and migratory pressures also exert strain on governments and society. Exogenous shocks have become more frequent and intense and are evolving into simultaneous crises that result in setbacks to welfare. Development progress in many areas has come to a standstill, with the region falling short in advancing towards most of the SDGs.⁶
- 2.2 **The region continues to experience low economic and productivity growth.** Productivity growth has experienced a prolonged negative trend, widening the disparity between the region and more advanced economies. Various factors hinder growth, including the challenging business environment, low productivity of human capital, underdeveloped digital and physical infrastructure, vulnerability to natural disasters, limited regional integration,⁷ and barriers to women's economic participation, among others. The region's subpar performance in diverse governance metrics, coupled with limited institutional capacity and high levels of crime and violence, impedes growth. The establishment of robust institutions, ensuring citizen security, and upholding the rule of law are imperative for effective policy implementation and the delivery of public services. These elements are essential not only for fostering a conducive business environment but also for bolstering investor confidence, stimulating private sector activity, and consequently promoting growth and socioeconomic development.⁸

⁶ According to the latest Sustainable Development Report by the Sustainable Development Solutions Network, Latin America and the Caribbean is on track to achieve only three out of the 17 SDGs: SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), and SDG 17 (Partnerships for the Goals) (Sachs et al. 2023).

⁷ Intraregional trade has been stagnant and regional integration in Latin America and the Caribbean remains low. The share of trade among countries in the region increased by just 1.5 percent between 1991 and 2021 (a fraction of the 30.3 percent increase in East Asia and the Pacific).

⁸ For example, on the World Justice Project's Rule of Law Index (2022), the average Latin American and Caribbean country scores 0.5 on a 0 to 1 scale, while the average OECD country scores 0.75, indicating a need to improve governance, transparency, and legal structures.

- 2.3 Poverty, inequality, and vulnerability along several dimensions have increased in the region, with its dismal growth performance reverberating on social outcomes.** Poverty has worsened over the last few years, with 30 percent of the population now living on less than \$5 a day, which is comparable to levels seen back in 2010 (IDB 2023). Today, more than 183 million people in the region are poor (ECLAC 2023c) and close to 60 million are experiencing hunger (ECLAC 2022a). At the same time, inequality has increased, with the most recent Gini coefficient estimate higher than the average for the last 18 years (IDB 2023). This is compounded by persistent disparities in social and economic outcomes across gender and diverse population groups that deepen inequality and constrain the region's development, economic growth, and productivity. Women, girls, and diverse groups—including indigenous peoples, Afro-descendants, persons with disabilities, and LGBTQ+ persons—jointly account for approximately two-thirds of the region's population.⁹ Nonetheless, they face structural inequities and unequal treatment that exacerbate¹⁰ considerable gaps in secondary completion for indigenous peoples, and lower earnings, among numerous other challenges.¹¹ As poverty and inequality indicators deteriorate, the demand for better jobs and quality social services has been increasing and needs to be addressed. In fragile and conflict-ridden contexts, like Haiti and Venezuela, these difficulties are further intensified.
- 2.4 Latin America and the Caribbean is actively addressing unique fiscal challenges to better meet the demands of its people.** While the region has gone through challenging structural and fiscal obstacles, including high sovereign debt over the past two decades, there is a determined effort toward improvement.¹² The fiscal accounts faced additional pressures from the COVID-19 pandemic, followed by the impact of the Russian invasion of Ukraine on commodity prices and global inflation. Additionally, global interest rates rose to counter inflation, exacerbating the fiscal challenges. Governments in the region responded to these crises in 2020 and 2021 by significantly increasing expenditures, and then unwinding the pandemic related fiscal stimulus to contain price pressures. But after a relatively strong rebound in economic activity after the pandemic, economic growth is decelerating.¹³ While average debt levels declined from 71 percent at the peak of the pandemic to 64 percent in 2022, they remain high compared to peer economies. The ongoing risk to fiscal consolidation and sustainability compound the difficulties in tackling poverty, inequality, low growth and productivity. To close these development gaps and expand available financing, the region must significantly enhance its fiscal management capabilities, including tax enforcement and reduction of unjustified exemptions. Moreover, efforts are needed to enhance the potential for domestic resource mobilization, by promoting the development and deepening of local capital markets. Improving the business climate, addressing informal activity, especially in labor markets, and combating money laundering and illicit finance are also crucial steps toward fostering fiscal resilience and sustainable and inclusive development.
- 2.5 The challenges posed by climate change and environmental degradation introduce additional threats that jeopardize the attainment of development objectives and worsen the impact on poverty.** The region is especially vulnerable to climate-related disasters, and

⁹ This is a lower-bound estimate of the joint-distribution of the share of the population identifying as one or more of the gender equality and diversity groups given that in the 25 available household surveys, only three inquire about race/ethnicity, sex, and disability status, seven measure race/ethnicity and sex, 14 measure only sex, and none measure LGBTQ+. In the estimate, everyone is counted once if they identify as one or more of the gender equality and diversity populations.

¹⁰ According to country data from the World Health Organization and United Nations Office on Drugs and Crime.

¹¹ For a comprehensive description of challenges related to gender equality and inclusion of diverse population groups, see the IDB's [Gender and Diversity Sector Framework Document](#) (GN-2800-13).

¹² Except emerging and developing Asia (source: IMF [WEQ database 2023](#)).

¹³ Real GDP in Latin America and the Caribbean grew by 7.3% and 4.1% in 2021 and 2022 respectively, whereas it is expected to have grown 2.3% in 2023 and to grow by the 2.3% in 2024 (IMF 2023a)

safeguarding against them is a crucial global public good. This vulnerability not only endangers biodiversity but also jeopardizes the livelihoods of millions of people, with an estimated 1.7 percent loss in annual GDP due to climate change-related natural disasters in the last two decades and the expectation that losses will increase in frequency and severity in the future (World Bank 2022). Climate change alone could push up to six million people in the region into poverty—and worsen inequality as vulnerable groups are more exposed and have fewer resources to cope with shocks (Jafino et al. 2020; Hallegatte et al. 2016). These challenges also reduce labor productivity by impairing health and pushing affected workers into informality (Pecha Garzón 2017; UNOCHA 2019). The escalating frequency and intensity of disasters due to climate change inflict damage on infrastructure and disrupt service provision.¹⁴ Furthermore, they contribute to fiscal pressures, due to their high cost and the associated loss of productivity (Solano-Rodriguez et al. 2019; Welsby et al. 2021).

- 2.6 **On top of climate change and environmental degradation, the region is experiencing additional risk and vulnerability along several dimensions, each with varying degrees of intensity.** Economic vulnerabilities (e.g., low growth, financial crises) and social vulnerabilities (e.g., migration, social unrest), as well as those associated with insecurity and weak institutions (e.g., organized crime and violence, global political polarization, instability) have far-reaching impacts. The evolution of technology and changing demographic trends, including aging populations, pose additional challenges. Global crises—such as the recent COVID-19 pandemic—affect countries of all income levels and can have profound effects.
- 2.7 **Poor governance and heightened levels of crime, violence, and insecurity, worsened by organized crime, carry significant social and economic consequences.** According to the World Bank’s Worldwide Governance Indicators in 2021, Latin America and the Caribbean fared worse than a decade earlier on government effectiveness (a proxy for state capacity), rule of law, and control of corruption (Kaufmann and Kraay 2023). The region’s homicide rate is more than three times the global average and 30 percent of households have been victims of a crime in the last year (UNODC 2023; Latinobarometro 2021). Organized crime, a highly complex form of criminal activity that is increasingly widespread, has significantly contributed to the rapid increase in homicide rates and lethal violence across several LAC countries (UNODC, 2023). A recent public opinion survey across 18 countries indicated that 52 to 58 percent of respondents live with the presence of criminal organizations (Latinobarometro 2021; Uribe et al. 2022). These levels of crime, violence, and insecurity bear significant social and economic implications, dissuading foreign investment, disrupting business operation, reducing labor productivity, and adversely affecting quality of life. Preliminary analysis suggests that closing the region’s security gaps relative to the world average could have a significant positive effect on GDP growth (IMF 2023b).
- 2.8 **Insufficient levels of innovation and investment in digitalization and technology are also a barrier to development.** The predominant focus on tangible assets, such as machinery and equipment, sets the region apart from OECD countries, which prioritize intangibles like research and development (R&D) and intellectual property rights (OECD 2020; Crespi et al. 2022). With R&D investment at just 0.65 percent of GDP, significantly lower than the OECD average of 2.74 percent, and fewer research personnel (approximately 1.36 researchers per 1000 workers compared to nearly 9 in the OECD), the region faces limitations in innovation inputs (RICYT 2022; OECD 2022). This gap bounds the region’s capacity for productivity growth and technological advancement, impeding other development aspects, from achieving transparent governance

¹⁴ It is estimated that long-term annual losses in public infrastructure caused by disasters represent one-third of public investment (Serebrisky et al. 2015).

through modern procurement to incorporating digital tools in public service delivery, such as healthcare or education, and facilitating cross-border trade and investment.

- 2.9 **Digital infrastructure, essential for social and economic development, remains underdeveloped.** Network coverage is incomplete, and the quality and speed of Internet services frequently fall short, often making them unaffordable. For the poorest 40 percent of the population, the cost of digital services can represent up to 19 percent of their monthly income (Garcia Zaballos and López-Rivas 2022). In addition, the upfront costs of essential devices like smartphones pose a significant barrier to Internet access. While technology-enabled services are improving, they are still substandard, characterized by an underdeveloped e-payments infrastructure, limited digital marketplaces, and deficient e-commerce facilities (ECLAC 2022b; OECD 2020). Providing universal access to good digital infrastructure and services could catalyze development across the region. Catching up with the OECD countries could boost the region's GDP by 8% per year and generate more than 16 million direct jobs (Garcia Zaballos and López-Rivas 2012; Rosenblatt et al. 2022).
- 2.10 **Despite these challenges, Latin America and the Caribbean has the potential to improve living standards of its citizens and is becoming central to the solution to global challenges.** The region's rich biodiversity, natural capital and mineral endowment can support the transition to a green economy and the adoption of clean energy technologies. It also stands as a crucial contributor to global food security given its fertile lands and diverse climates allow to produce a wide array of agricultural products. By embracing the ongoing technological revolution, the region can emerge as a hub for global digital service providers, with its youthful population serving as a valuable asset, if equipped with the necessary skills. This in turn can spur job creation, economic growth, and drive innovation across various sectors. Leveraging these strengths can pave the way for sustainable development and positive contributions to the global community.

3. The IDB Group Position and Recent Progress

- 3.1 **As the partner of choice for Latin America and the Caribbean, the IDB Group has a critical role to play in supporting the region to address these challenges, capitalizing on the strengths and opportunities of both the region and the Group.** The IDB has been the largest multilateral lender to the region's public sector for more than 20 years. Simultaneously, private investment sources have gained prominence as external funding for development and growth. IDB Invest has rapidly expanded its scale and impact, concentrating in crucial areas such as climate finance, gender equality, diversity, and inclusion, support for Micro, Small, and Medium Enterprises (MSMEs), within the context of greater private sector financing across Multilateral Development Banks (MDBs) in the region. As the sole MDB equipped with an innovation arm, IDB Lab's role within the Group has grown, with a portfolio spanning a wide range of critical areas and assuming an increasingly pivotal role in laying the groundwork for emerging industries that hold great promise for the region.

- 3.2 **The IDB Group provides financing for long-term development, through support for country policies, programs, and projects that will make a measurable difference against the development objectives established in the Institutional Strategy.** The new strategy expands and codifies the Group's work with countries to prevent, prepare, and respond to exogenous shocks that can derail development progress like natural disasters, supply chain disruptions, and health emergencies, among others. Its processes fully embed the application of high standards and safeguards for environmental and social risk within its projects. Through the implementation of its environmental and social policy frameworks, the IDB Group ensures that environmental and social considerations are integrated into project design and implementation. The IDB's Capital Adequacy Framework and related Income Management Model (IMM) are set up to serve both long-term development needs and crisis response. In the case of large crises, the IDB joins with the IMF and other MDBs to support the region, using dedicated instruments such as the Special Development Lending (SDL). In addition, Management proposes to carry out a feasibility study for a new precautionary instrument that will focus on liquidity provision in the case of shocks that are likely to affect development progress and result in long-term value destruction, in consultation with the Board.
- 3.3 **The IDB Group has delivered a valuable response to tackle the COVID-19 pandemic and jumpstart recovery, leveraging its position to offer innovative financial solutions and mobilize additional resources for the region's development.**¹⁵ Concurrently, it has redoubled efforts to strengthen mainstreaming of climate change, gender equality, and diversity in its interventions. Although results in completed projects have fallen short of targets for both the IDB and IDB Invest, during the first two years of the pandemic, the IDB Group reached an unprecedented number of beneficiaries across several areas, with more than 30 million people benefiting from health services and 12 million from anti-poverty programs. In addition, two million MSMEs received financing from 2020 to 2021 through ongoing projects.¹⁶ IDB Lab also mobilized broad partnerships to facilitate the digitalization of small businesses and provide emergency financing during these challenging times. As the Group addressed the region's most pressing development needs, adopting a more selective and programmatic approach to prioritization will enhance focus on a narrower range of sectors and foster more substantial reforms, greater scale and impact.¹⁷
- 3.4 **The IDB Group has systematically engaged in collaborative efforts with other MDBs, functioning cohesively as a system.** The collective response to the COVID-19 pandemic and coordinated actions on several fronts to address ensuing crises displayed the full potential of the MDB system.¹⁸ Between April 2020 and December 2021, 11 MDBs, including the IDB, approved commitments totaling \$100.1 billion for countries eligible under the G20 debt service suspension initiative for the poorest nations, of which \$66 billion were disbursed equivalent to a net transfer

¹⁵ Among other innovations unique to the IDB, the Bank made available a guarantee for countries that were asked to provide guarantees to access COVID-19 vaccines. Furthermore, it introduced climate-resilient debt clauses in its loan agreements in 2021, the first MDB to do so.

¹⁶ For more information on progress against corporate targets and results achieved, see the IDB Group's Corporate Results Framework website (www.iadb.org/crf) and annual Development Effectiveness Overview.

¹⁷ IDB lending is allocated on average to areas where development gaps appear to be more intense based on an analysis of Country Development Challenges (CDC) documents prepared to inform the IDB Group's country strategies (Avellan and Brito 2023).

¹⁸ For more information, see [Debt Service Suspension Initiative for the Poorest Countries, Term Sheet](#), agreed upon under the G20 Presidency of Saudi Arabia in 2020.

of \$48.2 billion.¹⁹ Building on this collaboration, the IDB and the World Bank are intensifying joint work to safeguard critical global commons like biomes (such as the Amazon, the Mesoamerican corridor and the Caribbean reef barrier), assist small island developing states in the Caribbean with disaster resilience, bridge the digital access gap across the region, and enhance overall harmonization of processes and co-financing opportunities.²⁰

- 3.5 In recent years, external stakeholders have recognized the IDB Group's strong performance, while highlighting opportunities to better serve the region.** MOPAN (2023) recognized the IDB for its strong financial framework and investments in gender equality and climate change, and cited opportunities for improvement in delivering multisectoral support, demonstrating development results, and supporting diversity, institutional capacity, and the rule of law. MOPAN also conducted a diagnostic assessment of IDB Invest focused on three key performance indicators related to the incorporation of cross-cutting priorities, strategic alignment with country and institutional priorities, and focus on results, together with an appraisal of IDB Invest's COVID-19 response. MOPAN concluded that IDB Invest has a satisfactory performance in all the dimensions of its analysis.
- 3.6 In response to resolutions of its Boards of Governors and with an eye to improving impact, the IDB Group also analyzed its positioning in several critical areas and made progress on key reforms.** In 2021 and 2022, the Group conducted analyses on a set of topics outlined by the Governors, leading to a report (CA-619) on the advances of reforms in the context of the Washington Resolution ([AG-7/22 and CII/AG-3/22](#)). Since then, work has continued on many fronts—ranging from development effectiveness and climate change to balance sheet optimization and instruments—to address opportunities for improvement identified in the context of this work. The Panama Resolution adopted in 2023 (AG-6/23) mandated IDB management to complete the mandates set forth in paragraph 2 of the Washington Resolution.²¹ In the case of IDB Invest, a proposal for a New Vision and Business Model was developed in the context of the Washington Resolution and a capitalization proposal and implementation plan are currently being developed in line with the Panama Resolution ([CII/AG-3/23](#)). This New Vision and Business Model represents an evolution of the institution towards the goal of scaling its impact in each of its regional developing member countries. It includes a series of reforms that complement and enrich those proposed as part of this new Institutional Strategy, further enhancing the IDB Group's value proposition (Box 3.1). Similarly, in the case of IDB Lab, a proposal for a renewed value proposition under a more diversified funding model has been developed to support a replenishment process in response to Resolution AG-5/23 and CII/AG-2/23 (Box 3.1). As the IDB Group looks to the future, it will build on these advances and remain committed to fulfilling the reforms required by the resolution while tackling other initiatives that will allow it to optimize its impact in the region

¹⁹ See paragraph 6 of the [G20 Finance Ministers and Central Bank Governors' Communiqué](#), Jakarta, Indonesia, February 2022. These efforts were part of MDB commitments to support emerging market economies and low-income countries during the pandemic, which reached \$276.4 billion, thus exceeding the original commitments of \$230 billion. The IDB's share of this effort was around 11 percent.

²⁰ The presidents of both institutions materialized a pledge they made on a joint mission to Jamaica in June 2023, signing a four-year memorandum of understanding in August to collaborate more and compete less on projects as both institutions seek to scale up financing for development and fight climate change and other global crises. See IDB, "IDB and World Bank Strengthening Collaboration to Maximize Development Impact," Press Release, August 29, 2023 (www.iadb.org/en/news/idb-and-world-bank-strengthening-collaboration-maximize-development-impact).

²¹ Point 2 of the Panama Resolution stated: "That the IDB Board of Executive Directors shall direct IDB Management to complete the mandate set forth in paragraph 2 of the Washington Resolution through the preparation of proposals on: (a) A New Institutional Strategy to be developed, which shall address strengthening coordination among the IDB, IDB Invest, and the Multilateral Investment Fund (the "IDB Lab") (together, the "IDB Group"). The IDB Board of Executive Directors and Management shall work jointly with the IDB Invest Board of Executive Directors and Management to develop the New Institutional Strategy proposal; and (b) All operational and institutional reforms, set forth in paragraph 2 of the Washington Resolution, that are not addressed in the New Institutional Strategy."

and realize its vision for the future. This document will provide the general guidelines for these reforms and a clear roadmap to complete them.

Box 3.1. New Vision and Business Model for IDB Invest and Renewed Value Proposition for IDB Lab

The New Vision and Business Model for IDB Invest and for the proposal for a renewed value proposition for IDB Lab each outline several ambitions, as described below.

IDB Invest

- **Meet Heterogeneous Needs with Increased Focus on Social Agenda:** IDB Invest aims to address the diverse needs of the region with an increased focus on the social agenda. This involves expanding its capacity to originate impactful development assets, meeting clients where they are, and considering client characteristics and local market conditions.
- **Climate and GDI-smart organization:** The organization seeks to become climate and gender, diversity, and inclusion (GDI)-smart and expand the ambition of its key performance indicators for GDI and climate change.
- **Selective and Intentional Approach:** IDB Invest plans to adopt a more intentional approach to selectivity, identifying countries' development needs through a revised Country Strategy process and deeper dialogue with governments. The goal is to work upstream to strengthen transactions, clients, and markets that are not yet bankable.
- **Expanded Solutions Catalog:** The organization will deploy a solutions catalog to meet country needs and respond to client and investor demand. This involves expanding its toolkit of development solutions, introducing more complex financial solutions, increasing the use of advisory services, local currency, and equity investments.
- **Bolder Risk Approach:** IDB Invest intends to implement a bolder risk approach to drive development impact. This includes leading clients and co-investors to achieve significant development impact while managing the probability and impact of losses through innovative products and services.
- **Crowd in private investors at scale:** The organization aims to crowd-in private investors at scale, transitioning from a traditional buy-and-hold model to an impact-driven, originate-to-share business model. This involves acting as a bridge between development gaps and investors by originating impactful development assets, structuring them to meet investor needs, and mobilizing resources efficiently.

IDB Lab

- **Strategic Focus:** IDB Lab aims to improve access to health services, skills, employment, financing, and essential services for marginalized populations. Additionally, it seeks to address climate change, promote gender equity, diversity, and stimulate knowledge-based industries for productivity growth and quality employment through a programmatic approach.
- **Synergies and Scalability:** The strategy involves deepening synergies within the Group to amplify collective impact and accelerate the scalability of successful innovations.
- **Broad Partnerships:** IDB Lab plans to develop extensive partnerships, expanding its networks in the innovation space to advance shared objectives.
- **Knowledge Utilization:** The organization intends to leverage knowledge by enhancing internal learning and impact measurement. This involves generating new insights from emerging sectors and strategically using knowledge to influence key external partners who can, in turn, contribute to the scaling of innovation.
- **Funding Model Transition:** IDB Lab aims to shift from a single-source financing model to a more sustainable, multi-source funding model. During the transition donor contributions will be matched by transfers from the IDB, boosted by increased resource mobilization and portfolio income.

4. The IDB Group Mission and Objectives

- 4.1 **The complex challenges facing the world and the region have triggered powerful calls for transformation of the international financial system to address them.** MDBs have a special role to play, as they are uniquely well-positioned to tackle global and cross-border challenges. Meeting those challenges require a renewed and heightened commitment to identify critical reforms and embrace a bold transformation in operational models. In direct response to these calls and as part of continued efforts to enhance its role in supporting the region's development, the IDB Group has articulated a new mission characterized by increased ambition, amid a larger and more intricate set of risks to development.
- 4.2 **Our mission: The IDB Group shall be the partner of choice for Latin America and the Caribbean, committed to addressing the region's vulnerabilities and unlocking its potential to foster transformative social and economic progress while actively combating climate change.** The IDB was founded to contribute to the acceleration of economic and social development in Latin America and the Caribbean and this remains as relevant today as ever. Nevertheless, the vision for how this will be pursued through 2030 must be tailored to current circumstances. The IDB Group must renew its commitment to impact in order to confront today's complex realities, leveraging its public-private solutions and serving as a platform to mobilize and crowd-in third-party resources and knowledge, and to position the region for greater integration and influence on the global stage.
- 4.3 **Acting as a cooperative, the future IDB Group will be more impactful, delivering high-quality solutions and upholding a standard of excellence tailored to the specific needs of our clients.** It will attract global interest to the region, acting as a catalyst for Latin America and the Caribbean to contribute solutions to global challenges. Our commitment lies in meeting client needs while strategically focusing on areas where we can deliver the greatest value, combining forces with other MDBs and development actors. The IDB Group will tailor its support to local conditions, delivering integrated solutions that transcend a single sector and promoting evidence-based programmatic approaches that bring together its three entities to achieve greater impact. Leveraging its close country engagement and its role in contributing to the provision of regional and global public goods, the Group will harness knowledge, scale up financing, promote development through the private sector, and maximize synergies internally and with our peers in the multilateral system to deliver results.
- 4.4 **The IDB Group Strategy has three integrated core objectives to guide its work through 2030: reducing poverty and inequality, addressing climate change, and bolstering sustainable regional growth.**²² These objectives can be translated into concrete ambitions for the next six years in the measures shown in Box 4.1 that are based on selected SDG indicators and will guide implementation of the Group's mission. While this ambition for the region depends on a wide range of factors beyond IDB Group support, supporting advances in this direction will be the guiding principle that orients activities across the Group. The new IDB Group Impact

²²

These three core objectives will deliver on items 2.e and 2.g of the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)).

Framework will also define indicators to measure how the Group is contributing to each objective, establishing targets focused on impact, and enhancing the Group's ambition for the future.

Box 4.1. The IDB Group Institutional Strategy Objectives

For each objective under the new Institutional Strategy, at least one related aspirational Sustainable Development Goal (SDG) indicator has been identified to which IDB Group efforts will contribute.



Reduce poverty and inequality

- Eradicate extreme poverty in Latin America and the Caribbean (SDG Indicator 1.1.1)
- End hunger (SDG Indicator 2.1.1)



Address climate change

- Zero deforestation in the Amazon (SDG Indicator 15.1.1)
- Reduce greenhouse gas emissions consistent with reaching net-zero emissions by 2050 (SDG Indicator 13.2.2)
- Strengthen resilience and adaptive capacity (SDG Indicator 13.1.1)



Bolster sustainable regional growth

- Boost annual growth of real GDP per capita to levels on par with the rest of the world (SDG Indicator 8.1.1)

4.5 **These three objectives are intertwined, mutually reinforcing, and equally important, reflecting the long-standing structural challenges of the region as well as the existential threat of climate change.** Sustained reductions in poverty are dependent in part upon economic growth. Likewise, the reduction of poverty and inequality contributes to economic growth by fostering consumption, investment, employment, and productivity. Addressing these persistent problems also demands a commitment to combating climate change. Investments in decarbonizing industries create important prospects for social and economic outcomes and adapting to climate change is a social and economic imperative. The IDB Group will pursue an integrated approach to enhance the region's wealth and prosperity across climate, social, and economic dimensions.²³ This entails fostering institutional capacity, rule of law, and citizen security as a pre-condition for effective interventions across operational areas to address the Group's objectives.

4.6 **To achieve these objectives, the IDB Group will focus its operational support for the region, renew its approach to and tools for serving countries and clients, and strengthen the foundations needed to drive scale and impact.** Figure 4.1 provides a conceptual overview of these elements of the Strategy, illustrating their interdependence in advancing the core objectives

²³ For more information on integrated perspectives, see ECLAC (2012 and 2016), which pioneered the idea of an integrated approach to development combining elements of environmental, social, and economic policies.

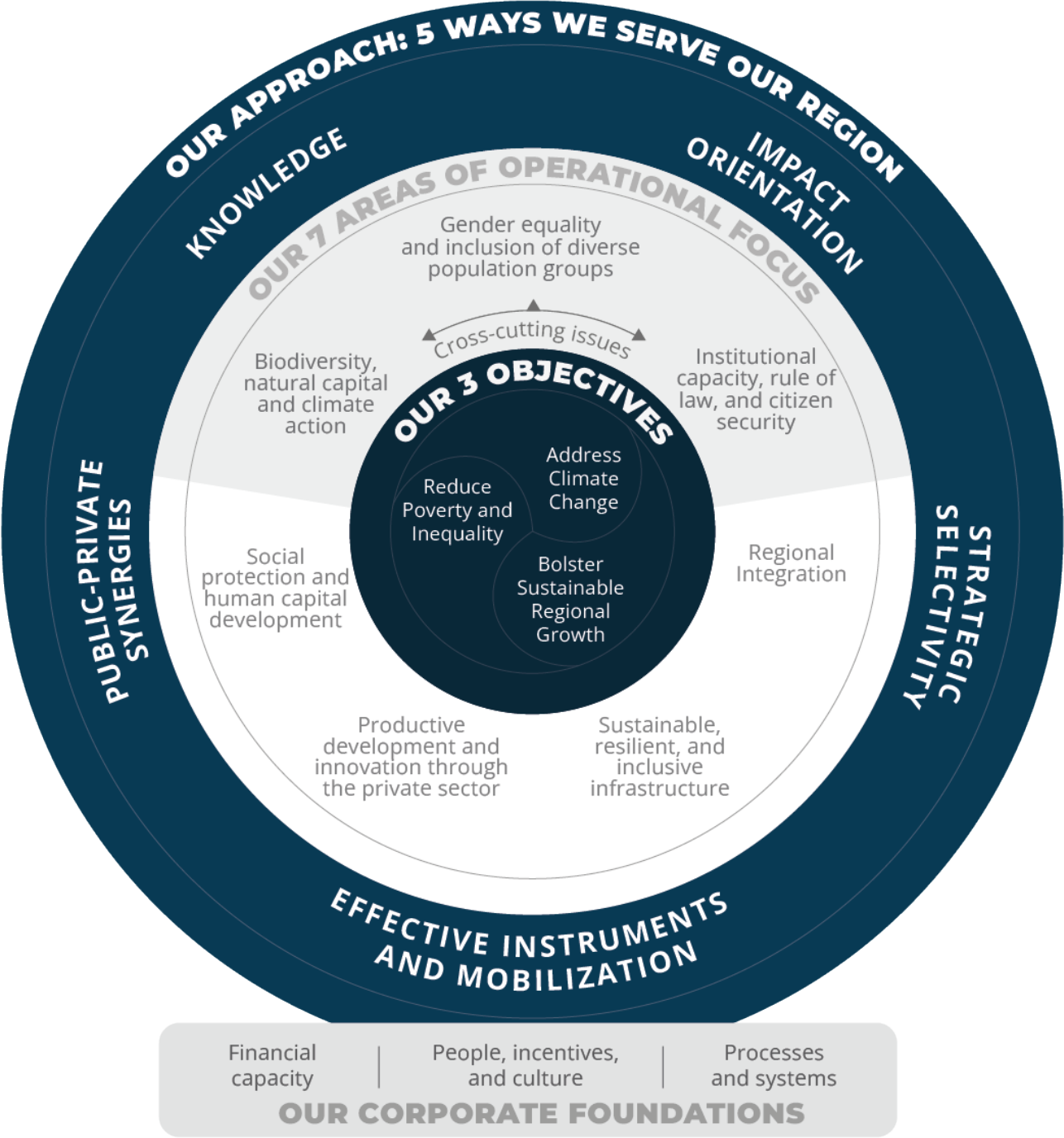
outlined in this section. The components depicted in the figure draw from a detailed analysis and incorporate key reforms identified in the Washington Resolution.

- 4.7 **The seven areas of operational focus show where the IDB Group will prioritize investments in the region to advance toward the three core objectives.** The seven areas are (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups; (iii) institutional capacity, rule of law, and citizen security; (iv) social protection and human capital development; (v) sustainable, resilient, and inclusive infrastructure, with an emphasis on regional integration; (vi) productive development and innovation through the private sector; and (vii) regional integration. These areas are described in Section 5 of this document.
- 4.8 **The five aspects of how the IDB Group serves the region represent key elements of our value proposition that make the Group the partner of choice for its borrowing member countries and clients.** As described in more detail in Section 6, these aspects of how the IDB Group serves the region are (i) impact orientation; (ii) strategic selectivity; (iii) effective instruments and mobilization; (iv) public-private synergies; and (v) knowledge. These are described in Section 6 of this document.
- 4.9 **Finally, the three corporate foundations depicted in Section 7 are key enabling factors for success in the other areas.** The Group's financial capacity is important to maximize the benefit obtained from each dollar invested in its institutions while continuously monitoring capital needs during the period of the Strategy and assessing potential requirements for the future. Improved processes and systems will bring efficiency, alignment of efforts, agility, and, most critically, increased impact. People, incentives, and culture will be essential to transforming how we work. Incentives bear special mention, as they hold the key to driving the profound transformation of the IDB Group outlined in this document and they will take several forms. Financial incentives will reconfigure the compensation structure to attract, energize, and retain talent. Non-financial incentives, however, wield even greater influence to redirect employee efforts towards the new priorities and foster employee engagement in implementing the Strategy. Opportunities for growth, flexibility, and mobility will be powerful motivators.²⁴

²⁴

See Box 7.1 for additional examples of how incentives may be applied.

Figure 4.1. The IDB Group’s Institutional Strategy: Transforming for Scale and Impact



5. Operational Focus

- 5.1 **The IDB Group's operational interventions will strategically target areas where we possess the unique capability to drive substantial, transformative change to contribute to the three core objectives.** Our seven operational focus areas shown in Figure 4.1 encompass a range of areas of operational support that can propel the region towards achieving the three core objectives, yielding tangible results. The engagement with each country will indicate which of these areas will be prioritized and to what extent, deliberately scaling our efforts where they can have the most profound impact. For each of these seven operational areas, more specific guidance will be developed on the IDB Group's approach and more detailed analysis conducted on which areas merit deepening the Group's work and in which areas the IDB Group should consider scaling back efforts.
- 5.2 **Our seven operational focus areas were identified based on the interventions that can make significant contributions to the core objectives and where the IDB Group has deep expertise.** Three of these areas— biodiversity, natural capital, and climate action; gender equality and inclusion of diverse population groups; and institutional capacity, rule of law, and citizen security—will be treated both as vertical priorities and as cross-cutting issues (dual focus).²⁵ That is, the IDB Group will help countries execute investments with a general or specific objective of targeting these issues and will also mainstream considerations of these cross-cutting issues throughout projects with diverse objectives to strengthen their development impact. In addition, the operational focus areas have clear interdependencies and complementarities among one another, contributing to the core objectives. For instance, sound institutional capacity and rule of law are critical underpinnings to achieve results across all operational focus areas, enabling effective policy formulation and public service delivery across sectors.

Biodiversity, Natural Capital, and Climate Action

- 5.3 **Why it matters:** Climate change, environmental and natural resource degradation, and biodiversity loss threaten food and water security, increase human morbidity and mortality, disrupt service provision, and lower labor productivity, disproportionately impacting the poor and vulnerable. In Latin American and Caribbean cities and in the Amazon basin, deforestation is approaching a point of no return. The region also faces devastating impacts from natural disasters in both human and economic terms. Natural resource degradation and biodiversity loss are putting unsustainable pressure on terrestrial and aquatic ecosystems and the essential services they provide for humans (e.g., food, water purification, flood control, carbon sequestration). At the same time, if the world is to avoid dangerous warming, countries must reach net-zero emissions by 2050. The emergence of new renewable technologies and the significant reduction in their adoption costs made possible by innovation create a unique opportunity for the region to move toward achieving these important goals.

²⁵ Due to the nature of the topic, citizen security is mostly addressed through vertical interventions and is a key aspect of the rule of law. Under the new strategy, efforts to expand attention to citizen security in the region will be prioritized.

5.4 **What we will do:** The IDB Group will strengthen its partnerships with borrowing countries, subnational entities, and private partners and clients to transition to a net-zero emissions by 2050, resilient, and nature-positive future, consistent with the Paris Agreement. It will treat biodiversity, natural capital, and climate action as vertical priorities subject to direct investment, and as cross-cutting issues to be mainstreamed throughout the portfolio in diverse sectors and countries.²⁶ It will also work to position the region as a nature powerhouse, transitioning beyond carbon neutrality to become nature-positive, including by supporting the following efforts:

5.4.1 ***Adapt to climate change, boost climate resilience, and protect vulnerable populations.*** The IDB Group will concentrate its efforts on adaptation and disaster risk management to help the region address adverse climate change impacts that will persist regardless of emissions reductions. Fostering disaster risk management will play a key role in these efforts, by providing specific investments in disaster risk reduction, supporting policy reforms that strengthen the governance framework for disaster risk management, enhancing physical and digital infrastructure resilience, and strengthening social safety nets against adverse climate events and natural disasters, among other actions.

5.4.2 ***Seize opportunities for a green and just transition as a means of driving mitigation action.*** The IDB Group will focus support on policy reforms that promote public and private investment in green solutions and universal access to affordable clean energy, including fiscal and regulatory reforms, rationalized and targeted subsidies, elimination of the regressive and polluting subsidies to fossil fuels, and the levying of environmental taxes. It will also support creation of the conditions for development and implementation of emission-reducing digital solutions and green value chains and will facilitate and promote green trade and investment. On the private sector side, contributions to driving the mitigation agenda will include scaling up the work with financial institutions to help them grow their climate financing portfolio and supporting and mobilizing resources to key sectors such as sustainable energy, agribusiness, and tourism with the aim of generating positive externalities for other economic activities. Finally, the IDB Group will devote particular attention to tackle the costs of transition policies and processes, by supporting active labor policies and upskilling and reskilling for the low-carbon jobs of the future to facilitate a just transition that maximizes benefits, minimizes, and offsets costs, considers opportunities for selected extractive industries (e.g., lithium), and gives a voice to all parties affected by climate policy.

5.4.3 ***Conserve, restore, and sustainably manage terrestrial and aquatic ecosystems and reduce biodiversity loss.*** Given regional economies' heavy reliance on natural capital, it is imperative to harmonize economic growth with environmental preservation and restoration. The Group will promote the transition to nature-positive economic models, integrating biodiversity values into policies, regulations, and fiscal planning, supporting policy coherence across sectors, and leveraging public and private sector financial capabilities to drive investment into sustainable development.

5.4.4 ***Address local pollution.*** By tackling local pollution at its source in both urban and rural settings, the IDB Group can contribute to reducing the burden of disease, protecting

²⁶ The actions described as part of the IDB Group's future work on biodiversity, natural capital, and climate action will deliver on item 2.e of the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)).

biodiversity, and ensuring a clean and safe environment for the people of Latin America and the Caribbean.

- 5.4.5 **Build effective governance and multilevel coordination mechanisms.** The IDB Group will build these mechanisms to enable the region to deliver on its climate and environmental commitments and enhance coordination to address transboundary aspects of the agenda.

- 5.5 **How we will do it:** The IDB Group will prioritize the following tools to support the region and build institutional capacity on biodiversity, natural capital, and climate action:

- 5.5.1 **Knowledge and technical assistance.** The Group's knowledge, evidence-based technical assistance and advisory services for climate, biodiversity, and environmental sustainability²⁷ will include support for long-term planning and policy, fiscal and regulatory change, regional public dialogue, incentives to green upstream programming for future IDB Group operations, and high-quality research to better understand the needs of individual countries and critical biomes such as the Amazon, the Mesoamerican corridor and the Caribbean reef barrier. The Group will also expand advisory services and technical assistance to strengthen public sector capacity to manage climate policies and deepen the mainstreaming of priorities through non-financial additionality for the private sector to develop and adopt climate solutions. In addition, the Group will engage with civil society seeking to leverage its expertise and territorial perspectives. The new Office of the Special Advisor on Climate Change will strengthen the internal mandate for synergies and coordination across the three IDB Group entities.
- 5.5.2 **Green and climate finance.** The IDB Group will align all operations with the Paris Agreement. It will follow its Paris Agreement Implementation Approach: Principles, Methodology and Technical Guidance. The Group will support private sector clients to ease the needed transition through financial and non-financial solutions, and deliver transformational green and climate finance, with a strong focus on adaptation and resilience (e.g., by strengthening governance frameworks for disaster resilience, strengthening financial protection and disaster risk transfer mechanisms, and making specific investments in disaster risk reduction and preparedness). The Group will also consider the prudent use of concessionality and blended finance to incentivize collective climate action for the provision of regional and global public goods.
- 5.5.3 **Disaster risk management and financing.** The IDB Group will provide effective tools (i.e., lending and financial instruments, as well as knowledge-based solutions) for disaster risk management, including risk analysis, risk reduction, disaster and pandemic preparedness, and financial protection. The effectiveness of disaster risk finance hinges on accurate risk assessment, proper disaster risk management governance, and the availability of financial resources to invest in resilience and finance humanitarian relief, rehabilitation, and recovery needs. Management is finalizing its Disaster Risk Management Action Plan to be presented

²⁷

With particular emphasis on accurately assessing climate change, biodiversity loss, and disaster risks, as well as developing natural capital valuations and economic modeling, and diagnosing and guiding policy reforms to address climate change, nature preservation and restoration, and disaster risk management. These efforts will also include developing comprehensive nature-positive and disaster risk financing strategies, designing programs and projects to improve resilience to natural disasters and climate change, and supporting improved national measurement, reporting and verification systems for climate and biodiversity.

the Boards of directors. Box 5.1 provides more information on disaster risk management and financing.

Box 5.1. Disaster Risk Management and Financing

Natural disasters such as floods, hurricanes, droughts, heat waves, and wildfires have been exacerbated by the effects of climate change and pose a significant and increasing source of vulnerability to sustainable development in Latin America and the Caribbean with devastating human, socioeconomic, and fiscal effects. During the past 50 years, the number of disasters in the region increased more than threefold (WMO 2021). These disasters have had significant adverse effects on human morbidity and mortality, ecosystems, and economies. Between 2010 and 2019, direct economic losses from disasters in South America, for example, averaged \$3 billion per year, double the amount of the previous decade (2000–2009) (WMO 2021).

Other kinds of shocks such as those related to conflicts and their effects on supply chains have also led to an increased number of people facing high levels of transitory and chronic acute food insecurity. These risks are also a source of vulnerability that can also constrain economic growth and elevate poverty levels, and are likely to persist over the strategy period.

The IDB Group will take a holistic and proactive approach to address the multisectoral vulnerability issues associated with disaster risk management. This includes prioritizing actions that strengthen preparedness and resilience before threats escalate into disasters, whether from natural disasters, health emergencies, or food crises. Strengthening health systems in coordination with specialized agencies and other MDBs is an integral part of our pandemic preparedness work.

The Group will continue to promote programming, knowledge management, tool enhancement, and institutional capacity-building initiatives related to the management of these risks, serving as a platform to pool risks and sharing the burden with other multilateral development banks working in the region as well as with the private sector. Specific areas of support may include financing and technical assistance targeting risk reduction and resilience including improved governance and policy; and developing risk diagnostic and monitoring tools for various exogenous shocks, building on the experiences of the Contingent Credit Facility (providing \$3.6 billion of *ex ante* financial coverage to 16 countries for climate, disaster, and public health risk) by expanding coverage to other types of disasters and expanding catastrophe bonds and other risk transfer instruments, as well as climate-resilient debt clauses that allow for deference of principal repayments and *ex post* financing to revitalize economic activities and development after a disaster. Support may also include strengthening social safety nets against adverse climate events and natural disasters, among other actions, such as urbanizing informal settlements and promoting orderly territorial planning.

- 5.5.4 **Mobilization.** The IDB Group will focus on mobilizing and catalyzing private finance through results-based financing mechanisms contingent on achieving and verifying key performance indicators, thematic bond issues, guarantees for debt-for-nature conversions, and debt mobilization platforms to support private capital mobilization, among others. At the same time and to ensure unlocking private capital, this work will be accompanied by support for public sector actions to enhance the business regulatory environment, create or deepen local capital markets, increase domestic resource mobilization. IDB Invest's originate-to-share model will also increase private capital mobilization in key efforts. It will

also design and implement investment products and advisory services solutions that catalyze green and inclusive growth along with mobilization opportunities.

5.5.5 **Innovation.** The IDB Group will support and scale green innovation and business models, such as by developing and scaling new technologies and business models in sectors that have seen limited progress (e.g., agriculture, land use), as well as accelerating the development of new technologies for climate change mitigation and adaptation. This may occur through investments in early-stage tech-based climate companies, financing of private sector clients with high demonstrative effects and first-of-a-kind projects, and support for public-private efforts to develop efficient markets for carbon sequestration and biodiversity through the development of incentives to foster more investments in results-based disaster resilience, including nature-based solutions.

5.5.6 **Cooperation and integration.** The IDB Group will foster regional cooperation and integration by developing and expanding programs to tackle transboundary issues and partnering with other stakeholders to align approaches, enhance sharing of south-south experiences, and facilitate access to concessional funding for climate change and environmental sustainability, with a particular focus on adaptation needs of vulnerable, small island, and low-lying coastal states.

5.6 **What is new:** Under the Strategy, the IDB Group's attention to biodiversity, natural capital, local pollution, and climate action will reach new heights to respond to urgent global needs and reap the benefits of a just transition to a net-zero emissions by 2050, climate-resilient, and nature-positive economy. This includes deepening efforts to support country commitments to the Paris Agreement goals and ensuring alignment of all new IDB Group-financed operations. It also means developing and using innovative financial instruments, including climate-resilient debt clauses and financing instruments based on key performance indicators. In addition, we will take a more holistic approach under the new Strategy, creating closer linkages across the Group and leveraging synergies among, for example, adaptation, resilience, and disaster risk management.²⁸ Furthermore, in the coming years the Group's focus will shift from measuring investments in these areas to focusing on results, identifying new indicators to monitor climate efforts, and embedding climate considerations throughout development effectiveness tools.

Gender Equality and Inclusion of Diverse Population Groups

5.7 **Why it matters:** In Latin America and the Caribbean women, girls, and persons from diverse population groups—including indigenous peoples, Afro-descendants, persons with disabilities, and LGBTQ+ persons—continue to experience gaps along multiple outcomes and dimensions of their well-being. These are often deeper along intersectional identities and limit people's ability to

²⁸ The Group will support country implementation of the Kunming-Montreal Global Biodiversity Framework. From the perspective of disaster resilience, climate action will be fostered by furthering more investment in results-based disaster risk reduction, without overlooking the need to provide more innovative financial protection instruments to finance disaster loss and damage.

develop to their fullest potential.²⁹ Closing gender and diversity gaps and taking advantage of the skills of women and diverse population groups helps build stronger institutions, better policy, greater social cohesion, and more robust social and economic outcomes for countries.

5.8 What we will do: The IDB Group's support will include efforts to mainstream considerations of gender and diversity as well as investments whose general or specific objectives target these issues directly, with an increased focus on effectiveness.^{30,31} Efforts may include the following:

5.8.1 *Improve human capital with a gender and diversity lens.* The IDB Group's focus will include human capital development to increase access to education and vocational training programs for females and people from diverse population groups, support for the development of digital skills to reduce gaps, and initiatives to combat stereotypes and discrimination in education and career choices based on gender, race, ethnicity, disability, sexual orientation, and gender identity.

5.8.2 *Boost economic opportunities with a gender and diversity lens.* The IDB Group's support may include programs to improve women's and diverse population groups' employment, increase their participation in regional and global value chains, and finance market solutions to target their needs. The Group will maintain its focus on development with identity to respect indigenous notions of sustainable development.³² The Group will also work to ensure that women and diverse groups have access to housing, credit, property rights, and technology as well as access to high-quality systems of care (e.g., childcare for infants and toddlers, long-term care for older persons), which are closely related to female labor market participation.

5.8.3 *Enhance agency and voice.* The IDB Group will seek opportunities to support the promotion of women in leadership positions and decision-making at multiple levels and in multiple sectors, as well as in the development of positive models of masculinity, and the expansion of the rights and participation in decision-making processes of diverse peoples and population groups in the private and public sectors. Efforts will support the prevention of and response to violence, transnational human trafficking, and sexual tourism, including with a focus on LGBTQ+ persons.

5.8.4 *Strengthen gender and diversity institutional capacity.* The IDB Group will seek to improve the capacity of public institutions to gather, store, and analyze gender and diversity data. It will also work to enhance the capacity of national and subnational agencies responsible for gender and diversity, build the capacity to mainstream gender and diversity considerations in other public institutions, and champion the analysis of legislation and the development of legal frameworks that strengthen the rights of diverse people and

²⁹ Intersectionality refers to a framework for understanding how social categorizations—such as gender, race, ethnicity, social class, age, migration status, ability, sexual orientation, and gender identity—overlap with one another and with systems of power that oppress, marginalize, and disadvantage people.

³⁰ The items in this section are derived from the IDB Group's [Gender and Diversity Action Plan 2022-2025](#).

³¹ The actions described as part of the Group's future work on Gender Equality, Diversity, and Inclusion will deliver on item 2.g of the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)).

³² Development with identity refers to a process that includes the strengthening of indigenous peoples, harmony with their environment, sound management of territories and natural resources, generation and exercise of authority, and respect for indigenous rights, including the cultural, economic, social and institutional rights and values of indigenous peoples in accordance with their own worldview and governance.

population groups. Furthermore, it will advocate for the implementation of transparency and accountability policies within the public sector that are sensitive to gender and diversity, alongside initiatives promoting gender- and diversity-specific considerations in public expenditures and budgeting.

5.8.5 ***Mainstream a focus on gender equality and diversity into actions that address climate change.*** The IDB Group will work to foster the participation of women and diverse populations in the decision-making process for the climate change agenda, as well as to encourage gender and diversity-sensitive solutions and financing to promote sustainable, resilient, and healthy urban environments. The Group will also promote the recognition of indigenous peoples and Afro-descendant territories to protect natural capital and preserve the cultural and environmental value of these areas.

5.9 **How we will do it:** To increase the IDB Group's impact on gender equality and inclusion of diverse population groups, several enhancements are contemplated under the Strategy.

5.9.1 ***Contribute to the generation and use of knowledge to advance gender equality, development with identity of indigenous peoples, and inclusion of diverse population groups.*** The IDB Group will contribute to the generation of gender- and diversity-disaggregated data in the public and private sectors by strengthening agencies' capacity to use data to inform policies and programs. The Group will generate evidence on what works to address gender and diversity issues and strengthen the gender and diversity focus in country and sector dialogues, strategies, and programming, deepening the analysis of relationships to broader country development goals.

5.9.2 ***Enhance the quality of gender and diversity mainstreaming and expand direct investment portfolios, leveraging complementary instruments.*** The IDB will adopt a more deliberate and programmatic approach, combining policy-based loans (PBLs) and investment loans, including results-based loans as well as technical cooperation operations. This aims to expedite the necessary policy reforms and investments, in key areas such as addressing gender-based violence or leveraging the use of digital technologies to empower women. This empowerment includes expanding women's entrepreneurial skills, facilitating flexible career development that accommodates both work and household responsibilities, and tapping into international market opportunities. IDB Lab will focus on the entrepreneurial and innovation ecosystem to narrow gender and diversity gaps in finance, networks, and knowledge. Private sector financing and other market outreach activities by IDB Invest will support financial institutions to improve and expand financial and non-financial solutions for businesses owned or led by women or diverse groups. This involves guiding companies in fostering inclusive and diverse talent and raising awareness about the relevance of companies owned or led by women and diverse groups in anchor company value chains as well as promoting better access to and support for those entities.

5.9.3 ***Refine internal structures for improved capacity, collaboration, and results.*** The IDB Group's new Office of the Special Advisor on Gender and Diversity will strengthen the internal mandate for synergies and coordination across the three entities of the Group. The IDB also proposes to revise internal processes and strengthen the resources allocated to project execution to facilitate the achievement of and reporting on gender- and diversity-related

results. This will require enhancing capacity to address gender and diversity issues within the Group and among public sector counterparts and private sector clients, as well as fostering collaborative work between project teams and gender and diversity specialists.

5.9.4 **Mobilize resources for gender and diversity.** To leverage a higher level of interest from external partners to allocate resources, the IDB Group will create a facility to mobilize donor resources for gender and diversity as part of the Gender and Diversity Partnership Platform.

5.10 **What is new:** Under the Strategy, the IDB Group will expand the breadth and depth of support for gender equality and inclusion of diverse population groups. This includes elevating the importance of gender and diversity in the CDC and policy dialogue with sectors and ministries that are key in budget and policy decisions, addressing gender and diversity issues in programming with greater depth and scope, and adopting a more programmatic medium-term approach to investments in gender and diversity with a mix of operational instruments. Furthermore, under the new Strategy the Group will strengthen the emphasis on impact, increasing attention and resources devoted to gender and diversity during project execution and establishing more ambitious indicators and targets, with increased harmonization across the Group. The new IDB Group Impact Framework will include more ambitious targets for gender equality and inclusion of diverse population groups that reflect the Group's firm commitment to close gender and diversity gaps in the region and accelerate inclusive development.

Institutional Capacity, Rule of Law, and Citizen Security

5.11 **Why it matters:** Strengthening institutional capacity, rule of law, and citizen security (ICRL) is crucial to improve the ability of the state to deliver on its functions and services and to create an enabling environment for investment and private sector development. Strong institutions are critical to promote inclusive and sustainable growth, increase spending efficiency and tax collection, enable effective implementation of policy and delivery of public services, bolster public and private investment, increase domestic resource mobilization, promote transparency, consider civil society inputs and concerns, and improve citizen security and quality of life.³³ In addition, institutional capacity is critical to enhance development effectiveness given that strong institutional capacity of public sector agencies is key to both effectively implement projects to achieve development outcomes (project implementation capability) and ensure sustainability of outcomes (policy implementation capability).

5.12 **What we will do:** The IDB Group will focus efforts through programmatic approaches that combine public interventions, such as supporting capacity-building in public sector agencies and regulations conducive to favorable business environments, with market interventions that increase domestic resource mobilization and catalyze private financing. The Group will treat institutional capacity, rule of law, and citizen security as vertical priorities subject to direct investment, and as

³³ Crime and violence significantly undermine the objectives of this Strategy by intensifying disparities across income groups, leading to lifelong consequences on victims, and diminishing the investment, productivity, and competitiveness of businesses. The evolution of crime and violence into more organized criminal activities exacerbates these impacts, posing additional challenges to the legitimacy of institutions and governance. Moreover, emerging crimes, including illegal deforestation, mining, and other related offenses, are increasingly contributing to climate change and environmental degradation.

cross-cutting issues to be mainstreamed throughout its portfolio in diverse sectors and countries.³⁴ This includes the following:

- 5.12.1 **Strengthen public sector policy and management.** The IDB Group will help governments consolidate their public financial management, procurement, and public investment processes and practices. Additionally, it will work towards enhancing state structures, and optimizing organizational arrangements to facilitate intergovernmental coordination and policy implementation. Efforts will be direct to foster a meritocratic and skilled civil service, with increased representation of women and diverse population groups.
- 5.12.2 **Strengthen fiscal policy and management.** The IDB Group will focus on strengthening macro fiscal and debt policy and management, fiscal policy and management, decentralization and subnational governments, and equity and transparency of public resource use.
- 5.12.3 **Boost digital transformation of the public sector.** The Group will support digital transformation of governments as a powerful means to develop state capacity and service delivery and empower citizens, deploying an agenda to foster an enabling framework that includes digital governance and institutions, regulatory framework, digital talent, and digital infrastructure and tools, as well as sectoral digital transformation to improve efficiency and service to citizens. This will allow the region to better reap the benefits that disruptive technologies bring, leveraging digital technologies to enhance public sector management, fiscal policy and management, transparency, and citizen security, among other public policy areas. This includes fostering GovTech solutions, including AI-based options that can enhance the quality, transparency, and effectiveness of government services, making them more agile and citizen centric. These innovations could be an important regional public good that can benefit citizens across the region.
- 5.12.4 **Support transparency and integrity.** The IDB Group will foster public sector transparency and integrity across various areas including ethics and prevention of conflict of interest, open government, access to information, anti-corruption policies, fiscal transparency and resource accountability, control and audit entities, financial transparency, and measures to combat all forms of illicit finance including money laundering and financing of terrorism initiatives. It will also support sectoral transparency in areas such as extractive industries, infrastructure, and natural resources governance.
- 5.12.5 **Enhance citizen security and justice.** Building on best quality evidence, the IDB Group will aim to support clients at the national and subnational levels in: (i) implementing preventive policies and initiatives to mitigate the risk factors among most vulnerable populations such as children, women and diverse population groups; (ii) building resilience among victims and the affected communities, including enhanced reporting mechanisms and attention and reintegration services; (iii) building capacities in law enforcement and prosecutors agencies, including specialized units to proactively detect, prevent, address and prosecute complex crimes such as trafficking in persons, as well as the use of financial intelligence and digital tools to disrupt money laundering and cybercrime; (iv) improving

³⁴

Due to the nature of the topic, citizen security is mostly addressed through vertical interventions and is a key aspect of the rule of law. Under the new strategy, efforts to expand attention to citizen security in the region will be prioritized.

access to justice as well as management and administration of justice services to ensure timely and transparent case resolution; and (v) strengthening penitentiary system management and rehabilitation policy, including programs to reduce the influence of organized crime.

5.12.6 ***Improve the enabling environment for private sector development.*** The IDB Group will improve the enabling environment for private sector development by strengthening policy and state capacity to (i) foster the business climate (enhance business creation, investment, the trade and productive sector, entrepreneurship, innovation, MSMEs, and value chains; and reduce informality); (ii) enhance regulatory quality and capacity in critical areas (e.g., competition, property rights, consumer rights and protection); and (iii) boost the financial sector and financial inclusion.³⁵ Strengthening corporate governance and integrity culture in the private sector will also be prioritized, as it helps to create a more stable and predictable business environment.³⁶

5.13 **How we will do it:** To enhance the IDB Group's support for ICRL, several enhancements are contemplated under the Strategy, including the following:

5.13.1 ***Strengthen diagnosis of countries' priority challenges in ICRL to tailor the IDB Group's operational and knowledge response.*** The Group will assess countries' maturity across various dimensions of ICRL using the ICRL Country Matrix, a tool designed to pinpoint priority ICRL challenges within each country, which can then inform programming exercises and facilitate the integration of ICRL considerations during project preparation.³⁷

5.13.2 ***Enhance project tools to address ICRL gaps and enhance organizational arrangements and tools to enable more efficient and effective mainstreaming.*** The Group will strengthen project tools and further customize interventions to each country's level of ICRL maturity and state capacity challenges. This entails improving methodologies and processes throughout the project cycle as an instrument for capacity building to facilitate development effectiveness. Likewise, the Group will strengthen current mechanisms to mainstream ICRL in all IDB sectors and fine-tune project tools to customize interventions to the development effectiveness of interventions.³⁸

³⁵ Efforts to boost the financial sector and financial inclusion are critical to significantly increase the Domestic Resources Mobilization (DRM) potential of countries. These may include promoting the development of local financial and capital markets to develop private sector financing commensurate with market demands, including channeling resources through public development banks and financing structures to address structural market failures.

³⁶ Corporate governance practices ensure that companies operate ethically and responsibly and account for the impact of their activities in society. Corporate governance provides clear roles and responsibilities, well-defined reporting structures, and effective internal controls that ensure that decision-making processes are transparent and accountable, risks are managed properly, laws and regulations are complied with, and there is long-term thinking and positive relationships with stakeholders, all of which contributes to minimizing the risk of corruption and creating a trustworthy business environment.

³⁷ In addition, the Bank will continue to use globally recognized and accepted diagnostic methodologies as a mean to identify opportunities to strengthen, modernize, and reform national financial management and procurement systems, processes, and practices, such as the Methodology for Assessing Procurement Systems, Supreme Audition Institutions Performance Management Framework, and Public Expenditure and Accountability, among others. The Bank will also complement current work towards the use of country systems in IDB-financed operations.

³⁸ Including enhanced methodologies and processes for project design and implementation to enhance theories of change for a better understanding of capacity challenges and solutions, in addition to introducing incentives and flexibility to iterate project interventions until a more effective and efficient solution approach is tested, learned, and replicated.

5.13.3 **Explore new indicators to capture support for and results achieved through efforts to improve ICRL.** The Group will explore new ways to measure its contributions to various dimensions of ICRL. New metrics are expected to capture the IDB Group's contributions to specific areas of ICRL with more granularity.

5.13.4 **Strengthen existing instruments and expertise to selectively tackle structural and emerging threats to citizen security, particularly organized crime.** To address country specific challenges including at the subnational level, while tackling cross-border issues, the Group will enhance its approach in four key areas: (i) strategic dialogue; (ii) knowledge and research; (iii) client and operational support; and iv) mobilization of resources and partnerships.

5.14 **What is new:** Under the Strategy, the IDB Group will systematize its approach to mainstreaming ICRL by establishing a specialized team tasked with supporting ICRL mainstreaming across IDB projects, from inception in the strategic dialogue with countries, through project design and implementation. In addition, the ICRL Country Matrix will be prepared as an input for the preparation of CDC and Country Strategies as well as programming exercises. Regarding citizen security, the Group will intensify and refine its comprehensive and multisectoral approach to prevent and address crime and violence, including organized crime. The Bank will develop an Action Plan to provide deeper guidance in mainstreaming these topics into IDB Group policies and operations. The new IDB Group Impact Framework will also include more ambitious ICRL targets that reflect the Group's recognition that effective institutions are the necessary foundation for sustainable regional growth, reductions in poverty, and attention to climate change.

Social Protection and Human Capital Development

5.15 **Why it matters:** Together, interventions in social protection and human capital development can play a critical role in reducing poverty, vulnerability, and inequality, increasing economic growth, and enhancing capacity to mitigate and adapt to climate change. Countries need to reassess social protection systems to prepare societies for and protect them from the increasing occurrence of climate- and health-related shocks, prepare for an aging population, and transition towards a green economy. Technology is transforming the provision of essential social services. Additionally, technological advancements, such as artificial intelligence, are reshaping production and the skills demanded in the labor market which will require rethinking how governments approach human capital formation.

5.16 **What we will do:** The IDB Group will seek out comprehensive solutions, pursuing a multisectoral approach to tackle social protection and human capital challenges—with a particular focus on poor and vulnerable populations—and considering emerging trends related to technology, climate change, demography, and migration, among other areas.³⁹ This includes the following:

5.16.1 **Create a more efficient and adaptive social protection model that reaches the neediest and most vulnerable and adapts to a wide range of transitory severe shocks**

³⁹ The actions described as part of the Group's future work on social protection and human capital development will deliver on item 2.g of the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)).

such as pandemics, food insecurity, extreme climate-related events, and natural disasters, as well as long-run trends such as aging. This involves improving the efficiency of cash transfer programs through innovative targeting mechanisms and supporting countries in redesigning labor regulations, key social insurance programs such as unemployment insurance, healthcare, and pensions to expand coverage, ensure equity and fiscal sustainability, and reduce informality.

5.16.2 ***Support tax policy that is more effective in combating poverty and inequality and in minimizing disincentives to participate in the formal economy.*** This includes reinforcement of institutions to promote fiscal sustainability given the highly detrimental effect of fiscal crises in the region and enhancing public financial management to increase the effectiveness of social spending in reducing poverty and inequality. This should be accompanied by policy changes and institutional strengthening to improve the targeting and coordination of fiscal subsidies and transfer programs.

5.16.3 ***Increase the quality and efficiency of human capital formation services in the context of rapidly changing needs.***⁴⁰ This includes implementing smart spending to efficiently and effectively allocate resources to improve outcomes in health, early childhood development, education, and skill formation; fostering the digital transformation of healthcare provision, labor intermediation and learning environments; strengthening quality assurance mechanisms and fostering public and private sector solutions to increase the skills and opportunities for vulnerable secondary school students as well as secondary school dropouts; and improving access to affordable, high-quality healthcare, especially for vulnerable populations. Human capital formation will consider migrants as a source of labor productivity, the demographic bonus, and migration as a mechanism for positive contributions to the economies of the host countries. Through IDB Lab, the IDB Group can explore ways to harness emerging technologies and digital models to improve and expand the provision of scalable and affordable market-based services in areas such as health and skills formation/training.

5.16.4 ***Expand productive inclusion.*** The creation of sound income-generating opportunities in the region requires a multisectoral approach focusing on areas disproportionately affecting poor households to include a business environment and regulations supportive of growth and market access, public and private investments in infrastructure, innovation policies, access to finance, human capital, and labor-market formalization policies.

5.17 ***How we will do it:*** To enhance the impact of the IDB Group's work on this front with a clear focus on improving the outcomes for poor and vulnerable populations, the Group will emphasize:

5.17.1 ***Knowledge and innovation.*** The IDB Group will promote innovation through pilot projects for small amounts, with a speedy approval process, with more flexibility, and complemented with technical cooperation funds to perform impact evaluations.⁴¹

⁴⁰ The section on the operational focus of gender equality and inclusion of diverse population groups analyzed capital formation through a gender lens.

⁴¹ Some concrete potential areas of action are (i) reskilling programs for workers with lower levels of education (secondary schools or less); (ii) strategies to reduce the share of chronic poor households that are not covered by conditional cash transfers; (iii) programs that target the rural poor; (iv) social infrastructure projects to expand access of the urban poor to labor markets and of the rural poor to agricultural markets and non-agricultural labor markets; and (v) formalization policies.

- 5.17.2 ***Mobilization of resources and partnerships.*** The IDB Group will enhance collaboration with international partners and donors to align technical assistance efforts, boost cofinancing opportunities, and deploy innovative financing solutions (e.g., blending, policy-based guarantees, debt2health, and debt2education conversions) for health and human capital investments. The Group will also consider the use of concessional resources to incentivize investments in health, education, and social protection in vulnerable areas. In addition, we will seek multilateral partners for the coordinated production of key regional public goods to support countries during project design and execution with diagnostic and implementation tools (e.g., mapping service gaps and developing tools to improve the processes of acquisition of certain goods such as digital infrastructure).
- 5.17.3 ***Increase the capabilities of the IDB Group.*** This involves improving the ability of teams to integrate poverty and incidence analysis in CDC, Country Strategies, and project design. This calls for a clear focus on harmonizing and analyzing adequate high-quality microdata and providing statistical services to all departments within the IDB Group and matching administrative registries to produce poverty and vulnerability maps at a granular level.
- 5.17.4 ***Increase coordination across the IDB Group.*** Fostering coordination within the IDB Group to create truly multidisciplinary teams by establishing working groups and coordination mechanisms for key areas (e.g., designing and supervising social infrastructure, adapting human capital formation to changing needs). Deeper integration of IDB Invest and IDB Lab in country dialogues, Country Strategies, and sectoral guidance will facilitate more integrated approaches. At a project level, pilot IDB Group innovation programs (e.g., blending IDB and IDB Lab resources) should be designed to concentrate on specific areas or challenges, leveraging the strengths of different IDB group entities and experimenting with new approaches.
- 5.17.5 ***Establish a unified definition of vulnerability to be applied across the IDB Group.*** The Group is actively engaged to establish a definition of “vulnerability” to be addressed by operations that remains consistent across all Group entities and takes into consideration MDB work in this area and best practices, including the multi-dimensional nature of vulnerability.
- 5.17.6 ***Develop new metrics to guide lending and monitor results.*** The IDB Group will define stricter criteria to classify projects as addressing poverty, inequality, and vulnerability, which will be common across all Group entities. It will also entail a concentrated effort to innovate in developing indicators and systems for better monitoring and measuring of results of IDB Group operations.
- 5.18 ***What is new:*** Under the Strategy, the IDB Group will reinforce its commitment to investments in evidence-based solutions to ensure that all conditions are present to drive towards outcomes and developing comprehensive solutions or complementary operations to achieve results (e.g., investments in health infrastructure may need to be accompanied by improvements in service quality to bring the desired impact). The Group will also seek opportunities to provide counterparts with incentives to focus on higher-level results (e.g., learning and health outcomes) such as

through more focused use of ordinary capital resources (including distributions of net income), or additional technical assistance.

Sustainable, Resilient, and Inclusive Infrastructure with an Emphasis on Regional Integration

- 5.19 **Why it matters:** Latin America and the Caribbean face a significant infrastructure deficit in the quantity of assets, their maintenance, and the quality of services—all of which are essential for people’s well-being, companies’ competitiveness, job growth, and other critical development objectives. Addressing these deficits requires working with both national and subnational governments to scale up public investment, unlock unprecedented flows of private capital and increase domestic resource mobilization. These efforts must consider technological change and its potential to improve productivity and lower costs as well as change the nature of the demand for services.
- 5.20 **What we will do:** The IDB Group will work towards bridging knowledge gaps in the infrastructure sector to promote more effective solutions and enhance support for the construction of environmentally and socially sustainable physical and digital infrastructure, promoting universal access to services, reducing gender gaps in provision, encouraging a territorial vision, and enhancing infrastructure for regional and global integration to increase competitiveness. This includes the following:
- 5.20.1 ***Focus on the achievement of universal access to affordable infrastructure services.*** The IDB Group will focus on financing interventions to close the access gap to infrastructure services, increase affordability, adopt inclusive infrastructure designs and services (e.g., with gender perspectives and accessibility standards for people with disabilities), and support policy reforms, institutional strengthening, and capacity-building for reskilling and upskilling the labor force in infrastructure services. This should be paired with ongoing support for physical infrastructure. In addition, the Group will promote and enhance analytical work to help countries design means-targeted subsidy mechanisms to reach only vulnerable users, avoiding leakages to households, industries, and commercial users that can pay full cost-recovery rates.
- 5.20.2 ***Decarbonize infrastructure services and build resilient infrastructure.*** The IDB Group will support the region’s efforts by enhancing upstream and regional planning so that climate, disaster resilience, and sustainability considerations are contemplated from the start, advancing regulations that make infrastructure compatible with long-term net-zero strategies, designing infrastructure projects with nature-based solutions resilient to climate change and natural disasters in order to attract green financing, and leveraging partnerships to optimize the use of blended finance to support strategic infrastructure work. The combination of IDB Invest’s advisory services, blended finance and financial innovation provides an opportunity to unlock private sector decarbonization, innovation and resilient solutions.

5.20.3 **Improve infrastructure governance to increase the efficiency of spending and the delivery of services.** The IDB Group will strengthen upstream planning through the creation of infrastructure bodies, develop tools to supervise and improve the performance of state-owned enterprises (SOEs) and their accountability, develop sound asset management and anti-corruption strategies, rethink the institutional design of economic regulators to respond to technological disruption, and promote legislation and targeted mechanisms to foster transparency and integrity.

5.20.4 **Promote regional and global integration.** The Group will actively participate in relevant integration initiatives supporting coordinated action on the software (regulations and policies that reduce trade costs, such as trade and investment facilitation and promotion including through digital technologies) and hardware (investment in physical and digital infrastructure). It will also develop a new and more comprehensive approach to respond to emerging operational opportunities in this area, including with regard to regional value chains, and generate knowledge products on specific integration initiatives.

5.20.5 **Foster digital infrastructure and innovative technology-based services.** The IDB Group will support the region in designing better public investment, policy, and regulatory frameworks to crowd in private investment. It will also support better digital skills strategies to improve digital inclusion, the productive use of digital connectivity, data gathering, storage, and computing processing infrastructure. The Group will also support tech-enabled start-ups to scale solutions through high-risk, high-return financial products (equity and mezzanine) and will develop knowledge products such as digital connectivity maps and benchmarking indices to identify coverage and usage gaps.

5.20.6 **Increase private participation in the provision of infrastructure assets and services.** The IDB Group will contribute to the creation of markets for the provision of physical and digital infrastructure and work with agencies to produce infrastructure plans with high development impact and social returns, recognizing that projects with adequate funding and where the private sector adds efficiency gains must be bankable. The Group will further enhance the efficiency of markets required to increase domestic resource mobilization and attract public and private investment. Further, the Group will work with governments, private sponsors, and the financial sector to make infrastructure an asset class (e.g., standardized assets, development of taxonomies, environment, social, and governance labels).

5.21 **How we will do it:** To increase the impact of the IDB Group's work in the infrastructure space, several enhancements are contemplated under the Strategy, including the following:

5.21.1 **Maximize IDB Group synergies across the infrastructure space.** Coordination mechanisms among Group entities will be prioritized to increase domestic resource mobilization and support the mobilization of private investment at scale, which requires significant upstream work related to policies, instruments, and institutions. There are also opportunities to enhance synergies across physical and digital infrastructure services and integration. As infrastructure service provision increasingly converges (e.g., the water-energy nexus, digital technology in transport and energy, electromobility), adjustments to the IDB's organizational structure or incentives may enhance results.

5.21.2 **Develop targeted programs to strengthen countries' skills in economic regulation and competition policy.** Emerging trends impacting the provision of infrastructure services (e.g., digitalization, artificial intelligence) require new skills to implement effective and fair economic regulation, promote the creation of new markets, set incentives that lead to efficiency gains, and address cybersecurity. This applies particularly to digital trade, which involves localization, ownership, and transfer of data and responsibility for platforms.

5.21.3 **Enhance IDB Group instruments.** This effort is discussed in more detail in the following section. In the case of infrastructure specifically, the Group will explore, among other things, (i) options for pre-investment to support the structuring of projects, including public-private partnerships; (ii) options for lending with non-sovereign guarantees to cities/subnational governments and SOEs;⁴² (iii) hybrid PBLs and single-tranche PBLs to promote enabling environments and domestic resource mobilization and support technical assistance; (iv) programming structures to encourage regional integration projects; (iv) the possibility of contingent loans for riskier sectors, such as green hydrogen; and (v) programmatic solutions for equity and equity-like instruments for early-growth stages and beyond.

5.22 **What is new:** Under the Strategy, the IDB Group will shift from a traditional focus on investment in physical assets to concentrate on the quantity, quality, and affordability of the services provided by infrastructure in line with demands for services from citizens and companies. Digital infrastructure will receive enhanced attention through concerted collaboration and coordination between the public and private sectors, taking into account the private sector leadership in technological solutions and the public sector's critical role as a regulator and driver of digital education programs. The Group will also expand efforts to harness the potential of disruptive technologies and pioneering delivery models that can help make essential infrastructure services more affordable, accessible, sustainable, and inclusive. We will also foster the adoption of innovative financing instruments to leverage the participation of the private sector and develop infrastructure as an asset class. The increased use of public-private partnerships can also be an important instrument to reduce infrastructure gaps in the region. In addition, the Group will exploit its synergies to the fullest in this segment in order to promote adequate regulatory frameworks, advise the public sector, and foster pre-investment efforts.

Productive Development and Innovation through the Private Sector

5.23 **Why it matters:** Productivity growth in Latin America and the Caribbean has fallen behind the global frontier. Productivity is currently estimated to be about half of its potential, which explains to a large degree the region's inability to close the GDP per capita gap with respect to more advanced regions. Moreover, low productivity as a region is accompanied by high heterogeneity among firms, with few of them on the technological frontier, and many in the traditional sector with low productivity and high levels of informality that fail to adopt new technologies. This misallocation of resources is a major sources of productivity gap in LAC. Additionally, lack of

⁴² Any non-sovereign guaranteed lending by IDB Invest will be done in accordance with the Busan Resolution, which restricts lending to subnational entities; lending to SOEs will continue to be selective and with the principle of avoiding crowding out of private investments.

competitive pressure reduces the incentives for firms to innovate and improve efficiency, or simply to participate or stay in the market, hindering productivity growth while negatively affecting consumer and worker welfare.

5.24 **What we will do:** The IDB Group will refocus its actions to address challenges related to productive development and innovation through the following:

5.24.1 ***Redirect the efforts of the IDB Group towards addressing the productivity challenge and developing projects and policy discussions that enhance the business environment.*** A dynamic and competitive business environment and reduce misallocation is key to improve productivity. Besides eliminating distortions that hamper the business climate, reduce competition, and incentivize informality, the following targeted interventions will be critical to foster innovation by MSMEs, scale growth efforts, and improve allocative efficiency throughout the economy: (i) promote human capital development over the life cycle; (ii) improve the depth, access, and efficiency of financial and capital markets; (iii) facilitate trade and investment and technology adoption; and (iv) bolster physical and digital infrastructure.

5.24.2 ***Align interventions with market failures while considering the possibility of government failure.*** Successful implementation of productivity policies and private sector investments hinges on determining three key elements: (i) the market failure intended to be addressed; (ii) the optimal design to solve the identified flaw based on economic theory and empirical evidence, and (iii) whether the responsible institution has the necessary capacity and technologies to implement the policies. Given that the precise configuration of public inputs and market failures that impact productivity is highly specific to the context, the set of policy instruments should match institutional capacity. Instruments that are too demanding should be postponed until the capacity is developed.⁴³

5.24.3 ***Deploy interventions leveraging private sector capabilities and incentives.*** The Group will favor projects in partnership with private executors (e.g., incubators, investment funds, anchor companies) where cofinancing is expected to be the general rule to align incentives to select the most productive projects. We will also promote the strengthening or establishment of agencies specialized in public sector project implementation. When properly regulated, these agencies can mitigate the problems of temporal inconsistency that normally occur when policies are executed from ministerial levels. Additionally, the private sector financing through IDB Invest will support productivity gains at the firm and sectoral levels and efficiency gains leveraging the use of state-of-the-art technologies and promoting digital transformation among clients.

5.24.4 ***Foster mission-oriented approaches for innovation and productive development.*** The IDB Group should favor mission-oriented approaches, with interventions that support innovation, productivity policies and investments focusing on social and environmental challenges (e.g., climate change adaptation, energy transition, decarbonization, food security) to allocate resources and solve coordination failures. Priority will be given to policy

⁴³ In terms of private sector interventions with clients, financing of projects that contribute to increase productivity within industries such as manufacturing, agribusiness, and tourism or generate spillovers to other economic activities through the provision of physical and digital infrastructure will also be designed considering replicability and demonstrative effects in the markets as a means to develop applied know-how and attract more private investment.

instruments that solve coordination failures and facilitate the emergence of new markets (e.g., micro-regulations, public procurement, and development of demand-suppliers linkages). It will be critical that the public sector teams exploring and promoting frontier sectors with IDB Invest and IDB Lab leverage cutting-edge technology, digital tools, and innovation, and have the potential to evolve into future drivers of economic growth and enhanced productivity. Also in this case, new policies adopted will be subject to rigorous monitoring and evaluation.

- 5.24.5 ***Support adequate labor integration for migrants to increase productivity and economic growth in recipient countries.*** Intraregional migration has grown exponentially in the last five years, and the regularization of migrants has become increasingly common, making them eligible for social programs and formal jobs. However, legal and practical restrictions still prevent migrants' full economic integration. The IDB Group will work with countries to shape the assimilation paths of migrants with attention to supporting labor integration that can bring associated productivity increases in recipient countries.

5.25 **How we will do it:** The IDB Group will prioritize the following tools to support the region:

- 5.25.1 ***Promote dialogue on innovation and productivity.*** The Group will prioritize the integration of innovation and productivity analysis in project design and improving and fostering policy dialogue around productive development issues. Developing a mission-oriented approach requires a strong policy dialogue with authorities and other actors at the country level, employing strategic selectivity.
- 5.25.2 ***Use existing financing instruments to tackle regional productivity challenges through a regional approach.*** The strategic frameworks of the IDB Group consider a sectoral approach (e.g., Sector Frameworks and Action Plans) or a country approach (Country Strategies). These frameworks may not properly account for the regional challenges and opportunities different economic sectors face beyond national borders. This opens a space for the IDB Group to provide better regional public goods and to serve as a springboard to tackle challenges of technology adoption and transfer and development of regional value chains.
- 5.25.3 ***Enhance current capacity within the IDB Group to develop and apply relevant high-quality research.*** The Group will develop capabilities to produce, collect, and curate data and will foster knowledge implementation, exchange, and dissemination to enhance the current capacity to develop and apply relevant high-quality research through technical cooperation funding and other sources. This will also help develop capabilities to (i) foster a more effective policy dialogue; (ii) integrate productivity analysis into project design to avoid designing projects that will inadvertently lead to higher resource misallocation; and (iii) develop capabilities to produce, collect, and curate data.
- 5.25.4 ***Improve the IDB Group's internal coordination.*** The Group will work towards improving coordination among its different entities and units, including sectoral divisions involved in productivity policies. It will also strengthen country dialogue to focus on key reforms to foster productivity growth and establish programmatic approaches that leverage combined

resources and solutions across the public-private continuum (and across IDB, IDB Invest, and IDB Lab).

- 5.26 **What is new:** Under the Strategy, the IDB Group will emphasize a new approach combining (i) reforms to improve the business environment and reduce misallocation with government policies focused on mission orientation and enterprise startup and growth and (ii) an enhanced focus to maximize synergies within the IDB Group. The IDB Group will develop a more comprehensive approach to boosting productive development and innovation, by integrating productivity analysis into project design, enhancing policy dialogue on reforms that improve the business climate and rule of law, and fostering deeper coordination between the IDB, IDB Lab and IDB Invest, maximizing the synergies of the IDB Group. We will also promote a new approach to regional integration centered on productivity, using the Group as a springboard to address regional challenges via a mission-oriented regional model. The Group will strengthen incentives to generate high-quality research on innovation and productivity issues, expand current capacity for developing and applying relevant research, build capabilities for producing, collecting, and curating data, and foster knowledge exchange and dissemination.

Regional Integration

- 5.27 **Why it matters:** Despite regional trade agreements, non-tariff trade barriers and customs inefficiencies hamper trade flows within the region. Insufficient infrastructure and regional value chains compound the problem. Removing trade barriers and harmonizing regulations expands the market size for businesses within the region, stimulating entrepreneurship, investment, innovation and technology adoption, and economic growth. Joint infrastructure projects increase access to basic services directly benefiting impoverished communities. Regional environmental policies and regulations can support global public goods and help address climate change, as coordinated actions are often more effective. More integrated regions can also adopt resource-efficient practices, such as sustainable agriculture and efficient water use, and promote regional technology transfer for critical issues such as climate change.
- 5.28 **What we will do:** The IDB Group aims to strengthen its convening power as the main regional development bank with extensive presence the region, proactively promoting productive integration as well as enhanced integration of physical and digital infrastructure. This includes the following actions:
- 5.28.1 **Strengthen integration of infrastructure.** The IDB Group will combine investments in physical and digital infrastructure with support to streamline and enhance cumbersome border procedures through trade and investment facilitation. Development of cross-border infrastructure such as roads, railways, and energy networks can improve connectivity, reduce transportation costs, and promote economic development.
- 5.28.2 **Boost productive diversification in regional and global value chains.** Consistent with the agenda for innovation and productive development, the IDB Group will help countries identify which industries or sectors are best suited for regional value chain development given a window of opportunity related to shifts in global sourcing. As a result, the Group

can help (i) align needed policies to facilitate cross-border trade and investment; (ii) develop and improve relevant regional innovation and research and development infrastructure and operations; (iii) create mechanisms to encourage trade and investment (i.e., trade agreements, trade and investment promotion policies, and implementation of trade and investment facilitation initiatives); (iv) support regional projects across different industries with spillover effects for employment and exports; and (v) promote the adoption of digital technologies for their implementation and effective operation.

5.28.3 ***Build regional approaches to support the provision of regional and global public goods.*** Global or regional public goods are likely to be underinvested by national governments on their own. Currently the IDB Group strategic frameworks follow either a sector-specific or a country-centric approach and do not properly consider the regional challenges and opportunities faced by various economic sectors and stakeholders operating beyond national boundaries, leading to cross-border coordination failures. This presents an opportunity for the IDB Group to enhance regional coordination and the provision of regional and global public goods to exploit investment externalities. The Group plans to tackle these challenges by developing specific regional strategies to promote bioeconomy activities in the Amazon and the decarbonization of the heavy transport sector, combat vector-borne and infectious disease threats, transition to renewable energy sources through the adoption of new technologies, strengthen sustainable tourism to generate positive externalities and spillovers to other economic activities in the Caribbean, and support regional migration strategies and other initiatives, such as "America en el Centro," which aims to address the challenges of regional integration between the Central American Isthmus and the Dominican Republic, coordinating efforts with other development partners, mobilizing resources, and sharing knowledge and technical cooperation.

5.29 ***How we will do it:*** Considering the multidimensional aspect of integration, the IDB Group will target interventions in three dimensions identified as the hardware of integration, software of integration, and functional cooperation. Actions will include the following:

5.29.1 ***Enhance programming capacity for regional integration.*** The IDB Group engages in policy discussion with government authorities that typically concentrate on individual country challenges and specific country portfolios. Hence, the Group objective is to enhance dialogue capabilities at the regional level to facilitate more efficient sector-specific discussion and strengthen the capacity to develop a regional pipeline of operations. This calls for alignment across IDB Vice Presidencies and Group entities, leveraging the role of the Vice Presidency for Countries to build a stronger strategic and programming dialogue in the region to identify key cross-border initiatives and projects.

5.29.2 ***Renew and elevate institutional commitments to regional and global integration.*** This can be achieved through active engagement in national government, regional, and global initiatives as well as through dialogue with strategic private sector sponsors to finance flagship private sector projects contributing to this agenda.

5.29.3 ***Support the continuous strengthening and adoption of common regulatory and institutional principles and procedures as well as trade and investment policies.*** This will facilitate greater cross-country exchanges, the connection of subregional markets with

extra-regional markets, and cross-border mobility of people (e.g., cross-country homologation of skills and adjustment of social security systems). This includes working with countries and their relevant agencies to ensure that regional and global integration initiatives take simultaneous and coordinated action on the software (regulatory frameworks and policies to reduce trade costs, including those associated with tariff barriers, transport costs, regulations, trade and investment border procedures, and information frictions) and the hardware (investment in physical and digital infrastructure).

5.29.4 ***Foster productive diversification through regional and global integration.*** This involves developing knowledge capacity to identify and take advantage of opportunities in new and larger foreign markets that demand more differentiated goods and services and attract sustainable foreign direct investment. This requires effectively addressing information frictions through evidence-based trade and investment promotion programs implemented by properly designed and endowed agencies and their coordination with linkage and innovation programs to disseminate the benefits of internationalization throughout the economy.

5.29.5 ***Promote innovative instruments for regional integration and cooperation.*** Options that emerge in this agenda are multi-country Conditional Credit Lines for Investment Projects (CCLIPs) that can support regional infrastructure integration, and multi-country PBLs, loans based on results, or hybrid PBLs that facilitate regional agreements and moving forward on the software side of regional integration. The use of concessional resources could foster regional integration initiatives. On the private sector side, early and active engagement with sponsors and companies committed to contribute to regional integration projects will lead to more flexible and tailor-made financial solutions, including mobilization alternatives, designed for each specific type of investment.

5.30 **What is new:** The Strategy will strengthen sectoral capacity and orient new regional programming exercises that lead to a more comprehensive approach to regional integration in Latin America and the Caribbean. The IDB Group intends to bolster its role as a regional development bank by advocating for productive, physical, and digital infrastructure integration. The focus is on enhancing programming capacity for regional integration with a Group perspective, streamlining infrastructure development, promoting productive diversification in regional and global value chains, and building regional approaches to address shared challenges. Actions involve renewing institutional commitments, developing a more comprehensive but also more selective approach, fostering common regulatory principles, coordinating action on both software and hardware aspects of integration, and promoting innovative instruments.

6. The IDB Group Approach: Transforming How We Serve Our Region

- 6.1 **The IDB Group will deliver services to countries and clients using an approach with five core elements to maximize the delivery of value and results.** Concrete reforms are contemplated for each element, and each element is part of an ongoing and long-term effort to reinforce the Group's efficiency and efficacy in delivering results over time. Several elements were conceived as part of implementation of the mandate of the Washington Resolution. Building on them within the framework of the Strategy development process provides the opportunity to tailor and fine-tune the elements towards the pursuit of institutional goals and increase our level of ambition as we implement the IDB Group vision and meet the growing expectations for MDB reforms (as depicted in Box 6.1 at the end of this section).⁴⁴ As such, the elements of the IDB Group approach to serving the region presented below will leverage the Group's comparative advantages and build complementarities with other international financial institutions working in the region.

Impact Orientation

- 6.2 **Measuring and managing for development impact at the project, portfolio, and institutional level matters as the IDB Group addresses complex social issues, tackles climate change, and supports sustainable and inclusive development in the region.** Achieving impact requires that a commitment to development effectiveness and responsibility for delivering impact not be concentrated in a limited set of roles, but rather permeate throughout the IDB Group, guiding decision-making and becoming ubiquitous in our collaboration with partners.
- 6.3 **The IDB Group will build a culture of impact, restructuring its processes, decision-making, and incentives to solidify an impact orientation.** This includes transforming the impact management frameworks of both the public and private sector areas of the Group so that these frameworks further increase our accountability, evidence-based decision-making, learning, and development impact. Renewed attention to development results will mean systematically addressing current challenges, especially at the portfolio level, and integrating effectiveness more thoroughly into our dialogue with countries and private sector clients. Each Group entity will work to build, measure, and manage its portfolio for impact, aligning leadership and incentives around the delivery of results. The tools and processes used by each entity of the Group will be adjusted in line with these transformations, informed by lessons learned from operational experiences to date and taking advantage of cross-fertilization across the IDB Group as well as the experiences

⁴⁴ Pursuant to its Board of Governors' mandate, the Board of Executive Directors and Management of IDB Invest have developed a proposal for a New Vision and Business Model for that entity. The vision's implementation plan will align with the Strategy and involves significant reforms with operational, institutional, and financial implications.

of peer institutions.⁴⁵ The following priority areas of action and reforms will support construction of this culture of impact:

- 6.3.1 ***Target outcomes to ensure that the IDB Group and its clients measure and evaluate what matters.*** The Group will emphasize the definition of top-line indicators and metrics and their corresponding assessment tools to ensure that they send clear, coherent signals within and beyond the institution that impact is what matters. This focus on outcomes will be enhanced by the adoption of a programmatic approach (see the next section on Strategic Selectivity) in which operations are coordinated towards a set of shared outcomes, recognizing the long-term and systems nature of development. Furthermore, the Group will enhance its capacity to engage with partners on impact and development effectiveness issues, and to proactively compose and manage each entity's portfolio for delivering results and impact.
- 6.3.2 ***Prioritize effectiveness to ensure shared understanding and ownership around development impact and invest in building capacity among clients.*** To better respond to the significant heterogeneity in development needs and country contexts, the Group will strengthen its partners' impact measurement and technical, operational, and managerial capabilities. This includes developing new upstream approaches to increase pre-investment support, and forging connections to systems, knowledge, and innovation networks to strengthen partners' monitoring and evaluation systems.
- 6.3.3 ***Support agile learning to generate, access, use, and share knowledge from operations, partners, and other sources to enhance IDB Group agility and impact.*** The Group will shape the mechanisms that incentivize the generation and use of impact-relevant knowledge at the portfolio and project levels, including from both successful and unsuccessful interventions. This knowledge will focus on recurring challenges and drivers of performance and on the performance of the impact management tools and incentives themselves. Special attention will be given to establishing and partnering on the evidence of impact, coordinating knowledge management within the Group, strengthening the transparency of outcomes and impact, and positioning the Group as a knowledge leader in strategic areas by developing deep expertise in emerging and innovation topics. For more details on the Group's approach to knowledge, see the section below dedicated to that topic.
- 6.3.4 ***Build governance around impact to ensure focus, quality, agility, consistency, and transparency, with adequate, resource-efficient checks and balances at each level of the IDB Group.*** This involves focusing on clearly establishing the responsibilities of different roles for creating and managing a portfolio that delivers sustained impact, and on providing the ways and means (e.g., leadership, policies, regulations, operationalization of key concepts, communication, digital solutions, assessment tools) to promote the fulfillment of these responsibilities, and hence impact-focused decision-making, appropriate to the respective sphere of influence at each level.
- 6.3.5 ***Establish an impact-based meritocracy to ensure that IDB Group employees have the right skills to target and deliver development impact.*** The Group will deliberately

⁴⁵ The actions described as part of the Group's future work on impact orientation will deliver on item 2.a of the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)), specifically with the focus on improving the IDB's development effectiveness.

structure incentives for its employees to reinforce their intrinsically motivated focus on results. This means sending clear, coherent signals on what is valued, improving skills that increase employees' ability to deliver development impact, rewarding work in complex contexts where achieving impact might be more challenging, and fomenting a culture of impact.

- 6.3.6 ***Proactively monitor and address risks to results achievement.*** This includes continued prioritization of application of the IDB Group's environmental and social policy frameworks, which includes safeguards and standards to manage environmental, social, and governance risks associated with project activities with the aim of improving the value of projects for all stakeholders. In addition, proactive risk monitoring and management associated with project implementation will be important to identifying issues early and adjusting course where necessary to maximize the likelihood of achieving results.

Strategic Selectivity

- 6.4 **As the development needs in Latin America and the Caribbean are great and IDB Group resources are finite, it is critical that resources be put to the best possible use to foster impact.** Strategic selectivity involves the careful and thoughtful selection, in collaboration with counterparts in each country, of specific areas for investment. This process aims to maximize the developmental impact of the Group's interventions in each unique context. To establish an inclusive approach for tackling overarching challenges grounded in evidence-based solutions, the initial step involves conducting joint diagnostics with countries and the collaborative identification of priorities.⁴⁶ This proactive process seeks to harness interdependencies and synergies across the entire Group, identifying areas with the highest potential for development impact. It enhances the dialogue with countries, facilitating effective responses to a broad spectrum of development challenges, when formulating country strategies and programming.
- 6.5 **Embracing selectivity as a guiding principle implies a concerted effort to strengthen our long-term partnership with countries, jointly identifying their most pressing needs and cost-effective solutions, in alignment with the Group's institutional priorities.** This will be realized through a combination of interventions across the three entities, careful selection of instruments, and thoughtful sequencing. All three entities will deliberately adopt a concerted, evidence-based approach to selectivity. To achieve greater impact, selectivity should extend beyond strategic considerations to project design and adjustments. Acknowledging the realities of a country's institutional capacity and the time required for execution can significantly improve project preparation and oversight, leading to more favorable outcomes and increased impact. Country ownership remains pivotal in shaping these outcomes. These factors will also play a crucial role in the formulation of donor coordination and partnership strategies.
- 6.6 **The IDB Group will improve its strategic selectivity, engaging in a deeper dialogue with countries, and will use a programmatic approach leveraging the IDB Group's comparative advantages to tailor support where it can have the greatest impact.** Given the magnitude of challenges and the clear interlinkages between global, regional, and country development

⁴⁶ The IDB Group may also engage in joint diagnostics with other MDBs where efficient and beneficial to borrowing countries.

outcomes, projects cannot be conceived in a vacuum. Continuity across strategies will enhance clarity over time of what is important and how to prioritize. By outlining a clear long-lasting vision, this approach will help maximize resource mobilization. The Group will also propose a strengthened framework to analyze fragile and conflict-affected contexts, such as Haiti and Venezuela. The elements below will be key to achieving greater selectivity in programming.

- 6.6.1 ***Strengthen the preparation of CDC by assessing private sector challenges and identifying priorities for public upstream work.*** This will require reinforcing the internal capacity of IDB Invest and IDB Lab to integrate their insights into CDC processes. On the public side, the CDC will include an assessment of each country's maturity across various dimensions of ICRL, using the ICRL Country Matrix to pinpoint priority challenges in these areas. Enhanced CDC will support government dialogue on the role of policy in promoting development of the private sector and its contributions to development outcomes.
- 6.6.2 ***Expand and enhance the Country Strategy framework in four areas:*** (i) strategic positioning, (ii) public-private synergies, (iii) evidence-based design and iterative implementation, and (iv) country-specific capacity and use of fiduciary and non-fiduciary systems, especially for monitoring and evaluation. This will imply integrating operational and market lessons learned from IDB Invest and IDB Lab and reviewing evidence on what has been working. Updating the Country Strategy processes will allow IDB Invest and IDB Lab to fully participate as co-leaders.
- 6.6.3 ***Develop and implement new guidelines for an enhanced data-driven and impact-oriented programming process for the IDB.*** This will (i) increase the robustness of the internal origination process, (ii) foster early and robust alignment with corporate and country priorities, and (iii) identify Group synergies and upstream and mobilization opportunities.
- 6.6.4 ***Through dedicated frameworks, tailor assistance to special contexts such as fragility, conflict and violence and the needs of small island developing states.*** Responding to the Washington Resolution, the IDB is developing (i) a framework to support populations in situations affected by fragility, conflict, and violence, and (ii) the Partnering for Caribbean Development Framework (One Caribbean).⁴⁷ Both will put forward recommendations to shape the IDB's support for addressing the specific challenges in these contexts, in collaboration with others MDBs. For example, One Caribbean aims to promote sustainable development in the Caribbean with a focus on high-impact interventions, response to regional priorities, harnessing of IDB Group knowledge, and sparking donor interest through innovative financing and mobilization.

Effective Instruments and Mobilization

- 6.7 **The financial instruments used in operations are critical to enhance the scale and development impact of IDB Group interventions at the country level and in the region.** They must be geared towards maximizing the Group's deployment capacity, impact, and mobilization opportunities. Doing so requires the Group to move towards results-based, programmatic

⁴⁷ These items will deliver on item 2.f of the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)).

approaches that shift the focus from a single operation intervention to more comprehensive and strategic medium- and long-term support. Instruments can be critical in this endeavor, engaging new clients such as cities and subnational entities, promoting the provision of regional and global public goods, partnering with national development banks, increasing domestic resource mobilization, and catalyzing private finance. Their appropriate combination can provide relevant solutions to heterogeneous contexts. Given the limitation of the Group's balance sheets *vis-à-vis* the trillion-dollar-sized SDG financing gaps and the fiscal constraints of clients and donors,⁴⁸ private resource mobilization must be a key consideration when deploying instruments and capacity across the three Group entities. In addition, promoting the development of standardized products that leverage successful experiences and prototypes—while enabling country-level adjustments—will help increase efficiency, time-to-market and scalability of IDB Group interventions.

- 6.8 **To address countries' development needs while tackling cross-border regional issues, the IDB Group will tap public and private co-financing sources in international and domestic markets and scale up private direct and catalytic mobilization through innovative lending instruments and financial products, while supporting the provision of an enabling environment through financing instruments to crowd in private sector investments.** In addition, the Group will build on synergies from the three Group entities and pursue programmatic approaches to strengthen the legal and regulatory frameworks needed to enhance the investment climate of borrowing member countries. At the same time, the Group will work to innovate the financial product catalog to include more public-private financial structures, foster the use of the flexible guarantee instrument and other risk mitigation and credit enhancement products, develop local currency solutions, support domestic resource mobilization, and develop innovative mobilization tools. The Group will continue to work with other MDBs to exploit synergies and complementarities for enhanced development impact.⁴⁹ Management will put forward proposals in each of the following areas for the Board's consideration.

- 6.8.1 ***Strengthen programmatic approaches.*** This will be done by proposing measures to enhance the quality, relevance, and accountability⁵⁰ of PBLs and using them to support the core objectives of the strategy, including reforms that foster domestic resource mobilization to unlock capital, enhance the enabling environment for private sector development, and support the provision of regional and global public goods. These measures will foster PBLs as an instrument for structural change, and the quality of the reforms proposed will be its main driver. A review of PBLs and their use will initiate a broader revision of the Bank's toolbox of instruments. This reform seeks to enhance the quality and impact of PBLs to ensure the consistent delivery of sound projects through a series of measures, that encompass (i) improving quality across the entire project cycle, spanning from programming and design to ex-post evaluation; (ii) fostering quality assurance processes; (iii) empowering staff with the necessary skills and capacity to conceive robust operations; (iv) reinforcing accountability by implementing a mechanism for reporting to the IDB Board of Executive Directors on PBL preparation and execution; and (v) encouraging self-evaluation and learning by conducting periodic exercises to identify overarching trends in

⁴⁸ Of the Bank's 26 borrowing member countries, 15 are classified as upper-middle-income, and five are ineligible to receive official development assistance resources (per the [OECD List of DAC Recipients of ODA](#)), with flows of these resources to the region diminishing over the last decade.

⁴⁹ The actions described as part of the Group's future work on effective instruments and mobilization will deliver on item 2.c of the Washington Resolution ([AG-7/22 and CII/AG-3/22](#)).

⁵⁰ Particularly when reporting to the Board and for lessons learned.

PBL use, assess results, and extract valuable lessons. These insights will, in turn, inform future policy and guideline adjustments. Medium- and long-term programs that tackle large and complex challenges will also be addressed by deploying a series of investment projects through improvements in the CCLIPs that strengthen their due diligence, speed their approval, and provide flexibility to combine operations for multiple countries and sectors contributing to the same development objective.

- 6.8.2 ***Rationalize and harmonize regulations.*** This encompasses the possibility of consolidating all investment regulations into a single Unified Investment Lending Policy that allows for combining instruments, provides consistency and flexibility to prepare, implement, and adjust investment projects, considers cofinancing opportunities that align with private sector demands, and reduces menu costs through harmonization and effective management tools, particularly for disaster risk management instruments. The increasing frequency and impact of natural disasters calls for new financial solutions (hybrid financing of disaster risk reduction and emergency response, contingent financing, and hedging products), stronger domestic resource mobilization efforts to address their fiscal impact and amplified technical assistance to countries to mitigate the impact of these new risks.
- 6.8.3 ***Develop new business niches.*** This will consider exploring the legal and technical viability, as well as the potential demand, for IDB Group mechanisms to support subnational governments (e.g., cities) and SOEs in the process of improving their local finances, creating bankable projects and ultimately creditworthiness.⁵¹ A successful mechanism would likely require a flexible combination of sovereign guaranteed instruments (loans, guarantees, technical cooperation operations) in the early stages, and support through non-sovereign guaranteed lending from the Group in later phases, once enhanced creditworthiness of the subnational entities is attained. IDB Invest lending to SOEs will continue to be selective and with the principle of avoiding crowding out private investments.⁵²
- 6.8.4 ***Develop a new concessionality framework.*** The existing concessional framework will be revised to ensure the most efficient use of resources while complying with the Bank's financial policy framework, and devising clear criteria, such as vulnerability, to enhance scale and impact. This will encompass strengthening of the existing structure to ensure support to the poorest countries in the region and creating positive incentives to contribute to the provision of regional and global public goods. A combination of financial incentives (e.g., grants, loan pricing, guarantees) can help overcome coordination failures and tackle vulnerabilities. Innovations in the use of concessionality and blended finance can encourage relevant country and collective action on regional and global public goods. This endeavor will draw insights from best practices observed in other MDBs. The IDB will also propose a review the allocation of the Ordinary Capital Net Income (OCNI) to closely align to strategic priorities and bolster capacity to support both country-specific and coordinated action on regional and global challenges, highlighting any tradeoffs in their use.⁵³ The Bank will explore innovations in the use of concessionality and blended finance to address market failures, catalyze private finance, and promote regional integration, while exploring targeted

⁵¹ For more information on the proposed approach to work with subnational governments and cities, see IDB (forthcoming).

⁵² In the case of IDB Invest, the Busan Resolution restricts lending to subnational entities.

⁵³ In fact, technical cooperation operations funded from ordinary capital resources can be used strategically to address institutional capacity constraints, generate a pipeline, support investment lending absorption, and enhance the quality of operations such as PBLs.

portfolio guarantees and other financial innovations to expand balance sheet capacity and incentivize *pari passu* donor contributions.⁵⁴ Following previous work presented to the Board in 2022, the IDB will continue working to inform discussions on the relevance, objectives and potential application of the existing country classification.⁵⁵ As concessionality is a scarce resource, it should be used selectively and can be an important incentive to address vulnerability and to maximize scale and impact to deliver domestic, regional, and global public goods.

- 6.8.5 **Strengthen strategic use of technical cooperation.** As part of the discussion on the allocation of ordinary capital resources (including distributions of net income), the IDB will review the distribution of technical cooperation funds and update the technical cooperation policy. This will provide the opportunity to better define the level of resources required to support the objectives of the Strategy and their efficient and effective distribution.
- 6.8.6 **Undertake innovations with financial instruments.** The IDB Group will continue to lead the way in this area by increasing and improving the supply of local currency financing, debt swaps, the use of credit insurance and securitizations to improve domestic resource mobilization and capital efficiency, the use of first-loss structures to catalyze mobilization of private investors and, especially, pioneering results-based pricing strategies that incentivize and reward development impact, such as the recently launched IDB Biodiversity and Climate-Linked Mechanism for Ambition (CLIMA).⁵⁶ The Group will also continue working on the incorporation of the latest technological developments, such as blockchain and artificial intelligence, to increase the efficiency of our financial instruments.
- 6.8.7 **Scale up IDB Group mobilization strategies.** This encompasses leveraging the balance sheets of IDB and IDB Invest via continuous balance sheet optimization (BSO) measures that enable sharing risks with third parties (particularly private investors) and unlock additional lending capacity. This will also require increasing direct mobilization via operational and financial instruments to complement own-account Group financing to clients, and scaling up catalytic mobilization that results from our interventions that improve the investment climate, mobilize domestic resources, and scale up foreign direct investment in client countries. The Group (particularly the Bank) may also take a bigger role in structuring and syndicating sovereign guaranteed operations. By structuring operations, the Bank could also exploit public-private synergies and optimally design measures to ensure maximum private sector mobilization. The Bank will analyze the possibility of establishing a dedicated structuring working group led by the Office of Outreach and Partnerships and composed of all the IDB Vice Presidencies, IDB Lab, and IDB Invest to enhance private

⁵⁴ *Pari passu* donor contributions aim to leverage OCNi transfers to mobilize donors to contribute to strategic priorities on financial terms similar to those of the IDB. This follows the experience of the second Governors' resolution (2022) for migration support, which set up a financing scheme in phases in which \$25 million from the Grant Facility should be matched by \$25 million from donors, up to a total of \$100 million. A similar scheme is envisaged for the IDB Lab replenishment (MIF-IV) under which OCNi transfers leverage donor contributions.

⁵⁵ This work will deliver on item 2.d of the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)).

⁵⁶ For more information on CLIMA, see [AB-3386](#). The IDB has become the first MDB to offer a financing tool rewarding countries for achieving nature and climate objectives. This innovative instrument will provide the borrower with a discount when nature and climate objectives of selected loan projects are met according to a set of key performance indicators. The discount will be provided in the form of a grant, equivalent to roughly 5 percent of the principal. A total of up to \$1 billion in loans from the Bank's Ordinary Capital will be provided for up to 10 projects chosen for the pilot phase. To be eligible, the loan project must include financing to strengthen the capacity of national systems for environmental measurement, reporting and verification, and goals in this area must also be met to unlock the discount. See IDB, "IDB's Innovative Financing Tools Reward Results on Nature and Climate," Press Release, September 27, 2023 (www.iadb.org/en/news/idbs-innovative-financing-tool-rewards-results-nature-and-climate).

sector mobilization efforts, drawing from the IDB Group's extensive sectoral and market expertise.⁵⁷ As part of its proposed New Vision and Business Model, IDB Invest will deepen its mobilization tools and expand the use of approaches to reallocate risk,⁵⁸ including financial approaches (e.g., subordinated positions, local currency financing, guarantees, unfunded risk facilities), non-financial approaches (e.g., support for preparation and supervision, building client capacity, managing integrity or environmental, social, and governance risk tools), and approaches involving the use of equity and equity-like instruments (complementary with the early-stage equity supported by IDB Lab). The originate-to-share model by IDB Invest will be a key part in scaling up private capital mobilization. With a high tolerance for risk and experimentation, IDB Lab can serve as a testing ground to pilot new ways to attract private sector participation. These measures are expected to allow the IDB to increase lending by \$5 billion annually or \$50 billion over a decade, and IDB Invest to achieve a mobilization ratio between 1.7x and 2x under its new business model. Deepening ties beyond existing partners and stakeholders and engaging with non-traditional third parties—including philanthropic organizations, international aid organizations, and institutional investors—while coordinating with other international financial institutions working in the region, will amplify these results. Similarly, IDB Lab aims to enhance its capacity to mobilize resources, which is a fundamental element of its funding model under a potential MIF IV.

Public-Private Synergies

- 6.9 The pursuit of synergies responds to the evolving nature of development challenges that demands more participation of the private sector and a continuum of public-private solutions.** Development through the private sector is an intrinsically public-private endeavor that requires an IDB Group approach. It depends on regulatory frameworks and institutions that promote enabling environments for investment, on well-functioning markets, and well-funded, innovative, and competitive firms. Group synergies leverage strengths, resources, expertise, and efforts of the IDB, IDB Invest, and IDB Lab to create better conditions for private investment, deliver more impactful, scalable, and replicable solutions across the public-private continuum, increase the mobilization of private sector resources, and deliver development outcomes. These opportunities are further enhanced by the transition of IDB Invest toward an originate-to-share model.

⁵⁷ Between 2016 and 2022, the IDB mobilized the equivalent of 68 cents for every approved dollar, revealing its crucial role in stimulating private financing. Public intervention (through the provision of a business-enabling environment with policy-based lending, guarantee mechanisms that mitigate risk, innovative instruments such as thematic bonds that leverage private finance, and partnering with public development banks with global credit operations) alleviates financial constraints for companies (particularly MSMEs) with profitable projects, helping improve conditions that boost growth and productivity, such as low capitalization and investment rates. In the case of IDB Invest, the mobilization ratio ranged between 0.7 and 1.1 from 2020 through 2022. This ratio only includes long-term mobilization and is based on the definition of core mobilization which includes the sum of public and private third-party financing and risk sharing committed to an IDB Invest operation due to the active and direct involvement of IDB Invest in securing the financing and risk sharing commitment.

⁵⁸ This includes financial and non-financial tools that mitigate and/or manage perceived risks. At the project level, IDB Invest's financial participation in projects can help adjust risk returns to make projects viable for clients and investors by sharing some of the risk that would otherwise fall to the investor. It can also provide non-financial support for project preparation and supervision, and to build client capacity and manage integrity or environmental, social, and governance risks, thus improving the performance and risk profile of projects while mitigating reputational risk.

6.10 **The IDB Group will roll out a Synergies Framework rooted in the comparative advantages of its three entities to uncover and incentivize strategic, operational, and organizational synergy opportunities.** Group synergies combine IDB's capabilities to improve enabling environments, strengthen institutional capacity and the rule of law, nurture the creation of new markets, and foster regulatory reforms, with IDB Invest's private sector solutions and deep expertise, and with IDB Lab's capabilities and risk appetite to cultivate innovation, ecosystems, and technology advancement. Group synergies are (i) strategic, with a focus on deepening the strategic alignment across Group entities and country dialogue; (ii) operational, with a focus on working upstream, aligning knowledge production, combining instruments, and scaling innovative solutions; and (iii) organizational, with a focus on strengthening key roles, such as the Country Representatives and the Public-Private Partnerships Team. The principles for the new Synergies Framework will be embedded in key Group processes and organizational enablers, and existing governance mechanisms will be leveraged to monitor its progress and create accountability. This will include the following elements:

6.10.1 ***Promote synergies across the IDB Group's strategic framework through reforms of Country Strategies, programmatic approach, and Sector Framework documents.*** The Group will integrate synergy principles and opportunities in key strategic documents co-led by the IDB, IDB Invest, and IDB Lab, guiding the activities of the Group. This involves including assessments of key opportunities for development through the private sector, and identifying market failures, constraints, opportunities to improve the enabling environment, and leveraging new technologies and digital tools. In addition, this effort will delineate Group approaches across the continuum to promote the creation of markets, increase private finance for priority areas, and support conducive policies and regulation.

6.10.2 ***Adopt key organizational and people enablers to promote IDB Group synergies.*** People, incentives, and culture are key to promote synergies and collaboration across the Group. This can be pursued by defining clear collaboration metrics in individual work plans, and by appropriately rewarding sound performance. Identifying public-private sector experience as a requirement for career development, and incentivizing mobility across the Group would nurture a Group-wide culture that combines perspectives, capabilities, and expertise from private and public sectors. Finally, the pursuit of synergies requires a culture that recognizes the role of the private sector and innovation, and encourages cross-pollination, sharing of information, and collaboration across windows.

6.10.3 ***Support operationalization of IDB Group synergies through knowledge, instruments, and mobilization reforms, as well as by strengthening the Group's public-private partnership and upstream capabilities.*** Operational synergies require a proactive and deliberate combination of efforts, knowledge, instruments, and resources across windows. The knowledge and instruments and mobilization reforms identified in the Strategy will leverage the scale, expertise, and resources of the Group to foster development through the private sector. Strengthening and aligning the Group's public-private partnership capabilities is key to helping countries develop robust institutional, legal, and regulatory frameworks to mobilize private capital for infrastructure. It is also key to promote enabling environments for private investment, foster market creation, and generate a robust pipeline of bankable development projects.

- 6.10.4 ***Embed IDB Group synergies in key strategic, operational, and organizational decision-making and processes.*** The principles laid out in the Synergies Framework will be organically included in key processes, documents, and work plans across the Group. In addition, more robust governance should be established, supported by the structures, principles, expanded areas of coordination at the Management level, and roles already established during the merge-out of IDB Invest. The Group will explore mechanisms to take them to the next level, taking into account the increasing role of development through the private sector and IDB Invest's New Vision and Business Model, while maintaining alignment with the institutional agreements establishing each institution.
- 6.10.5 ***Strengthen the Group's horizontal services to continue providing adequate oversight and institutional support to IDB Invest as it continues to grow and develop its New Vision and Business Model.*** This includes services such as the Office of the Executive Auditor, the Office of the Secretary, or the Office of Evaluation and Oversight, as well as other institutional arrangements.

Knowledge

- 6.11 **Knowledge generation, dissemination, and use for policy is a central value-add for the IDB Group's clients.** Our policy advice and investment operations must address existing and emerging development challenges. Newer challenges and opportunities—such as climate change, technological disruption, and large-scale migration—as well as long-standing unsolved challenges—such as productivity, institutional capacity, poverty and vulnerability are on the knowledge agenda, as well as how these issues interact with each other. This strategy proposes greater and more efficient investments in knowledge—including via the use of TC funding—to identify and support enactment of effective policies and programs to tackle these challenges across a heterogeneous region.
- 6.12 **The IDB Group's knowledge investments benefit the region through many channels.** The Group generates evidence and knowledge to identify current and emerging development challenges, feed policy dialogues, provide technical support and policy advice, create new solutions for practitioners, attract private investment to the region, catalyze public and private sector innovation, and design high-quality, effective, and innovative operations. We can enhance the impact of knowledge investments across these channels by further integrating investments in innovation and development effectiveness into the fabric of the IDB Group, particularly within the operational-knowledge cycle. This means possessing sufficient evidence on interventions, consistently evaluating them and exploring new approaches and innovations in our dialogue with countries. As the Group integrates knowledge more systematically and persistently, it will become an even more solid counterpart for project implementation and policy dialogue, in partnership and close coordination with regional governments, universities, research centers, private entities, civil society organizations, and expert networks, as well as other MDBs and key global organizations.
- 6.13 **The IDB Group will become the premier institution for knowledge production in the region positioning knowledge as a critical means to enhance development impact.** Reforms will expand and strengthen the Group's applied analytical and operational work. The Group will also consolidate the evidence it produces as a regional and global public good, ensuring a strategic

agenda that pairs institutional priorities with existing knowledge gaps. In addition, we will design incentives to use the IDB Group's knowledge resources, including TCs, to advance the knowledge frontier more systematically, to bring rigorous analysis to bear on the knowledge gaps faced by clients and stakeholders, and to develop operational knowledge to better design and effectively implement operations. This will involve the following:

- 6.13.1 ***Strengthen the governance of knowledge investments.*** The IDB Group can do more (i) to ensure that there are synergies across the Group (and across MDBs) as different units strive to close knowledge gaps related to the IDB Group's institutional priorities, and (ii) to advise teams on how best to use their knowledge investment resources to rigorously and systematically close those knowledge gaps. Governance reforms will stress greater *ex ante* quality control and alignment with priority areas through a Group-wide knowledge committee. This will include strengthening the entire knowledge cycle from the planning of knowledge agendas and knowledge development to strategic dissemination and measurement of impact. Both Vice Presidencies of Sectors and Countries will play a crucial role in defining the relevant agendas. The Group will also foster coordination in knowledge products with other MDBs and explore opportunities for shared analytics and diagnostics.⁵⁹ In addition, we will strengthen knowledge and learning opportunities along the project cycle and foster greater transparency and dissemination of knowledge agendas across units. Sharing lessons with the private sector will encourage the replication of deals by IDB Invest.
- 6.13.2 ***Strengthen data, operational processes, and knowledge systems.*** The IDB Group will explore the creation of a Knowledge Operational Successes and Failures system. Inspired by best practices from public sector organizations around the world, the IDB Group will create and implement a systematic framework for learning from staff about these successes and failures. This effort will include a review of operational processes to systematically capture and apply lessons learned and implement incentives to encourage this practice and its use to support development impact. The Group will also optimize new measures of impact using Big Data and inputs from stakeholder and engagement surveys as well as private sector sources. It will further leverage experience with the Bank's FindIt tool, IDB Invest's Knowledge Engine, and IDB Lab's Genoma to improve and apply artificial intelligence search tools, strengthen feedback loops between operational work and knowledge efforts, and allow for better measurement of knowledge impact.
- 6.13.3 ***Strategic communications around evidence and knowledge.*** The IDB Group will structure communications around themes to better leverage its knowledge investments in policy debates and private sector decision-making. This means greater focus on communications that disseminate a body of IDB Group knowledge that can be used to guide policymaking, and a reduced focus on communications campaigns that aim primarily to drive traffic to a single knowledge product.

⁵⁹

Including international data governance bodies and initiatives, such as the [International Aid Transparency Initiative](#), the International Forum on [Total Official Support for Sustainable Development task force \(TOSSD\)](#) (on which the IDB is a member of the steering group), and the [Global Emerging Markets Risk Database Consortium](#) (on which IDB Invest is a member of its Board), among others.

Box 6.1. The IDB Group Strategy and the Global Discussions on MDB Evolution

As the world is facing an unprecedented confluence of crises that are upending development progress and threatening people and the planet alike, global demand for more proactive and responsive MDBs is growing. Global fora such as the G20 have therefore commissioned independent expert panels to review global financial governance ([2018](#)) and the capital adequacy frameworks (CAF) of MDBs ([2021-2022](#)), and to propose a triple reform agenda ([2023](#)) alongside the World Bank evolution roadmap ([2023](#)). As an MDB participating in these global discussions, the IDB Group has a key role to play in underscoring that the Latin America and Caribbean region is a critical part of the solution to global challenges. This requires a radically transformed and strengthened IDB Group able to support countries with their national development challenges and their contribution to regional and global solutions.

The new IDB Group Strategy is timely as it is benefiting from these global proposals. It is fully grounded in all the MDB reform imperatives and actions recommended by the independent experts that are needed to simultaneously address national development priorities and key regional and global challenges, placing them in the context of Latin America and the Caribbean.

Like the [evolution roadmap](#), the new IDB Group Strategy responds to the expectations of the international community by focusing efforts on four elements to evolve its vision, incentives, operating model and financial capacity: First, it provides a clear mission statement that reflects the Group's ambition to serve the region and address global challenges. Second, it doubles down on impact by modernizing the approach to delivery by reviewing processes and creating and strengthening incentives to leverage finance, foster synergies, increase partnerships, and develop a culture of results. Third, it overhauls its operational approach by reviewing, updating and innovating on instruments, knowledge, and development effectiveness to be able to respond to country, subnational, regional and global challenges. Fourth, the IDB Group is increasing its financing and mobilization capacity. To anchor these efforts, it proposes an agenda of 17 reforms and a set of diverse financial and non-financial incentives. It will also be followed by an updated Impact Framework to measure progress.

Furthermore, the new IDB Group Strategy incorporates all the key elements of the [triple agenda](#) and the [CAF review](#), which include, among others:

- focusing and expanding the speed and scale of development impact, reform instruments, and delivering faster, more efficiently, using more agile processes and clearer incentives within the organization and to member countries,
- building and implementing tools and strategies to increase scale via continued BSO/CAF-related reforms as well as actions on resource mobilization that generate greater leverage, from both domestic and private sectors, and from philanthropies and other alternative non-traditional third parties,
- making clear progress against global and regional challenges, public goods, and vulnerabilities (e.g., climate, health, migration, fragility),
- analyzing and addressing the special vulnerabilities of small island developing states,
- assuring judicious and aligned use of concessional resources to set up the right incentives, and
- leading and participating in MDB reform discussions in global fora such as the G20 and among experts and leaders.

Finally, responding to [global financial governance](#), the new Strategy is committed to working with sister MDBs and the IMF as a system. It therefore underscores coordination and co-financing through knowledge, risk-sharing, platforms, and harmonization, with the aim of bringing together greater value than the sum of the individual entities within the system.

7. Corporate Foundations

- 7.1 **The agenda for corporate reforms will deliver greater impact to the region through several key enabling elements.** Just as the reforms to the way the IDB Group serves the region are part of a long-term effort to improve the value we provide, the corporate reforms in this section will be delivered over time to transform the Group's internal operations to maximize value. The financial capacity reforms discussed here formed part of the mandate of the Washington Resolution, while the reforms to people, incentives, culture, processes, and systems stem from the Strategy development process. Each of these corporate foundations is an enabler to increase delivery on the operational focus areas and approach to serving the region discussed in Sections 5 and 6 of this document, and all are in service of the three core objectives of the Strategy.

Financial Capacity

- 7.2 **With the scale of challenges facing the region, maximizing the IDB Group's financial capacity is critical to deliver the greatest possible impact.** Financial capacity is fundamental to support the strategic priorities as well as operational and financial instruments, staffing levels, and administrative budgets to put capital to use and deliver impact. This requires ensuring a strong capital base and a robust capital adequacy framework maximizing the amount of own-account financing and third-party mobilization that can be provided to support borrowing member countries and the region. It is also essential to ensure that the IDB Group has sufficient capital to position its three entities to be reliable partners in times of crisis. This requires balancing the short-term ambition to deliver the largest possible financing volumes with the long-term ambition to ensure that financing remains available, predictable, and at competitive prices during times of stress.
- 7.3 **The IDB Group will maximize its financial capacity to increase the benefit of each dollar invested in its institutions.** Efforts will focus on optimizing the balance sheets of the IDB and IDB Invest.^{60,61} The aim is to increase IDB Group financial capacity and amplify private mobilization potential.⁶² The IDB and IDB Invest will continue implementing the recommendations of the G20-sponsored independent expert panel on MDB CAFs to maximize lending capacity (G20 2022). They will also continue to make innovations to their flexible financial and lending instrument toolkit to better serve country needs. IDB Lab will transition towards a long-term, more sustainable funding structure with reduced dependency on donor contributions. The Group should also review and assess its capital needs regarding the objectives and actions contemplated under the Strategy. The Group's shared ambition to maximize volumes and resilience to deliver impact stems from rigorous and continuous implementation of BSO measures since at least 2013, and

⁶⁰ Management committed to increasing lending capacity by \$2 billion per year. Work is under way to deliver on this commitment which would see an increase of \$20 billion in lending over a decade. Depending on shareholder support and expansion of existing and new instruments, this ambition could be expanded to \$5 billion per year, or a total of \$50 billion over a decade.

⁶¹ Under IDB Invest's new vision and the transition from a buy-and-hold model to an originate-to-share model, resource mobilization in the region would be significantly increased to an estimated range between 1.7x and 2x by deepening and expanding the product catalog (guarantees, underwriting commitments, subordinated positions, asset pool mobilization).

⁶² The aggregated lending and direct mobilization ambition of the Group entities, depending on shareholder support (including for the IDB Invest capital increase) and expansion of existing and new instruments, could reach around \$112 billion over a decade.

from pioneering risk-management innovations thereafter.⁶³ These align perfectly with the spirit and the letter of the G20-sponsored recommendations from the independent review of MDB CAFs (G20 2022).⁶⁴ Steps to be taken by the three IDB Group entities include the following:

7.3.1 IDB: The Bank will continue the BSO process as a routine and ongoing policy and process, in addition to reviewing and updating the capital adequacy regulations to ensure that they fit the Bank's needs. In parallel it will also implement the relevant recommendations from the G20's MDB CAF Review. In this context, some BSO options/CAF recommendations may require third parties, including shareholders, to trade with or provide support to the Bank, but they may also have the highest impact. For instance, \$1 billion of special-drawing-rights-linked hybrid capital could support an additional \$4 billion of leverage, or roughly \$750 million in additional annual lending capacity. Entering into agreements with private insurers to develop sovereign unfunded credit protection could significantly reduce concentration,⁶⁵ as well as release lending capacity in the range of \$200 million to \$250 million annually and even up to \$1 billion, depending on costs. BSO instruments currently being explored will allow the Bank to meet its commitment to increase its lending capacity by \$2 billion a year or \$20 billion over a decade by 2024. Together with shareholder support,⁶⁶ BSO options may increase sustainable lending capacity up to \$5 billion a year or \$50 billion over a decade.

7.3.2 IDB Invest: As an institution based on non-sovereign guaranteed lending, IDB Invest will implement the G20 MDB CAF recommendations that are applicable to it. IDB Invest is proposing a New Vision and Business Model to evolve from a traditional "buy-and-hold" stance to a new impact-driven "originate-to-share" business model with the objective of becoming a bridge between priority development gaps in the region and investors. This will encompass originating impactful development assets, structuring them to meet investor needs with a suite of financial and non-financial risk management tools, and mobilizing the greatest portion possible, while retaining the participation necessary to promote impact and attract local and international investors. To this end, it will implement the relevant CAF recommendations, particularly redefining risk appetite, while adjusting to the financial risk framework in the context of IDB Invest's New Vision and Business Model and its capital increase proposal. The objective of these reforms will be to enhance lending capacity, increase its mobilization ratio (to an estimated range of between 1.7x and 2x), scale up risk transfers, and facilitate the development of the MDB asset class as a global public good through an enhanced Global Emerging Markets Risk Database Consortium (GEMs) as envisaged by the MDBs and G20.⁶⁷

⁶³ In 2013, the BSO foundations were laid out with the approval of the Capital Adequacy Mandate and Regulations by the Board of Governors. In 2015, the G20 and the MDBs agreed on an [Action Plan to Optimize Balance Sheets](#) consisting of five measures to increase financial capacity. The IDB pioneered many of them, including merging the concessional window into Ordinary Capital, and performing a series of Exposure Exchange Agreements with sister MDBs. In addition, the IDB pursued innovations such as factoring in a portion of callable capital, a measure that an independent panel of experts appointed by the G20 later recommended that other MDBs adopt.

⁶⁴ The actions described as part of the Group's future work on financial capacity will deliver on item 2.b of the Washington Resolution ([AG-7/22 and CII/AG-3/22](#)).

⁶⁵ Concentration is heavily penalized by the three leading credit rating agencies.

⁶⁶ And dialogue with rating agencies to improve their assessment of MDB financial strength.

⁶⁷ IDB Invest sits on the Consortium Board representing the IDB Group. GEMs has become one of the world's largest credit risk databases for the emerging markets operations of its member institutions (MDBs and development finance institutions). It is unique in the sense that it pools data on credit defaults on the loans extended by consortium members, the migrations of their clients' credit rating, and the recoveries on defaulted projects, thus filling a critical information gap for risk-sharing and management in emerging market projects.

- 7.3.3 ***IDB Lab: The innovation arm of the IDB Group will transition to a more sustainable funding structure*** under the IDB Lab replenishment (MIF IV), with the objective of being less dependent on donor contributions and more sustainable in the long term. This will ensure that IDB Lab evolves into a robust innovation hub while maintaining its current autonomy, strategic focus, and position as the venture arm of the Group.

Processes and Systems

- 7.4 **Achieving the objectives of the Strategy requires fully aligning business processes and systems with it, leveraging a sustained digital transformation.** It also requires building a more agile and efficient institution that reduces the transactional costs to our clients by simplifying internal processes, making them client-centric, and digitalizing them through platforms. New technologies can speed up corporate workflows, enhance employee productivity, and bring additional value to countries and clients through new products that meet their needs. Furthermore, equipping the institution to better ground analysis, decisions, and actions in high-quality data provides greater accountability, transparency, and intelligence on the path to maximizing impact and value.
- 7.5 **Maximizing the value for money of the Group and being responsive to clients requires that attention to efficiency and agility permeate all aspects of our work.** The Group has advanced in recent years in generating budget and capital efficiencies and streamlining business processes. However, acting on opportunities to further transform the way we work, will allow the Group to cross new frontiers of efficiency. Client-centricity must drive these improvements, and adjustments must occur without negatively affecting the quality of our products and the relationship with our clients. Changes to processes and systems will focus on building a fully results-oriented organization that advances business agility and motivates and empowers employees to innovate, collaborate, and connect the institutional silos to deliver value. This will include the following:
- 7.5.1 ***Reform the strategic framework and planning process to align efforts effectively across the institution, respond to changing needs, and promote the achievement of results.*** The Group will review and update the taxonomy and hierarchy of Group-wide instruments that provide multi-year strategic guidance (e.g., Sector Strategies, Country Strategies, Sector Framework Documents) to establish the unique function of each instrument, ensure their continued relevance, and align all efforts with the new Strategy. The introduction of new annual planning processes at the IDB, paired with existing tools in the rest of the Group, will more effectively align resources with the institutional goals. Target-setting processes and monitoring instances across the updated strategic framework and instruments will ensure full alignment with strategic objectives and key performance indicators. The strategic allocation of human and financial resources to priorities will be critical and may require more dynamic processes to reallocate resources as well as

reconsideration of the parameters for project preparation and supervision that consider project dimensions that can affect costs.⁶⁸

- 7.5.2 ***Continue advancing ongoing initiatives to strengthen project execution and supervision to foster impact.*** Project supervision is being strengthened by closely tracking the link between progress in implementation and the achievement of results throughout the project lifecycle, using data analysis. The IDB's comprehensive portfolio management model is being deployed to ensure that the progress of operations is regularly monitored and that any deviations are analyzed and acted upon in a timely manner. This model includes semi-annual country-level reviews, quarterly Senior Management strategic oversight meetings to review the status of the Bank's portfolio and potential risks to achieving strategic goals, and semi-annual discussions with Executive Directors. A digital transformation plan will be critical to ensure data traceability between tools and support improved business processes.
- 7.5.3 ***Accelerate digital transformation to become more efficient and relevant, fostering responsiveness to clients.*** The IDB Group will enhance the use of its technology and data assets, embracing new ways of working, and building an institutional culture adept at risk-taking and purposeful innovation. Working holistically in these areas across the Group will ensure that we are not merely digitalizing, but transforming, and hence responding to evolving business needs. To this end, the Strategy implementation will emphasize the role of digital transformation as an enabler of broad institutional reforms throughout all stages of the project cycle with a focus on results. Implementation will also focus on delivering digital client services and optimizing corporate processes.
- 7.5.4 ***Reengineer the IDB Group's approach to data as the foundation for processes and systems that will drive greater operational efficiency, responsiveness, and impact.*** Leveraging data and analytics to underpin the IDB Group's ability to advance strategic priorities is key for an evidence based and data-driven organization. This requires a deliberate and strategic programmatic focus on how data are managed and integrated into processes and systems, while simultaneously building a data culture that fosters accountability for data, data literacy, and ethical data use. The Group will strengthen data governance structures to ensure that data are trusted and used responsibly as well as to drive the incorporation of and reliance on data in processes. This will lay the foundation for the Group to keep pace and benefit from rapid advancements in analytics and artificial intelligence.

People, Incentives, and Culture

- 7.6 **The IDB Group's people are its most important resource and a driving factor in its ability to deliver impact to the region.** Successful implementation of the Strategy depends on the successful management, development, and allocation of its workforce and, critically, on the incentives that drive leadership and employees at all levels. Strategic incentives and a culture that

⁶⁸ As one example, infrastructure projects tend to be complex in nature and may imply additional preparation or supervision costs to address environmental and social safeguards (e.g., resettlement plans).

emphasizes impact, client-centricity, collaboration, and innovation will be important to align efforts with the Group's strategic objectives and deliver value for Latin America and the Caribbean.

- 7.7 The IDB Group will be powered by diverse, engaged, and impact-driven people with strategic use of incentives and an impact-oriented culture.** Box 7.1 provides illustrative information on the proposed cultural change and how incentives may be used. This transformation will be based on fostering leadership development, effective talent management, and an incentives-based performance management model that is fully aligned with institutional priorities. The IDB Group employee value proposition will also position it as the leader among its peers in attracting and retaining impact-driven talent and highlight its commitment to diversity, allowing unique talents to work together to innovate and develop the best solutions for the region.⁶⁹ Steps to be taken in this regard include the following:

7.7.1 *Reform talent management and leadership development, with improved career progression.* The IDB Group will support leaders to effectively manage people processes, fostering impact, fairness, and equity. The Group will also empower leaders to develop talent, drive mobility, and be change agents to achieve our desired culture of inclusiveness. We will also increase the representation of women, Afro-descendants, indigenous people, people with disabilities, and LGBTQ+ persons in our workforce and in leadership. As an institution that privileges meritocracy over personal loyalties and fosters long-term engagement, the Group will review its career progression system, job profiles, and reward system to establish clear strategies for how talent will be grown from within and reach individual career goals while fulfilling the institutional mission. Talent management will be laid out through varied forms of career progression, including the traditional vertical career ladders and dual career paths, and emphasize horizontal lattices as well as progression outside the organization. This will encompass the merit-based, transparent, and competitive selection of organizational leaders, including General Managers and Country Representatives. The mobility system will be overhauled to ensure enhanced flexibility to transfer within each entity, between Headquarters and Country Offices, and across entities, according to business needs, and will play a crucial role in the new progression system. Profiles will be updated to provide clear eligibility criteria to define transparent pathways for development and provide appropriate incentives. Consequently, the performance evaluation system will be revamped to reflect these changes and provide objective criteria to evaluate performance and determine promotions.

7.7.2 *Implement a new Total Rewards Framework and Compensation and Rewards Strategy.* This new strategy will be implemented to ensure market competitiveness to attract and retain impact-driven talent, reward impact, and reinforce the strategic alignment of short-term incentives across the IDB Group to achieve impact. These changes will be part of much broader changes to incentives and culture (Box 7.1).

7.7.3 *Revamp core processes supported by technology.* The IDB Group will identify new ways to improve core processes for talent acquisition, talent management, performance management, and rewards, enabled by new technologies.

⁶⁹ IDB Group peers refers to other multilateral development banks and international financial institutions that may compete for IDB Group talent.

- 7.7.4 **Review contract modalities and formalize flexible ways of working.** The IDB Group will review, update, and develop policies as needed on contract modalities, regional talent deployment, and work models. Furthermore, it will create a more flexible working environment considering leading practices that have been shown to impact employee engagement.
- 7.7.5 **Redefine the core values that will guide the IDB Group's work and permeate the institution.** The IDB Group's core values must drive impact and align our internal culture with our aspirations for the region. They are a key element of effective implementation of the Strategy and are expected to include such areas as impact orientation, collaboration and teamwork, inclusion, integrity, and working as one IDB Group.

Box 7.1. What Do We Mean by Incentives and Culture?

The new IDB Group Institutional Strategy will require tremendous cultural change and new financial and non-financial incentives that will support the alignment of efforts and resources with strategic priorities, including impact orientation and the core values that should power the institution's efforts to achieve its objectives. Incentives are at the core of the Strategy. Below are a few examples of the elements being considered.

- Identify the necessary organizational changes and modalities (e.g., setting up units or task forces) to enable and reward collaborative work across entities and focus on strategic priorities.
- Adjust the compensation structure to attract, motivate, and retain key talent.
- Update job profiles and requirements to align with the Strategy and develop career paths.
- Increase the use of merit-based, transparent, and competitive selection processes for leadership positions, including General Managers and Country Representatives.
- Overhaul the mobility mechanism to allow for flexible transfers across and within IDB Group entities, between Headquarters and Country Offices and across Country Offices.
- Reform the career management framework and performance evaluation system.
- Improve the alignment of work programs with strategic priorities and enhance metrics to inform performance evaluation.
- Redesign headcount management and budgeting to foster adequate allocation according to strategic needs.
- Review consultant policies and reassess roles for which staff and consultants can be used to ensure that those policies and roles are applied consistently.
- Provide relevant training opportunities that contribute to career progression.
- Promote flexible ways of work and work-life balance initiatives.
- Promote workplace culture and values that reinforce the emphasis on results and impact (prioritizing impact over approvals) in an organization striving for continuous improvement.
- Consider options to build an internal market for talent and skills that allows country and sector leaders to "hire" people for projects.

8. Operationalizing the Strategy

- 8.1 **The IDB Group's proposed approach to delivering value for clients and the reforms above are intertwined and form part of a long-term effort to enhance impact over time.** Achieving our objectives will depend on transformations to organizational incentives and culture, as referenced above, and may require adjustments to the organizational structure to enhance impact.
- 8.2 **The Strategy must be fully infused in the daily workings of the IDB Group, with alignment across all strategic, operational, and corporate strategies and planning exercises.** To enable a high-performing organization, everyone at the IDB Group, starting with its leaders across the spectrum, must understand their role in implementing the Strategy and achieving its objectives. The introduction of a business plan to guide the IDB's work will be critical in this regard, as will the reforms associated with the IDB Group's People Strategy. Furthermore, Sector Strategies, Country Strategies, Sector Framework documents, and other instruments that provide multi-year guidance will be aligned with the Strategy, allowing for deeper orientation of efforts to reach strategic objectives.
- 8.3 **The Roadmap for Reforms (Annex A) provides indicative guidance for the strategic sequencing of reforms.** This will be developed over time once considered and approved (as appropriate) in due course by the IDB Board of Governors, Board of Executive Directors or Management, as applicable in each instance.
- 8.4 **The new Impact Framework will serve as the primary tool for monitoring and measuring the IDB Group's performance, achievement of its strategic objectives, and results of key reforms.** Progress on deploying the Strategy will be measured through a revamped and leaner Impact Framework (to replace the 2020-2023 CRF) that will capture the most critical measures of the Group's success in carrying out its mission. This Impact Framework will include metrics harmonized throughout the Group to allow for consistent measurement of core concepts across the IDB, IDB Invest, and IDB Lab. This will be complemented by more granular monitoring tools associated with specific sub-strategies and planning tools and those being developed for the IDB Invest and IDB Lab processes. Together, these monitoring devices will capture not only the results of interventions supported by the IDB Group to address the strategic priorities at the local and regional level, but also broader measures of the Group's performance, including those reflecting aspects of the global proposals on MDB reform. Regular monitoring will allow for early identification of lagging areas and will feed into planning processes to enhance performance.

9. Implementation Risks

- 9.1 **Implementing the Strategy comes with its own set of unique challenges and risks, as the IDB Group plays a crucial role in addressing global issues and facilitating cooperation among multiple member countries.** Implementing such a strategy can be complex due to the diverse interests involved. Below are the key associated risks:
 - 9.1.1 **Global risks.** Geopolitical and economic dynamics could impact the Institutional Strategy. Conflicting global interests and polarization may lead to disagreements on strategic

direction or resource allocation. Consulting regularly with shareholders and peer international financial institutions can identify and manage potential threats.

- 9.1.2 **Resource constraints.** Securing funding and resources for the implementation of the Strategy could be challenging. Member countries may have different financial commitments, and budgetary constraints can limit the IDB Group's ability to execute its plans effectively. Careful strategic planning and open dialogue on actual needs can minimize this risk.
- 9.1.3 **Cultural and organizational alignment.** A misalignment between the corporate culture and the strategic objectives can hinder implementation. It is paramount that the organization's culture supports the Strategy. Maintaining fluid communication throughout the organization can help address these issues promptly. Ensuring that the institution and its employees have the necessary capacity, expertise, and skills to implement the Strategy is vital. Investing in professional development and organizational capabilities is also key to reducing this risk.
- 9.1.4 **Stakeholder alignment.** Ensuring that member countries, partner organizations, and other stakeholders are aligned with the Strategy is essential. Differing priorities or divergent interests among stakeholders can impede successful implementation. Maintaining open lines of communication with member countries and stakeholders can alleviate this uncertainty.
- 9.1.5 **Compliance and accountability.** Maintaining transparency, accountability, and compliance with internal and external regulations is critical. Developing robust monitoring and reporting mechanisms to track progress and compliance can ease this concern.
- 9.1.6 **Operational risks.** The IDB Group engages in complex, long-term projects that can be subject to operational risks such as cost overruns, delays, or unforeseen challenges that affect the delivery of strategic goals and corporate results. Effective project management and risk mitigation strategies are crucial to evaluate and adapt operations in response to changing circumstances.
- 9.1.7 **External events and shocks.** Economic crises, large-scale natural disasters, and other external events could disrupt implementation of the Strategy. Contingency planning and flexibility in strategy execution are essential to address unexpected shocks.

10. Recommendation

10.1 In response to the mandates set forth in Resolutions AG-6/23 and CCI/AG-3/23 of March 19, 2023, paragraphs 2 and 4, respectively, Management of the IDB and of IDB Invest recommend that the IDB and IDB Invest Boards of Executive Directors approve the Proposed Resolution attached to this document as Appendix I so that the Proposed Resolution attached to this document as Appendix II is submitted for the consideration and approval by the IDB and IDB Invest Boards of Governors. The approval of the Proposed Resolution attached to this document as Appendix II would represent the adoption of the following recommendation:

10.1.1 The IDB and IDB Invest Boards of Governors approve the “IDB Group Institutional Strategy: Transforming for Scale and Impact,” in accordance with the provisions set forth in sections 4 through 7 and in Annex A of this document.

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Annex A. Roadmap for Reforms

The sequence and timeline for consideration of reforms was the subject of discussion during a two-part retreat of the IDB and IDB Invest Boards of Executive Directors held on September 8 and 19, 2023. As an IDB Group exercise, the management team has listed the objectives expressed by the Boards, considering appropriate timing, sequence, and interdependencies among reforms. To provide accountability and a transparent commitment, below is an indicative list outlining (i) the primary nature and proposed scope of each anticipated reform, (ii) estimated delivery date to the Boards of Directors, as applicable, and (iii) the primary teams responsible for leading the correspondent initiative.¹ While only the lead is shown in the table below, it is expected that each of the reform efforts will involve many stakeholders throughout the Group with active collaboration from each IDB Vice Presidency as well as IDB Invest and IDB Lab anticipated for most areas. The information provided for each of the reforms is illustrative in nature and shall serve as guidance, with the final scope and content determined in each case by the corresponding governance authorities. The specifics of the reforms will be subject to consideration and approvals by the IDB and IDB Invest Boards of Governors, Boards of Executive Directors, or Management, as appropriate.

The table below include reforms referenced by the IDB Governors in the Washington Resolution ([AG-7/22](#) and [CII/AG-3/22](#)) and additional reforms assumed by management.² Management will report on progress of the reforms to Governors at the Annual Meeting of 2025.

In parallel, IDB Invest has been developing an implementation plan and capitalization proposal for a New Vision and Business Model, as mandated by its Board of Governors, which includes a series of reforms aimed at increasing IDB Invest's impact that complement and enrich the below reforms, enhancing the IDB Group's value proposition. Similarly, IDB Lab is engaging in a replenishment process mandated by Governors that includes reform proposals and actions that will enhance its effectiveness and its contributions to the IDB Group.

WASHINGTON RESOLUTION REFORMS		
REFORMS	WHEN TO DELIVER	LEAD
<i>New strategic documents on Reducing Poverty and Inequality, Addressing Climate Change, and Bolstering Sustainable Regional Growth</i>	Sep-2024	Vice-President for Sectors and Knowledge

¹ See the [link](#) for a detailed view of the timeline of sequenced reforms.

² The items of "bolstering sustainable regional growth" and "concessionality" have been included in the first table due to their convergence with other themes from the Washington Resolution, even though they were not originally specified in said Governors' mandate.

<p>New strategic documents will replace the current sector strategies to provide greater detail on how the operational focus areas will drive efforts towards the integrated objectives of reducing poverty and inequality; addressing climate change; and bolstering sustainable regional growth.</p>	
<p style="text-align: center;">Impact Orientation</p> <p>Adopt a holistic IDB Group approach, while accommodating the characteristics of each entity. For each entity, the specific reforms will be in six priority areas of action:</p> <ul style="list-style-type: none"> • <i>Targeting outcomes: Define top-line indicators and metrics, and the corresponding Development Effectiveness Learning, Tracking and Accountability (DELTA) and selectivity tools, to ensure that they send clear, coherent signals within and beyond the institution that impact is what matters.</i> • <i>Clients' capacities: Invest in building capacity among clients, strengthening impact measurement and the technical, operational, and managerial capabilities of our partners.</i> • <i>Agile learning: Incentivize the generation and use of impact-relevant knowledge, including from successful and unsuccessful interventions, across the Group and partner on evidence of impact.</i> • <i>Governance around impact: Build governance around impact to ensure focus, quality, agility, consistency, and transparency, with adequate, resource-efficient checks and balances at each level of the IDB Group, and curate the data required for evidence-based decision making.</i> • <i>Impact-based meritocracy: Structure incentives for its employees to reinforce their intrinsically motivated focus on results.</i> • <i>Effectiveness culture: Implement a strong and deliberate change management process to achieve that an impact orientation permeates the IDB Group and becomes ubiquitous in our collaboration with partners.</i> 	<p>Dec-2023 (Phase 1)</p> <p>May-2024 (Phase 2)</p> <p>SPD General Manager</p>
<p style="text-align: center;">Policy-based Lending</p> <ul style="list-style-type: none"> • Relevance and quality: <ul style="list-style-type: none"> ▪ Improve quality standards and study the development of a toolkit to link them to loan dimensioning. ▪ Encourage its use for global and regional public goods and for generating enabling environments for private sector development and resource mobilization including domestic resource mobilization. ▪ Promote the use of hybrids (i.e., policy-based loans [PBLs] and investment combination). ▪ Analyze the opportunity to have single-tranche PBLs. ▪ Maximize development impact by emphasizing the reform agenda vis-à-vis liquidity provision goals. ▪ Study potential new instruments focused on liquidity provision and improvements to Special Development Lending (SDL). • Quality assurance process: <ul style="list-style-type: none"> ▪ Review the roles and responsibilities in the internal review process to approve PBLs. ▪ Provide guidance on how to implement quality standards. ▪ Work on adequate internal incentives to optimize PBL quality control. • Accountability and learning: <ul style="list-style-type: none"> ▪ Increase reporting to the IDB Board of Executive Directors on PBL programming and implementation. ▪ Carry out periodic learning and self-evaluation assessments that contribute to the generation of knowledge and feed into country dialogue to build pipelines of reforms. 	<p>Mar-2024</p> <p>SPD General Manager</p>

- Guide teams to implement the best practices in PBL design and increase training opportunities.

Balance Sheet Optimization

- IDB: Mainstream balance sheet optimization (BSO) and make it ongoing; review/update the Capital Adequacy Regulations to ensure they fit the Bank's needs; and implement the G20 MDBs Capital Adequacy Framework (CAF) Review recommendations to increase the Bank's lending capacity to potentially \$5 billion a year and \$50 billion over a decade, depending on shareholder support, in addition to catalyzing private mobilization.
- IDB Invest: Implement the G20 Multilateral Development Bank (MDB) CAF recommendations that are applicable while redefining risk appetite and adjusting to the financial risk framework in the context of IDB Invest 2.0 and its capital increase proposal to enhance lending capacity, and the mobilization ratio (in an estimated range of 1.7x-2x), scale risk transfers, and facilitate the development of the MDB asset class through an enhanced Global Emerging Markets Risk Database Consortium (GEMs).
- Through capital optimization efforts achieved to date, an additional operational capacity of \$14 billion will be created over ten years. With the capital increase, an additional operational capacity of \$62 billion over 10 years can be delivered to the region through own account and mobilization.
- IDB Lab: As part of the replenishment of MIF IV, transition to a more sustainable funding structure that is less dependent on donor contributions and more sustainable in the long term, ensuring evolution into an innovation hub while maintaining current autonomy, strategic focus, and position as the venture arm of the IDB Group.
- Collectively, IDB and IDB Invest could increase financing capacity by up to \$112 billion over a decade, with \$50 billion from IDB through BSO, and \$62 billion from IDB Invest through BSO, increased capital, and mobilization, in addition to the \$14 billion IDB Invest has already achieved through CAF-related reforms in 2023.

Mar-2024

Vice-President for
Finance and
Administration

Vulnerability and Concessionality

Set vulnerability as an eligibility criterion for lower-cost and concessional financing:

- Leverage in-house expertise and international best practices on vulnerability definitions (e.g., climate) and metrics to classify borrowing member countries dynamically: (i) Set a time-bound transition of the Concessional Resource Allocation Framework to the vulnerability-anchored framework; and (ii) Identify its implication for the country classification system.
- Determine the viability and sustainability of a vulnerability-anchored approach to lower-cost finance and concessional resources: (i) Agree on priorities and special initiatives to support; and (ii) Assess the technical, financial, legal, and political-economy challenges.
- Design and execute complementary actions, such as knowledge production and data gathering on vulnerability, fragility, and resilience .

Jun-2024

Vice-President for
Countries

<ul style="list-style-type: none"> Adopt and implement the Framework to Support Populations in FCV Situations 2023–2026 and the Partnering for the Caribbean Development Framework 2022–2026. 	
<p style="text-align: center;">Country Classification</p> <p>Following the work presented by Management in 2022, further review Country Classifications after agreements are reached on vulnerability and concessionality so they can properly relate to the criteria of vulnerability and concessionality. Potential future revisions to the country classification will not be used for country graduation or price differentiation.</p>	<p>Nov-2024 Vice-President for Countries</p>
ADDITIONAL REFORMS	
REFORMS	<p>WHEN TO DELIVER LEAD</p>
<p style="text-align: center;">Impact Framework</p> <p>Develop a new <i>Impact Framework</i> to replace the 2020-2023 Corporate Results Framework to set a higher ambition for the IDB Group and reflect the Group's enhanced impact orientation.</p>	<p>Jun-2024 SPD General Manager; IDB Invest Chief Strategy Officer; IDB Lab General Manager</p>
<p style="text-align: center;">Country Strategy, Dialogue, and Programmatic Approach</p> <ul style="list-style-type: none"> Improve the country strategy process building on new institutional strategy principles and strengthening programmatic approach. Develop new country strategies based on a revamped strategic selectivity framework, revolving around results and impact, maximizing public-private synergies, strengthening knowledge in diagnostics and implementation, among other aspects. Strengthen the interaction across country strategy preparation, programming process, and portfolio management to enhance alignment with development challenges for greater impact. Incorporate the new corporate priorities reflected in the new Institutional Strategy in the definition of country strategy intervention areas. Develop and implement new guidelines to pursue programmatic approaches to foster long-term engagement and development results throughout entire political cycles by: (i) increasing the robustness of the internal origination process, (ii) seeking early strong alignment to corporate and country priorities, (iii) identifying IDB Group synergies and upstream opportunities, and (iv) strengthening efforts to assess the development effectiveness of the portfolio. 	<p>Apr-2024 (Phase 1) Vice-President for Countries</p> <p>Dec-2024 (Phase 2)</p>

<p style="text-align: center;">Knowledge Bank</p> <ul style="list-style-type: none"> Strengthen knowledge governance by (i) better aligning with the Institutional Strategy, (ii) strengthening the knowledge track in operations, greater transparency, and dissemination of knowledge agendas, (iii) creating an IDB Group Knowledge Committee to oversee knowledge quality processes, and (iv) prioritizing knowledge investments by implementing an enhanced ex-ante quality control on technical cooperation-financed knowledge. Strengthen data and knowledge systems by (i) <i>launching a Group-wide system to centralize knowledge regarding operational successes and failures and improve feedback loops</i>, (ii) optimizing measures of impact (using Big Data, stakeholder survey, and private sector impact), (iii) leveraging experience with Genoma (IDB Lab) and Findit (IDB) to improve and apply search and AI tools to strengthen operations-knowledge feedback loop, and (iv) enhancing measurement of knowledge impact. Enhance strategic communications around IDB Group knowledge and evidence-based solutions to enrich policy debates and inform private sector decision-making. 	<p style="text-align: center;">Jun-2024</p> <p style="text-align: center;">Vice-President for Sectors and Knowledge</p>
<p style="text-align: center;">Innovative Instruments and Mobilization</p> <ul style="list-style-type: none"> Results-based financial mechanisms and indicator-based financial innovations, including: <ul style="list-style-type: none"> Sustainability-linked financing: Bonds or loans tied to the issuer's performance on predefined sustainability or environmental, social, and governance objectives. The objectives are measured by key performance indicators. The financing conditions vary if the borrower meets (or fails to meet) the targets, usually via a reduction (or increase) in the interest rate to the investors. Own operations-based indicators: The just-launched Biodiversity and Climate-Linked Mechanism for Ambition (IDB CLIMA), which will use grants to lower borrowing costs for countries that meet key performance indicators and could be of interest to other MDBs. Credit insurance products: <ul style="list-style-type: none"> Buying credit risk insurance frees capital and allows the Bank to lend more in the future. It also allows for structuring guarantees in a more efficient way for our clients. Synthetic Securitizations (which require insurance) are also being explored. Guarantees: <ul style="list-style-type: none"> Multi-country guarantee: explore a first-loss guarantee to be provided to a pool of countries. This can potentially generate significant savings to the countries and mobilize funding from the private sector. Hybrid Capital: <ul style="list-style-type: none"> Hybrid capital, a low-risk subordinated debt instrument, provides relief from risk-weighted and leverage constraints. Explore issuances to the market and to shareholders. The IDB has also co-lead the development of Special-Drawing Right (SDR) denominated hybrid capital in partnership with the African Development Bank that would allow countries to channel a portion of the IMF's \$650 billion 2021 SDR allocation. Local Currency: <ul style="list-style-type: none"> Changing the Bank's risk appetite will open the door to use more local currency in illiquid markets and lower borrowers' cost. 	<p style="text-align: center;">Mar-2024</p> <p style="text-align: center;">Vice-President for Finance and Administration</p>

- Standardize, replicate, and scale current and innovative financial instruments (i.e., catastrophe products, debt for nature swaps, regional and thematic bonds).

Disaster-related Instruments

- Catastrophe insurance products:
 - Principal Insurance Option: A new modality of catastrophe protection derivative as an option is to be embedded in the loan contracts. It would delay principal payments for 1 or 2 years if the country is struck by a catastrophic event of a certain intensity.

May-2024

Vice-President for
Finance and
Administration

Investment Instruments

- Promote medium- and long-term programs using the *Conditional Credit Line for Investment Projects* (CCLIP) approach:
 - Revise the instrument to ensure flexibility to combine operations for multiple countries and multiple sectors.
 - Strengthen due diligence upon approval of the CCLIP line to allow for a streamlined preparation process for successive operations.
 - Increase reporting to the IDB Board of Executive Directors on the programming and implementation of CCLIPs.
- Work toward a Unified Investment Lending Policy that:
 - Supports a programmatic approach and allows for the combination of instruments.
 - Provides flexibility to prepare, implement, and adjust investment projects within the limits of the Bank operational policies (Environmental and Social Protection Framework, Procurement).
 - Improves pre-investment tools.
 - Provides a complete offering of disaster risk management instruments.
 - Harmonizes and ensures consistency with all operational policies.
- Explore lending mechanisms for subnational governments and local state-owned enterprises.

Nov-2024

SPD General
Manager

Ordinary Capital Net Income

Review the Ordinary Capital Net Income (OCNI) allocation based on the new priorities of the institutional strategy:

- *Enhance allocable OCNI by increasing financing capacity, by mainstreaming BSO and implementing G20 MDB CAF recommendations.*
- *Review the financial trade-offs involved (pricing, capacity, building buffers) in supporting each of the potential new mandates.*
- *Develop clear allocation criteria for the distribution of Ordinary Capital Strategic Development Program in support of new mandates and a framework for determining the amount of available resources.*
- *Review the level and distribution of technical cooperation (TC) resources to align to new institutional priorities and update the TC policy.*

Dec-2024

Executive Vice
President

Strategic Planning

- Update the IDB Group's strategic framework to simplify strategic guidance and ensure continued relevance of each instrument and document as well as their alignment with the institutional strategy. A revision of the existing framework will reduce the complexity in the current set of documents. It will facilitate the implementation of the institutional strategy by developing new sectoral strategic documents that align with the new strategy (with clarity on the participation of each entity of the Group), by derogating outdated ones, and by establishing clear timeframes for updating strategic documents in the future.
- Establish a robust strategic planning process at the IDB that improves the allocation of resources to strategic priorities, including the development of a multi-year IDB business plan with clear objectives and targets to guide other planning instances (e.g., budget, individual work planning). A multi-year IDB business plan will reduce fragmentation in IDB planning and facilitate implementation of the institutional strategy by establishing clear objectives and targets (including accountability by business unit) to guide operational planning and the allocation of financial and human resources across the IDB.

May-2024
(Phase 1)

Executive Vice
President

Dec-2024
(Phase 2)

IDB Group Synergies

- Rollout of IDB Group Synergies framework across the IDB, IDB Invest, and IDB Lab with initial focus on strategic documents, programming, the project cycle, and key people and process enablers; begin monitoring of framework adoption including key performance indicators.
- Establish an IDB Group approach for development through the private sector leveraging the public-private continuum and integrate synergies in key strategic reforms of the Institutional Strategy, including: (i) country strategy, dialogue, and programmatic approach; (ii) review of strategic framework; and (iii) people, incentives, and culture.
- Review Country Representatives and other key roles profiles, training, selection, and reporting models.
- Strengthen effective governance mechanisms to foster synergies.

Feb-2025

SPD General
Manager

Digital Transformation

- Upgrade policies and processes that slow down operations and contribute to today's culture. A coordinated and continuous effort to conduct this upgrade is needed, defining clear ownership and governance of operational and corporate processes.
- Establish a Digital Transformation Group to coordinate and orchestrate the implementation of digital transformation interventions that can be sustained in the long term and do not become a one-time event.
- Deploy a new client service model to ensure alignment and agility for the new service model, with a constant influx of feedback, opinions, and suggestions from clients.
- Establish a Data and Analytics Office that will focus on implementing the data strategic direction and fulfilling the required new data-related functions.

Dec-24

Vice-President for
Finance and
Administration

People, Incentives, and Culture

- Revamp core processes supported by technology to improve talent acquisition, talent management, and performance management.
- Update the Total Rewards Framework and Compensation and Rewards Strategy to preserve or improve market competitiveness to attract and retain talent; introduce segmentation and variable pay to strengthen results-based rewards; and reinforce the strategic alignment of short-term incentives Bank-wide.
- Strengthen talent management and leadership development to develop leaders to effectively manage people processes in a fair and equitable manner and empower leaders to develop talent and drive mobility.
- Review contract modalities and formalize flexible ways of working to position the IDB Group's talent to achieve the objectives of the new Institutional Strategy.
- Revisit HRD processes and services to its stakeholders to provide the IDB Group with the best strategic support possible.
- Develop incentives across the entire IDB Group (e.g., organizational structure, accountability and recognition, project and portfolio impact arrangements, leadership recognition) to achieve institutional goals and foster a culture of results.

Apr-2024
(Phase 1)

Nov-2024
(Phase 2)

Mar-2025
(Phase 3)

Executive Vice
President

Annex B. Strategy Coverage of Main Elements of MDB Reform Discussions

The table below contains information on the sections of the new IDB Group Institutional Strategy and Roadmap for Reform in which the IDB Group addresses key elements from recent discussions on the evolution of multilateral development banks in global fora (such as the G20 International Financial Architecture Working Group¹ and the [World Bank-IMF Development Committee](#)), including the (A) [MDB Capital Adequacy Frameworks](#), (B) [Triple Agenda on Strengthening MDBs](#), and (C) [Report to Governors on World Bank Evolution](#), among others.

Item	Coverage in Institutional Strategy and Roadmap for Reform
A) Capital Adequacy Framework Recommendations	
1. Adapt approach to defining risk tolerance ²	Section 7: Corporate Foundations, (subsection Financing Capacity, §7.3.2); and reforms Annex A: Balance Sheet Optimization (Washington Resolution).
2. Give more credit to callable capital ³	Ibid., and §7.3.
3. Expand uses of financial innovations ⁴	Ibid., §7.3, and Section 6: Transforming How We Serve our Region (subsection Effective Instruments and Mobilization, §6.8.6).
4. Improve credit rating agency assessment of multilateral development bank (MDB) financial strength ⁵	Section 7: Corporate Foundations, (subsection Financing Capacity, §7.3.1); and reforms Annex A: Balance Sheet Optimization (Washington Resolution).
5. Increase access to MDB data and analysis ⁶	Ibid., §7.3.2, and Section 6: Transforming How We Serve our Region (subsection Knowledge §6.13.1 footnote 54)
B) MDB Triple Agenda	
Vision and Mission	
I. MDBs' vision statement should address global public goods to send a clear signal of intent and guide internal efforts and external interactions.	Section 4: IDB Group Mission and Objectives (§4.2 and 4.3)
Operational Models	

¹ See <https://www.mef.gov.it/en/G20-Italy/finance-track.html>.

² "Redefine the Approach to Risk Appetite for MDB Capital Adequacy Frameworks:" recommendations 1A-C.

³ "Incorporate Uplift from Callable Capital into MDB Capital Adequacy Frameworks:" recommendation 2.

⁴ "Implement Innovations to Strengthen MDB Capital Adequacy and Lending Headroom:" recommendations 3A-F.

⁵ "Improve Credit Rating Agency Assessment of MDB Financial Strength:" recommendations 4A-C.

⁶ "Improve the Enabling Environment for Capital Adequacy Governance:" recommendations 5A-5D.

<p>II.A. Set benchmarks for speed and flexibility to provide scalable, low-transaction cost support based on country-owned transformation platforms. Upgrade knowledge and advisory services for sustainable development.</p>	<p>Section 4: IDB Group Mission and Objectives (§4.2); Section 5: Operational Focus Areas (Biodiversity, Natural Capital, and Climate Action, Box 5.1, §5.4.4; Gender Equality and Inclusion of Diverse Population Groups, §5.8.4; and Sustainable, Resilient, and Inclusive Infrastructure, §5.20.2); Section 6: Transforming How We Serve Our Region (Strategic Selectivity, §6.4, 6.7, 6.7.1-4; Effective Instruments and Mobilization, §6.8.5; Knowledge, §6.12-13, §6.13.1-3; and Box 6.1); and Section 7 (Processes and Systems, §7.4); and reforms Annex A: Additional Reforms.</p>
<p>II.B. Work systematically with the private sector in sovereign and non-sovereign activities, co-creating investment opportunities and establishing private capital mobilization targets of at least 1.2:1 for the MDB system as a whole and with targets above and below this level in each institutional context.</p>	<p>Section 6: Transforming How We Serve Our Region (Public-Private Synergies, §6.10, 6.11.3; Effective Instruments and Mobilization, §6.9.1, 6.9.3; and Strategic Selectivity, §6.7.1); and reforms Annex A: Additional Reforms.</p>
<p>Scale of Financing</p>	
<p>III.A. G20 members to signal strong support for tripling international development assistance by 2030 so that it avoids a fiscal cliff by frontloading market borrowing in the near term.</p>	<p>Not applicable.</p>
<p>III.B. Each MDB to implement recommendations of G20 CAF report, taking better account of callable capital, preferred creditor treatment, risk transfers, and issuing hybrid capital, including using Special Drawing Rights. MDBs to report back jointly to G20 Finance Ministers on expectations for impact of such measures on system-wide sustainable lending levels by 2030.</p>	<p>Section 7: Corporate Foundations (Financial Capacity, §7.3, 7.3.1-7.3.2); and reforms Annex A: Balance Sheet Optimization (Washington Resolution).</p>
<p>III.C. G20 members consider the establishment of a new Global Challenges Funding Mechanism, initially located in the World Bank Group but with separate governance, to take advantage of coalitions-of-the-willing among donors and non-sovereign investors.</p>	<p>Not applicable. The IDB Group would be interested in participating in a new Global Challenges Funding Mechanism once it is established, as it has done with similar initiatives (e.g., Global Environment Facility, Green Climate Fund).</p>
<p>III.D. Each MDB to present recommendations to its Executive Boards on the magnitude of any General Capital Increase that may be necessary to triple sustainable lending levels by 2030, after full implementation of CAF recommendations, and to present such calculations in a joint report to G20 Finance Ministers.</p>	<p>Section 7: Corporate Foundations (see references to the proposals for IDB Invest's capital increase proposal in the context of its New Vision and Business Model as well as IDB Lab's potential replenishment under MIF IV, §7.3.2-7.3.3 and footnote 6857).</p>
<p>MDBs as a System</p>	
<p>IV. Operate methodically as a system with shared diagnostics, coordinated technical assistance for public investment management improvements and country platform strengthening, regulatory and institutional reforms, project pipeline development, information exchange, exposure swaps, dialogue with credit rating agencies, and joint responses to country requests. MDBs to report jointly to G20 every two years on system-wide strengthening measures.</p>	<p>Section 1: Introduction (see paragraph §1.6 highlighting the consideration of previous and ongoing efforts to work synergistically as a system of MDBs in the region to increase scale and enhance efficiencies for partner</p>

	countries). On common approaches, harmonized methodologies, and shared tools, progress will be a joint MDB effort worked out in dedicated technical communities of practice (§6.13.1, and Box 6.1). On G20 engagement and reporting, the IDB regularly reports jointly with the MDBs to all mandates from the G20 International Financial Architecture Working Group (§3.4, and Box 6.1).
C) World Bank Evolution	
1. Vision and mission: poverty, livable planet, shared prosperity	Section 4: IDB Group Mission (§4.2-4.3) and Objectives (§4.4).
2. New World Bank Playbook	
2.a. Doubling Down on Impact	Section 6: Transforming How We Serve Our Region (subsections Impact Orientation, §6.2-3, 6.3.1-5; and Knowledge, §6.11); and reforms Annex A: Development Effectiveness (Washington Resolution) and Knowledge (Additional Reforms).
2.b. Modernizing Approach to Delivery	Section 6: Transforming How We Serve Our Region (subsections Strategic Selectivity, §6.4- 6.6; Effective Instruments and Mobilization, §6.8.1-7; Public-Private Synergies, §6.10); Section 7: Corporate Foundations (subsections Processes and Systems, §7.4-5, 7.5.1-4; and People, Incentives and Culture, §7.6-7 and Box 7.1); and reforms Annex A: Additional Reforms. ⁷
3. World Bank Financial Model	Section 7: Corporate Foundations, (subsection Financial Capacity, §7.3, 7.3.1-3); and reforms Annex A: Balance Sheet Optimization (Washington Resolution).
4. Scorecard	See references to IDB Group Impact Framework in Section 8: Operationalizing the Strategy (§8.4); and reforms Annex A: Additional Reforms.

⁷ Country Strategy (including dialogue and programmatic approach); instruments (innovative, disasters, investment, mobilization); net income; strategic planning, synergies; digital transformation; and people, incentives, and culture.