



Second Update to the Institutional Strategy

AB-3190-2

Update to the Institutional Strategy

Development Solutions that Reignite Growth and Improve Lives

AB-3190-2

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Acronyms

CAF	Development Bank of Latin America
CRF	Corporate Results Framework
DEO	Development Effectiveness Overview
ICT	Information and Communication Technologies
IDB-9	Ninth General Increase in the Resources of the Inter-American Development Bank
IIC	Inter-American Investment Corporation
LAC	Latin America and the Caribbean
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund
NSG	Non-Sovereign Guaranteed
OVE	Office of Evaluation and Oversight
SDG	Sustainable Development Goal
SG	Sovereign Guaranteed
STEM	Science, Technology, Engineering and Math
UIS	Update to the Institutional Strategy
4IR	Fourth Industrial Revolution



Executive Summary

The Institutional Strategy of the Inter-American Development Bank Group (IDB Group) serves as the Group's core strategic guidance. It was adopted in 2010 under the Ninth General Increase in the Resources of the Inter-American Development Bank (IDB-9) with the overarching objectives of fostering sustainable growth and reducing poverty and inequality and was first updated in 2015 for the period 2016-2019. In line with IDB-9's mandate to review and update the strategy every four years, this update covers the period beginning in 2020. It preserves the core aspects of the strategy approved under IDB-9 and the first Update to the Institutional Strategy (UIS), while considering the need to adapt to the dynamic context facing the region and the IDB Group.

The IDB Group is comprised of two separate legal entities: the Inter-American Development Bank (IDB) and the Inter-American Investment Corporation (IIC), which was rebranded as IDB Invest in 2017. The Multilateral Investment Fund (MIF), rebranded in 2018 as the IDB Lab, is a trust fund administered by the IDB, which is treated as a separate entity in this document due to its unique function as the IDB Group's innovation laboratory. This strategy update is built upon the understanding that these three entities bring unique and complementary added value to the region's development and the strengthening of synergies across them will continue to enhance the IDB Group's impact on the region.

The strategic priorities established in the first UIS remain critical for Latin America and the Caribbean (LAC). These include the key development challenges that need to be addressed to preserve and continue to advance development gains (social exclusion and inequality; low productivity and innovation; and limited economic integration) as well as the cross-cutting issues that must be mainstreamed in the IDB Group's work to address these challenges (gender equality and diversity; climate change and environmental sustainability; and institutional capacity and the rule of law). LAC has seen some advances on each of these priorities, however, significant challenges remain. These priorities also remain relevant in the context of the global development agenda as they support the Sustainable Development Goals (SDGs) and Paris Agreement on action against climate change.

Operational Areas of Emphasis

While the strategic priorities of the first UIS remain relevant, there have been significant changes in the global and regional context that necessitate fine-tuning the IDB Group's approach to addressing these priorities. Many sectors are facing disruptions associated with the rapid expansion of new technologies. At the same time, in light of the ambitious SDG agenda, there is a heightened awareness of the critical role that private sector resources must play in addressing LAC's development challenges. Furthermore, the rise in corruption scandals highlights the need to take a proactive approach to boosting transparency and integrity. A principal purpose of this update is to identify areas where emphasis needs to be placed to better address IDB Group's strategic priorities in light of

these changes. Each of the proposed areas of emphasis for this second strategy update relates to one or more of the key aspects of the UIS.

First, promoting technology adoption and innovation in LAC is critical in the context of the technological revolution that offers immense potential for tackling the region's development challenges particularly reducing poverty, as well as serious risks if countries do not adapt adequately to the rapid technological change. The IDB Group must support countries and clients to expand investments to facilitate digital technology adoption, to reduce technology gaps, to develop and deploy instruments that nurture innovation, and to strengthen skills development and technology transfer. It must also help countries prepare for related impacts on the labor market, taking into consideration demographic changes, the effects of automation, and changes in the employee-employer relationship.

Second, emphasis will be placed on increasing overall resource mobilization. To scale-up domestic resource mobilization and private financing, the IDB Group must continue building partnerships. In addition, innovative instruments should be developed to leverage the IDB Group's capital and internal incentives should be adjusted to support increased mobilization and increased consideration of mobilization in the programming and project origination processes.

Third, continued attention to mainstreaming the cross-cutting issues of the UIS is critical to meeting LAC's development challenges. The IDB Group will renew its commitment and accelerate progress on gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law. Under institutional capacity and the rule of law, particular

emphasis will be placed on fostering transparency and integrity in the region.

Corporate Areas of Emphasis

Achievement of the IDB Group's strategic priorities depends on a number of institutional factors that underpin the IDB Group's overall effectiveness and efficiency. As such, the strategy also includes four corporate areas of emphasis where improvement is needed to better serve the needs of member countries. They are guided by IDB Group's drive to enhance its value for money—which means making the best possible use of its available resources and comparative advantages to minimize costs, foster efficiency, and maximize development impact.

First, given the structural nature of the development gaps in the region, progress towards closing these gaps takes a significant period of time. As such, beginning with the next cycle, future strategies should have a 10-year duration with a midterm review that assesses if changes in the direction of the IDB Group are needed during the strategy's timeframe.

Second, the IDB Group entities must identify opportunities to boost their profiles as financial institutions to enhance their value and potentially achieve further capital efficiency. As credit rating agencies place increasing weight on institutional attributes beyond financial soundness, the IDB Group needs to enhance the understanding by shareholders, external stakeholders and the IDB Group workforce, of critical aspects of the IDB Group's value and maintain focus on emerging areas of risk.

Third, the IDB Group will continue exploring ways to exploit more effectively and efficiently the synergies of the entities of the Group both at the corporate and operational

levels. This is critical to develop integrated, holistic solutions to the region's development challenges as well as to leverage internal economies of scale.

Fourth, the IDB Group must further integrate knowledge into the Group's core business given the critical role that it plays as a global public good. The IDB Group must continue to build incentives for employees to increasingly take on the role of a knowledge broker and connector for the region, to complement the Group's existing excellence in knowledge production and dissemination, particularly to capture lessons derived from operational successes and failures.

Delivering on the Strategy

This update to the Institutional Strategy will be implemented through integrating the operational and corporate areas of emphasis into the Group's regular planning and programming instruments as well as aligning incentives for employees with these areas. A critical aspect of delivering on the strategy will entail enhancing the IDB Group's commitment to its strategic priorities not only for its work in the region, but also internally. Following the Governors' approval of this update, the Corporate Results Framework (CRF) will be updated and progress in the implementation of the strategy and the advances in meeting CRF expected results will be reported in the annual Development Effectiveness Overview (DEO) reports.



I. Introduction

- 1.1** The Institutional Strategy of the IDB Group (IDB Group) serves as the Group's core strategic guidance. It was adopted in 2010 under the Ninth General Increase in the Resources of the Inter-American Development Bank (IDB-9), with the mandate that every four years, the Board of Governors will review and evaluate the execution of the capital increase through updates to the strategy and its results framework in the context of emerging challenges and changes in the region.¹ The period covered by the results framework was 2012-2015. Then, in accordance with the mandate, the institutional strategy and the results framework were updated in 2015 to cover the period 2016-2019.
- 1.2** With the end of the period of the first Update to the Institutional Strategy (UIS) approaching, the IDB Group has reflected on progress in implementing the UIS,² as well as on how its approach needs to be

adjusted given significant changes in the global and regional context. Considering sources such as the Office of Evaluation and Oversight reports and the annual Development Effectiveness Overview (DEO), and that a four-year period may not be enough to achieve significant progress in fostering sustainable growth and reducing poverty and inequality, this document maintains the strategic priorities established in the first update and identifies specific areas of emphasis within the challenges, cross cutting issues and operational guiding principles of the first UIS, to increase the IDB Group's ability to support its member countries.

- 1.3** These areas of emphasis are aimed at better adapting the IDB Group to the emerging needs and objectives of its borrowing and non-borrowing members and ensuring its continued relevance as the main source of development financing in the region

1. See [AB-2764](#)

2. For more information visit the progress document "[Prospects on the priorities, principles and action plan](#)" of the First Update to the Institutional Strategy

(rather than on identifying new development gaps with respect to those diagnosed in the first update). The areas of emphasis are guided by IDB Group's drive toward continuing to enhance its value for money—which means making the best possible use of its available resources and comparative advantages to minimize costs, foster efficiency, and maximize development impact. In addition, this update marks the first time that the IDB, IDB Invest and IDB Lab have prepared a joint institutional strategy, fully leveraging the Group's resources.

- 1.4** Including this Introduction, this document consists of six sections. Section II discusses the IDB Group's vision for the region and concludes that even with the significant changes that have occurred, the priorities of the first UIS maintain their full relevance as the main vectors to meet the IDB-9 strategic goals of reducing poverty and inequality and achieving

sustainable growth. Section III discusses significant changes observed since the first UIS, setting the context for this update. The current macroeconomic outlook calls for policies to reignite the region's economic growth, or otherwise risk setbacks in the social progress achieved over the past decade. This discussion is accompanied by a review of the areas where significant changes have occurred since the first update, building the case for the IDB Group's strategic areas of emphasis under this second update. Section IV lays out how IDB Group envisions operationalizing this strategy update for 2020 to 2023 and Section V discusses areas of emphasis that will ensure that the operational model of the IDB Group, including its drive for excellence and client focus, is clearly articulated. Finally, Section VI outlines high-level plans for delivering on this strategy update and reporting progress.



II. IDB Group's Vision for Reducing Poverty And Inequality And Achieving Sustainable Growth in The Region

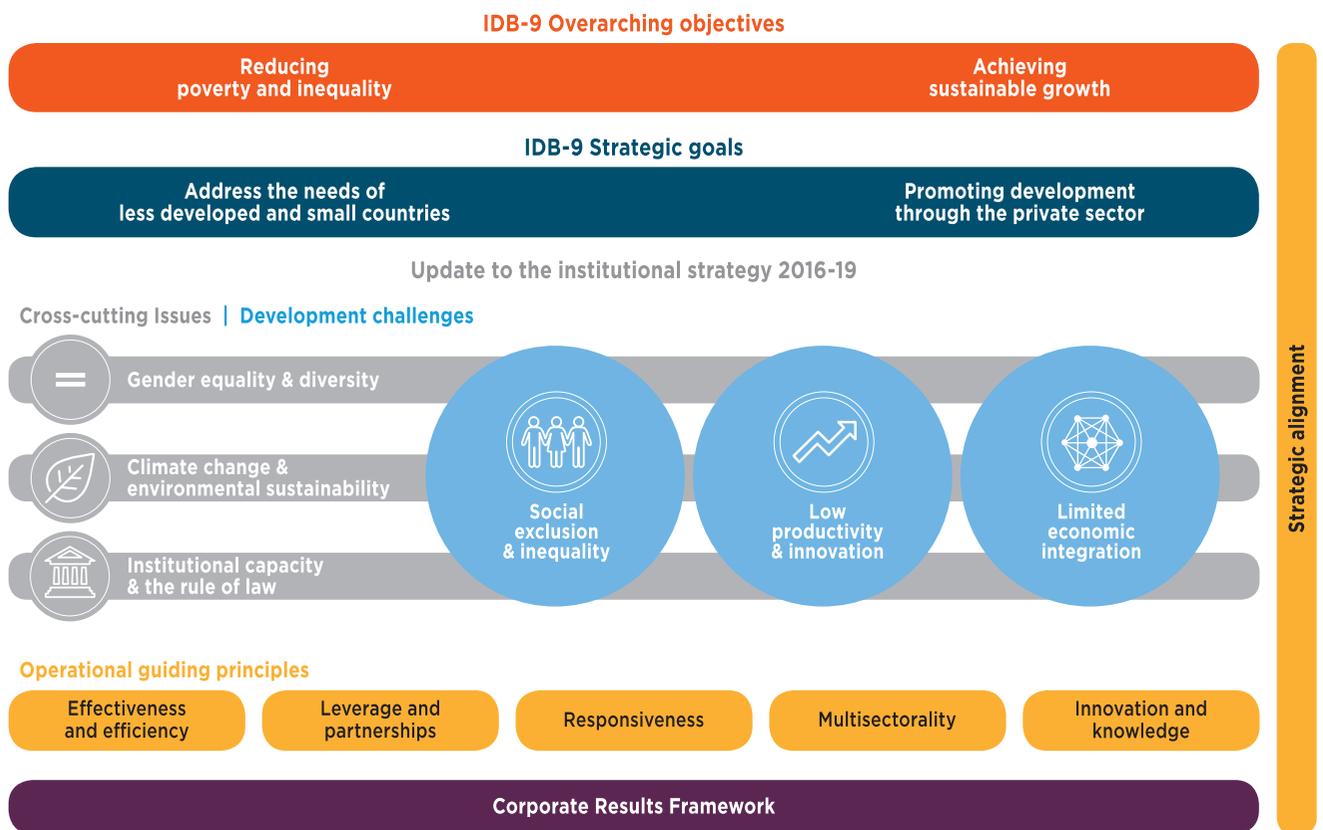
- 2.1** The IDB Group comprises two separate legal entities: the Inter-American Development Bank (IDB) and the Inter-American Investment Corporation (IIC). The Multilateral Investment Fund (MIF), which is the IDB Group's innovation lab, is a trust fund administered by the IDB and was rebranded in October 2018 as the IDB Lab. The consolidation in early 2016 of private sector operations into the IIC (currently branded as IDB Invest) set in motion a two-pillar model for the IDB Group, which is articulated across the key operational and corporate dimensions of this updated strategy.
- 2.2** The mission of the IDB, as originally stated in the Agreement establishing it in 1959, is to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively. In a series of capital increases in subsequent decades, this mission was operationalized in strategic priorities and actions to drive toward the IDB's long-term goals—most recently through IDB-9 in 2010 in which the Board of Governors endorsed the IDB-9 institutional strategy. This strategy established two overarching objectives: fostering sustainable growth and reducing poverty and inequality. IDB-9 also included two strategic goals: (i) addressing the needs of small and vulnerable countries, particularly Haiti, and (ii) promoting development through the private sector; as well as five priority areas: (1) social policy for equity and productivity; (2) infrastructure for competitiveness and social welfare; (3) institutions for growth and social welfare; (4) competitive regional and global international integration; (5) protecting the environment, responding to climate change, promoting renewable energy, and enhancing food security.
- 2.3** In its first UIS,³ the IDB reaffirmed its commitment to the IDB-9 overarching objectives and strategic goals. The first UIS also rearranged the IDB-9 priority areas into three development challenges: social inclusion and equality, productivity and innovation, and economic integration; three cross-cutting issues: gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law; and six guiding principles that inform how IDB works: responsiveness; multi-sectorality; effectiveness and efficiency; leverage and partnerships; knowledge and innovation; and strategic alignment. Diagram 1 depicts this structure.
- 2.4** The development challenges and cross cutting issues in the first UIS remain critical for achieving IDB-9's overarching goals. Despite advances in some respects, a commitment to pursuing progress towards these goals is still needed as four years may not be enough to achieve significant progress in closing development gaps. More time is required to achieve long-term development goals and to maintain continuity and appropriate results monitoring.

3. See Update to the Institutional Strategy ([link](#))

2.5 The Corporate Results Framework (CRF) measures progress in achieving the goals of the UIS. After the consolidation of private sector operations, IDB Invest confirmed its commitment to contribute to and monitor the CRF indicators. At approval of the IDB Lab's replenishment in 2017, it adopted a new man-

date and guiding principles to strengthen its role as the IDB Group's innovation lab. As a result, the three development challenges, three cross-cutting issues, six operational guiding principles of the UIS and the CRF, apply to the entire IDB Group.

Diagram 1: Structure of the Institutional Strategy of the IDB Group



2.6 To carry out its mission and deliver its strategy, the IDB Group relies on a cooperative model, encapsulated in the principles and shareholding structure of both the IDB and IDB Invest. It is underpinned by the principle of ownership, joint-responsibility, and alignment of interests, and is embedded in a model of financial sustainability reinforced by a rules-based decision-making system, ensuring balanced representation of borrowing and non-borrowing members, following key mandates approved by the Board of Governors and overseen by the Boards of Directors. The model serves as a basis for the Group's operations providing economic strength to both institutions, as it fully covers their costs and consistently generates net income to build up the capital required to operate at the target rating levels. In addition, it is also embedded in the IDB Group's operational model featuring a strong field presence, with country offices and IDB Group representatives in each of the 26 borrowing member countries.

2.7 The IDB Group's value proposition relies on its capacity to tailor products and instruments (financial

and non-financial) to the specific challenges and conditions of each borrowing member country, and to mobilize private and institutional investors, foster domestic resource mobilization, and deepen local capital markets.

2.8 An effective engagement with all members of the cooperative responds to the charter mandate and is key to support the IDB Group's financial sustainability and to succeed in its objectives of reducing poverty and inequality and promoting sustainable growth. To ensure its long-term financial health, the Group relies on its financial return in countries where the risk-adjusted net income is high to provide the bulk of capital building and to support operations in other countries and allow for concessional transfers to specific causes. From this perspective, maintaining a continuous engagement with all borrowers is essential to the business model, not only for the implicit financial cross-subsidies, but also to learn about the design of effective development interventions applicable in different contexts, a key element in supporting countries to reduce poverty and avoid falling into a middle-income trap.



Member Countries

Non-Borrowing Member Countries

Of the IDB's 48 member countries, 22 are non-borrowing, meaning that they provide capital and have voting representation in the Bank's Board of Governors and Board of Executive Directors according to their capital subscriptions: Austria, Belgium, Denmark, Canada, Croatia, Germany, Italy, Israel, Japan, Finland, France, Netherlands, Norway, People's Republic of China, Portugal, Republic of Korea, Slovenia, Spain, Sweden, Switzerland, United Kingdom, and United States of America.

Borrowing Member Countries

The IDB has 26 borrowing member countries, all of them in Latin America and the Caribbean. Together, they have slightly more than 50 percent of the voting power on the IDB board: Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.



Member Countries

Argentina, Austria, Bahamas, Barbados, Belgium, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Croatia, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, Germany, Guatemala, Guyana, Haiti, Honduras, Israel, Italy, Jamaica, Japan, México, Nicaragua, Norway, Panama, Paraguay, People's Republic of China, Peru, Portugal, Republic of Korea, Spain, Suriname, Sweden, Switzerland, The Netherlands, Trinidad and Tobago, United States of America, Uruguay, and Venezuela.



Donor Countries

Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Guyana, Haiti, Honduras, Israel, Italy, Jamaica, Japan, Mexico, Nicaragua, Panama, Paraguay, People's Republic of China, Peru, Portugal, Republic of Korea, Spain, Suriname, Sweden, Switzerland, The Netherlands, Trinidad and Tobago, United Kingdom, United States Of America, Uruguay and Venezuela.



III. Significant Developments Since The Approval of The First UIS

MDBs in the Region

- 3.1** Since 2012 and as shown in Graph 1, the IDB has consolidated its role as the largest multilateral lender to the public sectors of the LAC region. While the World Bank has reduced the size of its SG program in LAC,⁴ and CAF's has remained relatively constant, the IDB has kept its annual lending at an average value of US\$10 billion since 2010. This larger relative size vis a vis other MDBs, the strong sense of ownership of borrowing countries and the IDB's track record parallel its potential influence on policy and program design in the region.
- 3.2** As IDB Invest consolidates its role as a strong partner for the region's private sector, its lending capacity has already matched that of the International Finance Corporation for LAC. With IDB Lab, the IDB Group is also the only MDB with a window dedicated to experimentation and innovation. The IDB Group's structure is a distinguishing strength relative to its peers in the region.
- 3.3** To respond to an increasing demand associated with slower growth, a tighter fiscal stance in the region, and growing challenges to act countercyclically, the Group will need to focus on the operations that are most effective, increase emphasis on resource mobilization, and design tools that allow the greatest possible leverage of its existing cap-

ital. The IDB Group will maintain its long-standing focus on assuring the quality of its operations at approval and throughout implementation by applying and continuously improving on its quality and risk review, and development effectiveness tools.

- 3.4** Since the approval of the first UIS, several institutional changes have taken place. The most notable include: the consolidation of private sector activities into IDB Invest reinforcing the two-pillar structure for IDB Group; the replenishment of the IDB Lab as the Group's innovation lab; the establishment of financial risk policies consistent with the Governors-mandated ratings for IDB (AAA) and IDB Invest (at least AA); and the full implementation of the G20 Balance Sheet Optimization Action Plan for Multilateral Development Banks (MDBs).

Economic Outlook

- 3.5** Another critical change pertains to the region's macroeconomic outlook. An easing in commodity prices and slower global growth rates were envisioned in the first UIS, but the negative impact on growth in LAC turned out to be stronger than expected. LAC is recovering some of its lost growth momentum, however, without enough traction to achieve higher sustained growth rates. Recent turbulence in emerging markets and the normalization

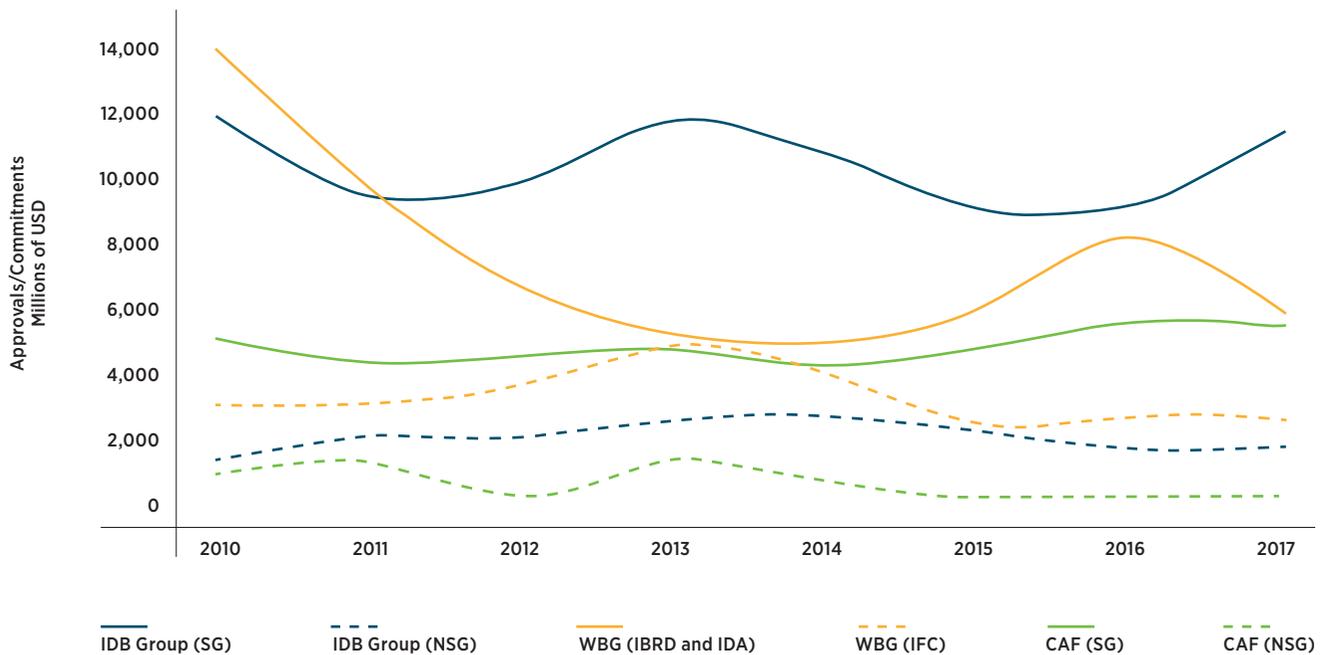
4. The composition of World Bank lending in LAC has shifted, with a higher concentration of policy-based lending given that their limits in this modality apply on a world-wide and not a regional basis. Because of less regional diversification opportunities than the World Bank, this leaves the IDB Group at a disadvantage in regard to the use of the instrument.

of monetary policy in advanced economies, raise even more uncertainty about the possibility of returning to the previous growth path. As a result, expected growth will continue to be insufficient to achieve the convergence of per capita income between LAC and other regions. Sluggish total factor productivity (TFP) growth is a culprit for sub-par growth performance in LAC. TFP growth remains

low because the existing distortions and failures in markets result in unproductive firms and/or many small productive firms.

3.6 Despite social gains in LAC, poverty and inequality persist. While inflation rates diminished in many countries during the recent recovery, keeping the purchasing power of millions of households from eroding, unemployment and under-employment

Graph 1: MDB Lending to Latin America and the Caribbean



Note: Until 2015, IDB-NSG includes loans from IDB Group to the private sector through the private sector windows of the IDB (Structured and Corporate Finance, Opportunities for the Majority), IDB Lab, and from IDB Invest. Since 2016, IDB-NSG includes loans originated by IDB Invest on behalf of IDB Group. For comparison purposes, CAF's NSG data exclude approvals of short-term credit lines to corporate and financial institutions. IBRD: International Bank for Reconstruction and Development. IDA: International Development Association. IFC: International Finance Corporation. NSG: Non-Sovereign Guaranteed Loans. SG: Sovereign Guaranteed Loans.

Sources: Annual reports of IDB, CAF and World Bank.

are on the rise, exacerbating inequality. Curbing unemployment is a priority, as social gains such as declining poverty rates and the burgeoning middle class are at risk of reversal. Serious challenges also remain with respect to inequalities based on gender, ethnicity, race and urban versus rural residence, particularly regarding economic opportunity, political participation and influence.

- 3.7** A major challenge for LAC is achieving a more robust economic growth outlook without a significant increase in the prices of exports. The challenge is magnified given that there is almost no fiscal leeway in most countries in the region. In addition, returning to a higher sustainable growth path is also challenged by additional relevant sectoral changes that if left unaddressed may hamper long-term efforts to return to a sustainable growth path.
- 3.8** Along with these risks, several areas of the region including Mesoamerica, the Caribbean, and South America, are facing serious challenges associated with the impacts of large migration on inclusive development. Notwithstanding the benefits of increased diversity in the workforce, higher consumption and tax revenues, there are significant risks with respect to the design and execution of social policies, including the provision of quality public services, a deterioration of labor market conditions for certain populations, and a reversal of previous gains in poverty reduction.
- 3.9** With a view towards making more significant progress on the IDB Group's overarching strategic objectives, the following sections discuss areas that merit attention within the parameters of the current strategy. There are three areas where profound trans-

formations have been observed since the first UIS, and which open opportunities for the IDB Group to support borrowing member countries' efforts to reignite economic growth and improve lives across the region. These include addressing the technological revolution, the sustainable infrastructure gap, and the need for greater transparency and integrity.

The Technological Revolution

- 3.10** The contribution of knowledge and innovation to economic growth is expanding at an accelerated rate. The knowledge content of products and services is on the rise globally, and economies are increasingly becoming knowledge-based. Investment in knowledge-related activities has been growing faster than capital investment in advanced economies. A driving force behind this phenomenon has been the proliferation of exponential technologies which can become a powerful lever to support countries in addressing their development challenges especially with respect to promoting sustainable growth and reducing poverty and inequality. The recent convergence of digital technologies such as artificial intelligence and machine learning, mobile devices, 5G, blockchain and the Internet of Things has sparked innovations with powerful impacts across industries that will likely result in a new industrial revolution. Also, recent advances in life sciences, materials and engineering hold the potential to transform fields such as agriculture, health, manufacturing, and construction.
- 3.11** Notwithstanding the immense potential of new technologies, there are serious risks. A major con-

cern is the preparedness of LAC economies to adapt to rapid technological change. Access to broadband is fundamental for a knowledge economy and is required for new business models characterized by disintermediation, sharing and collaboration online. LAC is held back by under-performing education systems, an inadequate legal and regulatory environment, limited and expensive ICT infrastructure, low-performing research and scientific institutions, and a poorly developed entrepreneurial ecosystem where most firms are not engaged in innovation activities, much less in digital transformation.

3.12 As the technologies of the Fourth Industrial Revolution (4IR) become more accessible and affordable, they also have the potential to impact economic growth, labor markets, and income distribution. While technology is expected to have a positive effect on labor productivity and growth, it will also disrupt the labor market, with an effect on jobs that is still uncertain. The high-tech industry is experiencing productivity gains that the manufacturing sector has been experiencing for years with automation. All else being equal, automation will lead to jobs being transformed, while new occupations are created to offset job losses due to automation.

3.13 Overall, inequality is likely to increase, as experience from other regions shows that technologies have led to labor polarization (the hollowing of middle skills and an increase in the demand for high and low skills). While such evidence for LAC is scarce, there is some recent evidence of this trend in Brazil and Chile. In addition, technology may disproportionately affect some demographical groups such as older workers with obsolete skills and women to the

extent that gender gaps in STEM persist. However, the potential adverse effects of automation may be at least partially outweighed by the emergence of technology-enabled job intermediation platforms with new opportunities to connect people to global labor markets. Digital online platforms could increase global GDP through improved productivity, greater employment, and higher labor market participation. Up to 540 million people could benefit from online job intermediation platforms by 2025. These flexible modalities could benefit groups that have been marginalized and raise the productivity of the informal sector.

3.14 LAC is also undergoing a rapid demographic change with the percentage of the population of people older than 60 expected to increase while the share of working age population is expected to decrease by 2050. Increases in life expectancy will result in postponement of retirement, working during retirement and an increase in the demand for goods and services for the elderly.

3.15 Social security systems in the region are strained by fiscal challenges and inequalities related to low coverage due to high levels of informal employment, low contributions, and generous benefits for a small group of contributors. There is also an increasing displacement of the traditional full-time employee-employer relationship in favor of independent workers. The latter brings flexibility and potential innovations to the economy, but it also puts additional pressure on social security systems that are based on an ongoing and full-time relationship between the worker and the employer. It is important to redefine and strengthen social in-

insurance systems including the types of risks that will need to be covered.

- 3.16** The digital gender divide must also be addressed. Women should be equally involved in the design, development, production and governance of digital technologies. It is also widely recognized that women are under-represented in jobs and careers in science, technology, engineering and mathematics (STEM). In contrast women are overrepresented in the care economy, which will be an important source of employment growth given the changing demographics of the region.

The Sustainable Infrastructure Gap

- 3.17** Low physical capital accumulation in LAC is associated with slow TFP growth. The region lacks enough quality infrastructure to maintain sustainable growth rates, and the gaps are large. The annual investment gap is estimated at nearly US\$170 billion. Filling this gap is particularly challenging considering that LAC countries are facing the need to adjust fiscally and cope with economic losses as a result of more frequent and intense natural disasters. As such, filling the gap calls for the use of climate resilient infrastructure.
- 3.18** Sustained economic reforms, resilient domestic institutions, and regulatory frameworks remain critical to strengthening the investment environment, but the financing gap is still very large. In a context of low domestic savings, the need to attract resources to invest in the region is a strategic priority. MDBs need to look beyond traditional activities, especially considering the need to invest in

measures to create resilience and a more robust institutional structure for managing disaster risk and climate-related hazards. Unlocking private capital for sustainable infrastructure becomes a priority that requires resources that exceed the financing capacity of MDBs. The IDB Group has developed a Framework for Investment in Sustainable Infrastructure to provide guidance to policy and regulatory decision-makers on measures to overcome barriers needed to mobilize investors.

Transparency and Integrity

- 3.19** Institutional transparency is essential for the effective delivery of public services and building an environment that encourages private sector development. Often, corruption is underpinned by opaque and cumbersome regulations that restrict or do not adequately promote access to information and create opportunities for discretionary behaviors paired with weak accountability in government agencies, state-owned enterprises, and the private sector. Corruption also erodes the efficient allocation of public spending, encourages tax evasion, generates additional financing and transaction costs, discourages investment and the transition from informal to formal businesses, negatively affecting productivity and growth.
- 3.20** In recent years, the region has faced a wave of corruption scandals exposed by judicial investigations in several countries. The high-levels of corruption revealed have had negative effects on trust in democratic institutions, as well as on economic development. Several countries have suffered political

instability and specific economic fallouts with a significant slow-down in infrastructure spending. In some countries, the execution of infrastructure projects has been paralyzed and it is difficult to find financing for new projects in this sector.

- 3.21** In some countries, petty corruption is rampant, further undermining productivity and trust in government. Petty corruption is particularly harmful at the service delivery level, affecting poor people disproportionately and sometimes excluding them from the enjoyment of basic rights and benefits. Private sector corruption also contributes to environmental damage, health and safety problems, economic instability and human rights violations by diverting scarce financial and human resources. Several scholars have concluded that corruption is threatening to erode LAC's economic well-being, political stability, and the foundations of the rule of law.
- 3.22** Most LAC countries have passed transparency, integrity and anti-corruption legislation over the last fifteen years, but these efforts have been uneven and partial, and have lacked effective implementation and results. On average, corruption indicators have not improved in this period in comparison with regions such as East Asia and Eastern/Central Europe.
- 3.23** Almost three quarters of the population in LAC believe that their society is unjust; and more than two thirds consider that governments favor the privileged over the public interest. Inequality combined with grand scale corruption scandals is occurring at a time when LAC has a larger middle class, better connected via social media and more intolerant of corruption, and which demands more efficient and transparent government. This has created the conditions for the first judicial responses against corruption and impunity, which are expected to continue during the following years.

What has happened since the last strategy update?

- Stagnant growth and persistent exclusion and inequality
- Greater difficulty in closing the financing gap
- Fast-paced technological changes
- Heightened Importance of transparency and integrity



IV. Updated Areas of Emphasis to Address The Development Challenges and Cross-Cutting Issues

4.1 Given the significant changes since 2015 described in section III, a principal purpose of this update is to identify where emphasis needs to be placed so the IDB Group can best address the development challenges and cross-cutting issues outlined in the UIS. These proposed areas of emphasis are key to increase the IDB Group's value for money and achieve the greatest development impact with existing resources.⁵

A. Promoting Technology and Innovation

4.2 Although all of the IDB Group entities have continuously supported science, technology and innovation, the speed of the 4IR calls for a renewed approach. In recent years, IDB Group has incorporated a strengthened awareness of the possibilities of innovation and technology across many sectors. This trend needs to be reinforced and mainstreamed.

4.3 The following actions are proposed for IDB Group to operate in the context of the technological revolution that is influencing LAC development with the understanding that deployment must be appropriate to the characteristics of each country:

i) Accelerating and expanding investments in the pre-conditions and analog complements of digital technology adoption. This means supporting leapfrog enablers such as IT infrastructure, private sector innovation, research and development, technology diffusion, adaptation and transfer, institutional development and

regulatory reforms, privacy and ethical considerations, among others. It also means creating a solid knowledge base so as to take advantage of the digital economy and resolve market failures that prevent the private sector from investing in the digital transformation of industries.

ii) Promoting state-of-the-art technology and innovation applications across all sectors of activity, where appropriate. The IDB Group can help to reduce LAC's technological gaps by supporting, for example, open platforms for social innovation and digital access to government services. It could also provide technical assistance on scientific infrastructure, building the capacity to manage research funding and explore innovative paths for private financing. Given the importance of natural resources in most LAC economies, the IDB Group will also support clients in developing product, process and business model innovations related to natural resource anchor firms and the network of SMEs that supply them with services.

iii) Developing and deploying instruments that nurture innovation. The IDB will continue to support government programs that encourage the private sector to undertake innovative higher risk projects. IDB Invest can mainstream equity products and/or innovative instruments such as venture debt, and, in the long-term, scale its support to technology-based innovation through direct equity and quasi-equity

5. For further information on each of these areas of emphasis visit the expanded version ([link](#)).

investments, prioritizing development impact and additionality. IDB Lab will deploy financing, knowledge and network assets to promote business models that can generate impact, including early-stage venture funds and equity. IDB Group can also design instruments to expand innovation financing opportunities, especially for socially excluded groups.

- iv) Strengthening its position as a trusted broker and advisor** in supporting governments and corporate clients to navigate the opportunities and risks of new technologies, as well as to address the complexities of the 4IR through regional cooperation and public goods. The IDB Group can promote the development of critical skills related to STEM, focusing on the inclusion of women, indigenous peoples, Afro descendants, people with disabilities and other vulnerable groups in order to reap the benefits of diversity. IDB Invest and IDB Lab will continue actively leading and participating in technology dialogue in the region and consolidating their position as a knowledge bank for the private sector.

4.4 The IDB Group can be a major partner in supporting LAC to leverage the benefits of technology while mitigating its risks, particularly those related to the labor market. A focus on the following activities will enable IDB Group to support countries and clients in preparing for and adapting to the future of work:

- i) Supporting countries in creating, re-skilling and up-skilling a first-class talent base.** The IDB Group can support the public and private sectors in collaborating to identify skills gaps to increase the quality and relevance of education-

al and training systems to meet the demand for skills in the exponentially evolving economies of the region. The IDB Group can also help countries to transition to educational models that foster lifelong learning.

- ii) Assisting countries in supporting learning-work-learning transitions.** The IDB Group can enhance labor market policies, labor intermediation systems such as digital platforms to connect job-seekers with opportunities, and income support mechanisms that help displaced workers and firms manage transitions. The IDB Group can also support the use of technology for inclusion to address labor market inequalities that may be exacerbated during transitions, particularly for groups who face employment discrimination.
- iii) Supporting countries to strengthen and transform social insurance.** The IDB Group can assist countries in enhancing social protection policies and delivery mechanisms, including through the use of new technologies to increase coverage and contributions and promote efficiency, security, and trust in social security systems. Digital platforms can also be used to pool workers' risks and support portability of benefits.
- iv) Fostering the spread of digital technologies in the public and private sectors.** The IDB will assist countries in attracting, training and re-training public sector employees, and managing successful transitions in the context of the growing digitalization of public administration. IDB Invest and IDB Lab can also support LAC in creating new jobs, easing business regulations, and supporting firms to be more productive.

B. Increasing Resource Mobilization

4.5 Achieving the SDGs requires mobilizing more investments of all kinds—public, private, national and global, in both capital and capacity, as the resources needed to overcome poverty, protect the environment and improve lives in the region far surpass current development financial flows. The IDB Group is well-positioned to increase resource mobilization to the region. For every 1 dollar invested directly by MDBs such as the IDB Group in private sector operations, some 2-5 dollars are mobilized in additional private investment. This adds an estimated \$40 to \$100 billion to development flows every year.

4.6 Mobilization refers to the process through which IDB Group engages partners and crowds-in financial and non-financial resources in support of developmental projects in LAC. Mobilization at the IDB Group is defined by: 1) engaging third-party funds, which may be reimbursable and/or non-reimbursable; 2) enhancing domestic resource mobilization by helping countries maximize their own resources and strengthen local financial and capital markets; and 3) mobilizing private finance from commercial sources including institutional investors through de-risking and co-investment.

4.7 The three-pronged approach that the IDB Group will take to increase mobilization in all borrowing member countries of the region (depending on country-specific conditions) will include:

i) Enhancing mobilization from traditional and non-traditional partners including continuing to engage partners to raise more reimbursable and non-reimbursable financing to support IDB

Group's objectives, and expanding partnerships with bilateral and multilateral financiers, corporate and institutional private investors, and philanthropic foundations. Innovative financing solutions will continue to be explored to finance the SDGs, while the IDB Group also provides like-minded private and public-sector donors and investors its experience, infrastructure, services, and systems to facilitate the mobilization of resources to finance the SDGs in LAC.

ii) Promoting domestic resource mobilization.

The IDB Group can scale up its work to help countries to maximize their own resources, by providing policy advice, technical assistance and capacity building to: (1) strengthen a country's regulatory framework to deepen financial inclusion, to curb unaccounted and illicit flows and to increase revenue collection; (2) support the development of sustainable investment plans for more efficient and effective spending; (3) improve the business climate to attract additional private investment; and (4) support the domestic regulatory framework and the development of local capital markets that would allow local private enterprises to tap the resources of domestic institutional investors.

iii) Catalyzing private financing. The IDB Group will continue to explore the use of credit enhancement products, new and innovative instruments, guarantees, B-bonds and blended finance, among others. The IDB Group's aim is to de-risk projects and programs and address market failures to make riskier operations and lower income clients and countries, commercially viable.

- 4.8** Working to combine core Ordinary Capital, private, and donor funding, the IDB Group will be able to spearhead a new generation of mobilization efforts to support the 2030 Sustainable Development Agenda and countries' objectives under the Paris Agreement. To this end, IDB Group will need to focus on continuing to develop innovative instruments to leverage the IDB Group's capital; ensuring mobilization is considered in programming and project origination; creating internal incentives for mobilization; providing guidance and training to stakeholders on best practices; and tracking mobilization and results.
- 4.9** The IDB Group will continue building on its close relationship and policy dialogue with public and private clients, benefiting from a group approach that links SG and NSG interventions. The IDB Group will leverage its position as a major development finance institution in the region and its own capital base by borrowing from capital markets to increase its ability to finance development. The IDB Group can be instrumental on these fronts because through its interventions, it helps to channel funding and technical advice to countries to reform tax and expenditure regimes and enhance their investment climate and markets which, in turn, act like gears to unlock, leverage, crowd-in and catalyze additional domestic resources and private flows.

C. Strengthening the IDB Group's Work on the Cross-cutting Issues of the UIS

- 4.10** The IDB Group has made advances in mainstreaming the cross-cutting issues of the UIS in its operations. Nonetheless, these issues continue to hamper development, and in some cases, there is a heightened sense of urgency. As such, the IDB Group will renew its commitment and accelerate progress on gender equality, diversity, and inclusion; climate change and environmental sustainability; and institutional capacity and the rule of law in order to enhance the Group's ability to mainstream these critical issues in meeting the region's development challenges.⁶

Promoting Gender Equality, Diversity and Inclusion

- 4.11** While LAC is often seen as the developing region that has made the most progress on gender equality—in large part driven by the fact that gender equality in educational attainment was achieved long ago—the region continues to face three important challenges. First, despite progress in education, women continue to face barriers in labor markets, including a labor force participation rate that is on average 20 points lower than men's and significant wage and earnings gaps. Second, women are severely underrepresented in leadership po-

6. Specific goals will be set in the CRF.

sitions in both the public and private sectors, which has significant negative consequences for productivity and profitability in the private sector, and the quality of decision-making in both sectors. Finally, women in the region continue to be affected by violence; approximately 30% of women, for example, have suffered violence at the hands of an intimate partner.

4.12 The Group's work on mainstreaming will be deepened. Three thematic areas will be prioritized: i) operations and activities to support and shape macro and firm level policies that actively promote gender equality, women's empowerment and economic growth; ii) innovative approaches to reduce violence against women and provide quality services to survivors; and iii) the promotion of women's leadership in both the public and private sectors. These priority areas will be addressed through investments in both stand-alone and gender-mainstreamed projects as well as private-public partnerships to promote gender equality and women's empowerment. In addition, the Group will continue to use equity stakes in companies and funds to promote gender equality and diversity in the governance and strategic decision-making of these entities. The IDB Group will also use blended finance to support clients who want to further advance on gender equality and increase access to finance for women-owned/led companies.

4.13 Social exclusion based on race, ethnicity, disabilities, sexual orientation, and gender identity, affects large segments of LAC's population. Indigenous households, for example, are 43% more likely to live in poverty than non-indigenous households, and

Afro-descendant and indigenous individuals earn, on average, 40% less than others. The IDB Group has a long history of working on issues of inclusion of Afro-descendant and indigenous populations, but much less experience working on those related to disability, sexual orientation and gender identity. Even for those areas in which it has more experience, activities have tended to be isolated and sporadic. The IDB is putting in place concrete plans to expand its work on diversity, including developing its first Diversity Action Plan for Operations. The plan will promote an IDB-wide culture that includes development with identity and social inclusion as an integral part of the operations and analytical work the IDB supports. IDB Invest and IDB Lab will harness direct investment, blended finance, knowledge products and advisory services to support indigenous businesses and communities.

Addressing Climate Change and Environmental Sustainability

4.14 Climate change is threatening social and economic outcomes in LAC. Key climate change effects include a rise in average temperatures; changes in precipitation patterns, increased frequency and intensity of extreme events; changing discharge patterns in the Amazon River and western Andes; rising sea levels; acidification and increased coral bleaching in the Caribbean; and retreat of glaciers. Belize, Haiti, and Jamaica are already considered to be acutely vulnerable to climate change, and by 2030, another seven borrowing member countries are expected to be added to that category. Climate shocks could cripple island economies, particular-

ly with their dependence on tourism as their main economic activity.

4.15 To fulfill international climate change objectives and commitments, including those of the Paris Agreement, LAC needs to transition to net zero emissions before the end of the century. The region is slowly decreasing greenhouse gas (GHG) emissions per unit of GDP, suggesting it is possible to achieve economic growth in LAC while reducing emissions. However, these decreases have been slower than in other regions of the world.

4.16 In 2016, the Governors endorsed the goal of doubling climate finance to 30 percent of combined IDB Group operational approvals by the end of 2020. This goal has been a critical milestone in the IDB Group's support for climate-resilient and low GHG emissions development. The IDB Group has made progress in a number of areas to mainstream climate change considerations across its operations, including the approval of a joint IDB Group Climate Change Action Plan. It also created NDC Invest, a platform for countries to access resources for transforming their national commitments (known as Nationally Determined Contributions or NDCs) into achievable investment plans. As part of its commitment to small and vulnerable countries, the IDB Group also supports the Caribbean Climate-Smart Coalition, a public-private initiative to transform the region into a "climate-smart" zone and has launched its Sustainable Islands Platform to help islands pursue sustainability and climate-resilient investments.

4.17 To meet the goals of the Paris Agreement, countries will need further technical and financial support. Post-2020 efforts should continue to focus on

supporting countries in delivering on their NDCs, increasing the level of ambition as needed, and implementing climate change strategies. This should include a focus on increasing capacity to manage disaster and climate risks, pursuing opportunities for climate resilience and adaptation to climate impacts, developing long-term decarbonization pathways, and ensuring a just and inclusive transition toward low GHG emissions and climate-resilient development.

4.18 The Sustainable Infrastructure Framework will also be an important element of the IDB Group's approach to climate change, to shift attention from an environmental focus to national economic growth opportunities resulting from climate action. The framework is based on two tenets: (i) sustainability incorporates economic/financial, social, environmental, and institutional considerations and (ii) sustainable infrastructure can only be delivered by working across the project cycle from the institutional context, through planning, prioritization, preparation and design, construction, financing, operations, to decommissioning.

4.19 The IDB Group will continue to support the development of sustainable cities in the region to offer integrated solutions that tackle constraints to the sustainable growth of emerging cities. This means devising policies and works that can help improve the quality and sustainability of urban services, strengthen citizen security, protect the environment, improve natural resource management, and mitigate and adapt to climate change. The framework reflects and complements existing approaches to delivering sustainable infrastructure including

sustainability assessment, regulatory standards, safeguards, and policy or planning decisions.

Enhancing Institutional Capacity and the Rule of Law

4.20 The IDB Group has supported countries and clients in institutional strengthening, including improving the delivery of public services, facilitating strong business climates, and addressing citizen security challenges, among other interventions. However, as discussed in section III above, both grand and petty corruption in the private and public sectors are undermining productivity, trust in government and also threatening to erode the region's economic well-being. Therefore, the IDB Group will place particular emphasis on fostering transparency and integrity as a means of strengthening institutional capacity and the rule of law.

4.21 The IDB Group is well-positioned to be an important partner for LAC in a much-needed scaling up on transparency, integrity and anti-corruption efforts. In addition to government agencies and corporate entities, this could further encompass other actors such as the legislature, civil society, media, and think tanks. Experience suggests that fighting corruption requires collective action via a multi-stakeholder approach.

4.22 This update will focus on four activities to strengthen transparency and integrity in the region:

i) Enhancing support for international standards and commitments on transparency, integrity, anti-corruption, and governance. The IDB Group can build on its existing efforts supporting countries to implement reforms aligned with international standards of trans-

parency and integrity that remove opportunities for opacity and rent capture as well as enhance accountability of public and private sector executives. It should also help to ensure the effective enforcement of such reforms and to strengthen the institutions responsible for integrity, transparency and oversight to increase accountability, reduce the risk of corruption, and deal with corruption effectively and efficiently when it occurs.

ii) Convening actors for open government and transparency while leveraging technology.

The IDB Group can bring together diverse actors to enhance transparency and implement open government principles. This includes leveraging technology to reduce discretion, foster accountability, and involve citizens in public decision-making.

iii) Further integrating transparency and integrity into operations; and improving private-public sector complementarity.

The IDB Group should complement traditional transparency, integrity and anti-corruption reforms, with cross-sector interventions in such areas as infrastructure and extractive industries. The IDB Group could help establish and implement best practices for contracting, procurement, project oversight, privatizations and concessions. IDB Invest should work on enhancing corporate governance for the private sector to promote ethical behavior, enhance management accountability and oversight, and foster compliance programs to prevent corruption, collusion and anticompetitive behavior.

iv) Enhancing IDB Group internal coordination.

To raise the profile of transparency and integrity across operations and corporate activity, the IDB Group can build more explicit consideration of transparency and integrity risks into dialogue and operations in the public and

private sectors. Lessons learned from IDB Group-supported operations and from the Group's internal functions regarding fiduciary controls and access to information should be incorporated into dialogue with countries, clients, and executing agencies.

Areas of Strategic Focus



Promoting Technology
and Innovation



Increasing Resource Mobilization

Cross-cutting issues



Promoting Gender Equality,
Diversity and Inclusion



Addressing Climate Change
and Environmental Sustainability



Enhancing Institutional
Capacity and the Rule of Law

**Further
mainstreaming**



V. Updated Areas of Emphasis at The Corporate Level

- 5.1** The first update outlined six operational guiding principles to exploit the IDB Group's competitive advantages to increase its development effectiveness. These principles assert the importance of the IDB Group's responsiveness to the region's needs; adopting a multisectoral approach to solutions for closing development gaps; managing based on the principles of effectiveness and efficiency to optimize the IDB Group's value for money; focusing on leveraging and creating partnerships to maximize the impact of development dollars; keeping innovation and knowledge at the center of the Group's work to enhance development effectiveness and design better solutions; and aligning the Group's work to the Institutional Strategy.
- 5.2** This update recognizes the need to continue focusing on these principles to strengthen and improve the IDB Group's work. This section discusses four key areas that underpin the fulfillment of the six guiding principles and are mutually reinforcing: (i) extending the Institutional Strategy's timeframe to allow for measurable progress in closing development gaps; (ii) continuing to strengthen the understanding of the IDB Group's institutional dimension and shareholder support to allow for a more effective and efficient leveraging of its capital; (iii) maximizing the synergies among the different areas of the Group to enhance its service to the region; and (iv) strengthening the IDB Group's knowledge programs.

A. Extending the Timeframe of the Institutional Strategy

- 5.3** As reported in section II, measurable progress in meeting development challenges takes significant

time due to their structural nature. To plan and deliver a strategy commensurate with the profound development gaps that need to be addressed, Management proposes that the timeframe for future strategies should be better aligned with the time required to make meaningful progress in closing such gaps.

- 5.4** Beginning with the next strategy, future strategies should set goals for a 10-year horizon. This longer span will allow for better planning and more effective use of the strategy as a tool to orient the IDB Group's support. The strategy would be subject to a mid-term review, or at any other time that the Governors deem necessary, to consider significant changes in the regional, global and multilateral contexts that might require adjustments in the IDB Group's strategic direction.
- 5.5** A complete set of institutional planning tools should include a strategy that lays out objectives (the Institutional Strategy), a set of metrics to measure progress towards the accomplishment of the strategic objectives (the CRF), and an assessment of the financial and non-financial resources required for their delivery. The CRF will also report and assess progress towards the accomplishment of long-term results, consistent with the 10-year vision of the strategy. In addition, to foster the use of the CRF as a tool to help steer the Group's work in the required direction(s), the CRF will specify the expected mid-term or intermediate results.

B. Continuing to Strengthen the Institutional Dimension and Shareholder Support

- 5.6** The change in the methodologies adopted by credit rating agencies to assess the capital adequacy

of supranational institutions has impacted the IDB Group and other MDBs during the last decade. The new methodologies are closely adapted from those used to assess commercial banks and have three main components: an assessment of the financial soundness of the rated organization, an assessment of its institutional dimension, and an assessment of shareholder support.

- 5.7** The Board of Governors has recognized this development and approved (changes to) certain policies, including a Capital Adequacy Policy Mandate, stating that the IDB shall establish regulations, policies, guidelines, and related initiatives, to maintain its firm financial footing and ensure a long-term foreign-currency credit rating of triple-A with all major credit rating agencies. As for IDB Invest, the Governors' mandate in the Busan Resolution states that it should aim to maintain at least its current AA rating.
- 5.8** As the financial soundness of IDB and IDB Invest is well understood and appreciated by rating agencies, partners and the market, there is limited room for further actions in this regard. The objective will therefore be to continue working on the institutional dimension and shareholder support. The consideration of non-financial and strategic attributes is of particular importance to IDB Invest as it continues to evolve and grow as a valued development institution in the region.
- 5.9** Key building blocks of the institutional dimension are: (i) the public policy mandate and (ii) the strength of human capital and governance. As to the shareholder support, this includes both ongoing (particular focus in this respect is placed on the track record of preferred creditor treatment)

and extraordinary support through callable capital. These characteristics are important beyond the rating dimension, as they help in building a framework to discuss relevance, impact and effectiveness.

Two main focus areas have been identified:

i) Enhancing understanding of IDB Group's institutional dimension by external stakeholders, shareholders and IDB Group's workforce.

Shareholders have consistently supported the IDB Group with capital contributions - most recently to the private sector consolidation and the IDB Lab replenishment - as well as through continued income generation through loan repayments with very limited instances of arrears. Under IDB-9 the Bank developed robust rules that govern key lending and corporate decisions. In addition, the IDB Group has fully implemented the G20 Agenda for Balance Sheet Optimization. The IDB Group should develop a consistent institutional narrative to continue delivering a powerful message about these strengths to internal and external stakeholders.

ii) Maintaining focus on emerging areas of risk.

Management will continue to engage strategically in international fora to contribute the regional perspective and exchange experiences in areas such as climate change, gender, development impact, and infrastructure. It will also continue to cooperate with international actors regarding the evolution of the global financial architecture. In addition, the IDB Group will continue focusing on emerging areas of risk, including climate-related financial risks (investors are demanding increasing disclosure in this respect), cyberse-

curity particularly with respect to the financial sector, and debt sustainability considering the transparency and level of indebtedness of low income countries and dimensions of public finance management, debt management and domestic resource mobilization.

C. Strengthening the Value Proposition and Effectiveness of the Group

5.10 A significant element of the emergent IDB Group culture is the commitment to become a true IDB Group, to fully leverage the Group's resources to improve people's lives through the public and private sectors. Development solutions are not public or private, but both public and private. The IDB Group will continue to take shape as it matures, creating synergies and complementarities in key functions. The Group already works collaboratively on numerous corporate and operational initiatives and speaks to stakeholders with a single voice.

5.11 In 2017 a fresh corporate identity was launched for the IIC which now operates as IDB Invest; and in 2018, the MIF was rebranded as IDB Lab. These new brands combine the IDB's reputation and history with the flexibility and agility that the region's private businesses seek. The MIF's new brand also fulfills its mandate of becoming the Group's innovation lab, piloting private sector solutions to development challenges that create opportunities for LAC's poor and vulnerable populations. This unified image not only minimizes confusion among the public about the entities that comprise the IDB Group, but also symbolizes a strengthening of the Group's unity of

purpose and adds unique value to enhance its development effectiveness. This will, in turn, continue to foster richer and more comprehensive dialogue among the IDB Group and the public and private sectors, generate more opportunities for coherent, integrated, holistic solutions to development issues, and reduce if not completely avoid duplication of efforts across the IDB, IDB Invest and IDB Lab. The role of the country representative for the entire Group is an important change in this regard.

5.12 At the strategic level, country strategies will continue to be the primary vehicle for integrating the public and private sector perspectives into the Group's program with each country, including facilitating a path to scale innovations piloted by IDB Lab. Joint sector action plans, such as the Climate Action Plan, will continue to be developed where appropriate.

5.13 At the operational level, the IDB, IDB Invest, and IDB Lab will continue strengthening a coordinated approach to working with financial intermediaries and corporate and innovation-focused startups and companies, core client segments that different IDB Group operations and instruments can support in complementary ways. IDB Invest and IDB Lab also complement each other in innovation finance, with IDB Lab taking a leading role in high-risk and early stages, and IDB invest focusing on the growth stages of the business. The IDB Group will keep actively promoting the crowding-in of private resources through its public-sector lending, while looking to better leverage public-private synergies to support mobilization. The IDB Group will strengthen its work through its PPP Single Window, whose main goal is to provide end-to-end PPP support for its public and private clients.

5.14 At the corporate level, shared performance and quality standards including services for oversight functions and joint efforts to obtain efficiencies, evidenced in the service level agreements (SLAs) for corporate and operational services, will continue and may be extended where necessary. SLAs have been formed between the IDB and IDB Invest which make it possible to develop excellence in shared services via scale; minimize duplication and contain administrative costs; and operate under Group standards. IDB Lab has adopted a similar approach, relying on IDB and IDB Invest to provide certain services where this will result in increased efficiency and quality of services. Finally, IDB Group Senior Management Executive Committees will continue providing a high-level forum for fostering group-wide synergies.

D. Strengthening Knowledge Programs

5.15 Knowledge and innovation are equally important and critical components of the services the IDB Group provides to its borrowing countries and private sector clients. The IDB Group's knowledge activities serve at least three main purposes: i) responding to the region's current knowledge demands, ii) providing analytical support to address future development challenges and prepare the conceptual basis for future operations; and iii) taking a leading role as a knowledge broker and network asset for the region.

5.16 In the past decade, the IDB Group has made a substantial effort to increase resources and improve the institutional capacity and arrangements to

deliver knowledge products, which in turn allows the institution to bring innovative solutions to its clients. The breadth of the IDB Group's knowledge products and services is wide, including research, regional policy dialogues, fee-based services, training, blogs, and Massive Open Online Courses, among others. Abundant and inexpensive data, coupled with the rapid development of new information technologies such as artificial intelligence, create an opportunity for the IDB Group to boost the value it delivers to its clients by helping them use data and information to develop new solutions for the region's challenges. This development can help deepen the integration of knowledge and innovation with the IDB Group's core business in ways that were not possible only a few years ago.

5.17 The IDB Group will continue ensuring there are incentives for employees to produce and disseminate knowledge, particularly to capture lessons derived from operational successes and failures. The Group will also continue strengthening the mechanisms for internal and external sharing and learning. The IDB Group will strive to develop its role as a broker and network connector. Recognizing that knowledge and insights today occur as much from the intersection of different disciplines and ideas as they do from publications and other codified products, IDB Group staff will take on the role of knowledge and insights broker, to complement the Group's excellence in producing and disseminating knowledge products, particularly those derived from operational successes and failures, and will continue strengthening the mechanisms for internal sharing and learning.

Corporate Areas to be Strengthened



**Enhance
value proposition**



**Boost
institutional profile**



**Strengthen
knowledge programs**



**Reinforce strategic
planning process**



VI. Delivering on The Update to The Institutional Strategy

- 6.1** Following the Governors' approval of this update, the Corporate Results Framework (CRF) will be updated to reflect the focus areas outlined here and draw on lessons learned from the CRF 2016-2019. Additionally, this proposed update to the Institutional Strategy will be implemented through the strategic and planning instruments of the Group as well as those of each organization.
- 6.2** A critical aspect of delivering on the strategy will entail enhancing the IDB Group's commitment to its strategic priorities not only for its work in the region, but also within the Group itself. This includes building technological dexterity, strengthening corporate sustainability and enhancing transparency. In addition, promoting diversity in all of its dimensions in the Group's staffing decisions, and ensuring inclusion across the IDB Group workforce will be of heightened importance to foster an environment that yields more innovative solutions and peak performance.
- 6.3** An internal communications plan will also be developed to help employees understand the relevance of the strategy update, commit to the Group's strategic direction, and connect their day-to-day efforts with its aspirations. Similarly, an external communications plan will be developed to share the IDB Group's key strategic orientation with external stakeholders. The implementation of the strategy update will be monitored periodically and reported in the DEO.

