



2022 ADMINISTRATIVE AND CAPITAL BUDGET PROPOSAL

OCTOBER 2021

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Acronyms and Abbreviations

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BPU	2022 Business Plan Update
CCAC	Composite Cost Adjustment Factor
CECL	Current Expected Credit Losses
COVID-19	Corona Virus Disease 2019
CRM	Customer Relationship Management
CW	Complementary Workforce
DELTA	Development Effectiveness Learning, Tracking and Assessment
DRA	Development Related Asset
IDB Group	Interamerican Development Bank Group
IT	Information Technology
LAC	Latin American and the Caribbean
LIBOR	London Inter-Bank Offered Rate
MSME	Micro, Small, and Medium Sized Enterprises
NSG	Non-Sovereign Guaranteed
PEC	Product and External Services Consultant
RAROC	Risk-adjusted Return on Capital
RTO	Return-to-Office
SBE	Sustainable Budget Envelope
SLA	Service Level Agreements
TFFP	Trade Finance Facilitation Program

Executive Summary

Once the challenges of the 2016 transition year were addressed, building IDB Invest's operational capacity became the focus of the first post merge-out Business Plan (Consolidation for Growth 2017-2019). The current Business Plan (Growth for Sustainable Impact 2020-2022) focuses on **gradually** achieving the organization's design structure and impact targets by (i) strengthening the institution's backbone, (ii) improving its capacity to mobilize resources, and (iii) address non-financial risks.

The outbreak of the COVID-19 pandemic and the need to provide significant counter-cyclical resources to the region derived in the action plan approved by the Board in April of 2020, which resulted in faster deployment of capital resources and convergence to the institution's long-term sustainable lending level by 2023.¹

In line with the pillars of the Business Plan, significant progress has been made to strengthen the backbone, despite considerable disruptions of day-to-day activities introduced by the pandemic. Relevant areas of focus and progress include: (i) execution of capital projects, (ii) improvement of internal processes, and (iii) continued growth of human resources.

The 2022 Administrative Budget proposal of US\$124.9 million represents a 4.5% nominal increase, equivalent to a 2.0% in real terms over the 2021 approved Budget will enable IDB Invest to continue building an organization capable of delivering business operations in a more complex environment, bringing opportunities for greater development impact while proactively managing operational quality and improving portfolio oversight. As in the past, budget execution will be supported by a continued drive for efficiency and productivity, including optimization of organizational processes and effective use of technology, all of which has already helped and will continue to help contain and offset operational expenses.

The proposed Capital Budget request for 2022 includes US\$5.3 million for essential and non-discretionary initiatives including the LIBOR Transition project. It allocates US\$10.9 million for priority information technology projects and US\$1.1 million for building and infrastructure investments aimed at improving IDB Invest's facilities for a hybrid working environment.

This proposal builds on a solid foundation that has allowed IDB Invest, to replace old technologies, achieve full migration to the cloud, develop a state-of-the art data strategy and data governance frameworks and build the necessary infrastructure to allow IDB Invest to manage risks through the derivatives markets, among others. Key priorities for 2022 include strengthening middle and back-office operations, increase treasury management capacity, provide a 360-degree view on clients, and maximize the utilization of IDB Invest's data assets.

Management looks forward to a productive discussion with IDB Group Senior Management and the Board of Executive Directors.

¹ Two years earlier than envisioned in the financial projections included in the 2020-2022 Business Plan.

I. Introduction

- 1.1 Since IDB Invest's inception the Administrative and Capital Budget proposal was consolidated with the Business Plan into a single document presented for consideration of the Board of Executive Directors (the Board). The objective of this new approach - presenting two separate documents - is to allow a more focused discussion on these key institutional issues. To ensure consistency, both documents remain fully coordinated, and in consequence, the 2022 Budget reflects Management's best judgment of the resources required to execute the priorities described in the 2022 Business Plan Update (2022 BPU) and continue setting the basis for the institution's future.

II. Administrative Budget Proposal

2022 Administrative Budget Proposal - Overview

- 2.1 **The proposed Administrative Budget for the year 2022 is US\$124.9 million**, an increase of US\$5.4 million from 2021, which represents a 4.5% nominal and 2.0% increase in real terms. This proposed budget increase follows a zero nominal growth in the 2021 Administrative Budget, which resulted in -0.34% growth, while pre COVID-19 projections contemplated a 1% real increase for that year.

Figure 1. 2022 Administrative Budget Proposal

	2021 Approved Budget	2022 Proposed Budget	Increase (decrease) Over 2021 Approved US\$	%	Real Increase %
Workforce					
Salaries & Bonuses	47,390,099	52,340,455	4,950,356	10.4%	
Staff Benefits	16,952,089	18,610,129	1,658,040	9.8%	
Complementary Workforce	11,266,295	9,438,305	(1,827,990)	-16.2%	
Total	75,608,483	80,388,889	4,780,406	6.3%	3.8%
Consulting					
Project Consulting	3,100,000	3,333,277	233,277	7.5%	
IT Consulting	1,820,000	2,020,000	200,000	11.0%	
Other Corporate Consulting	2,537,585	2,574,048	36,463	1.4%	
Outsourced Support	1,924,000	2,160,000	236,000	12.3%	
Litigation	1,200,000	1,200,000	-	0.0%	
Total	10,581,585	11,287,325	705,740	6.7%	4.2%
Administrative					
External Relations & Annual Reporting	686,500	770,000	83,500	12.2%	
Business Meetings	262,193	291,121	28,928	11.0%	
Translations	342,500	327,500	(15,000)	-4.4%	
External Auditing	450,000	450,000	-	0.0%	
Funding - Capital Markets	1,167,200	1,187,200	20,000	1.7%	
Business Development & Travel	3,839,000	3,452,349	(386,651)	-10.1%	
Sponsorships, Conferences & Events	976,900	822,058	(154,842)	-15.9%	
Communications	1,023,455	1,036,850	13,395	1.3%	
Sustainability & Environmental Outreach*	-	-	-	100.0%	
General Maintenance	450,000	355,535	(94,465)	-21.0%	
IT Software & System Maintenance	3,300,120	3,500,120	200,000	6.1%	
Subscriptions & Memberships	954,402	942,825	(11,577)	-1.2%	
Staff Development	1,353,617	1,262,417	(91,200)	-6.7%	
Total	14,805,888	14,397,975	(407,913)	-2.8%	-5.3%
Discretionary Expenses Total	100,995,956	106,074,190	5,078,234	5.0%	2.5%
IDB Services and Others					
Office Occupancy	5,530,000	5,806,500	276,500	5.0%	
Service Level Agreement	11,868,115	11,868,115	-	0.0%	
Total	17,398,115	17,674,615	276,500	1.6%	-0.9%
Board of Governors/Executive Directors					
BOG/Executive Directors	1,116,077	1,139,300	23,223	2.1%	
Total	1,116,077	1,139,300	23,223	2.1%	-0.4%
Non-Discretionary Expenses Total	18,514,192	18,813,915	299,723	1.6%	-0.9%
Administrative Budget GRAND TOTAL	119,510,148	124,888,104	5,377,957	4.5%	2.0%

*Note that the Sustainability & Environmental Outreach event takes place every other year.

- 2.2 **Workforce Costs - US\$80.4 million:** (nominal increase of 6.3%, 3.8% in real terms), approximately 65%, of the proposed administrative budget. These costs include staff salaries, benefits, variable pay and recognition, complementary workforce (non-PECs), and inter-institutional assignments. These needs were analyzed in the context of the sustainable approach and prioritized per business priorities and roles in the field.
- 2.3 After the comprehensive workforce analysis in 2020, the needs of the organization have continued to evolve and Management will continue to carefully plan the: (i) distribution of functions, (ii) composition of headquarters and country office positions, and (iii) the mix of staff and consultants.
- 2.4 To maintain the Administrative and Consulting expenses within the expected budget envelope, IDB Invest used a top-down budgetary approach based on historical

execution, reduction of non-recurring expenses, identified efficiencies from recently implemented projects and initiatives as well as prioritization of business needs.

- 2.5 **Consulting - US\$11.3 million:** (nominal increase of 6.7%, 4.2% in real terms). The increase can be attributed to the changing needs of the organization as IDB Invest continues to adapt to the “new normal” and identify new as well as changing organizational expenses and efficiencies. In addition, the proposed increase in the consulting budget is partially offset by savings in the general administrative budget.
- 2.6 The resources will, more specifically, continue to focus on: (i) process improvement initiatives, (ii) development of additional system functionalities, (iii) back-office efficiencies, (iv) external expertise to help mitigate the increased volume and complexity of projects especially on non-financial risks, and (v) outsourced operational support.
- 2.7 **General Administrative - US\$14.4 million:** (nominal decrease of -2.8%, -5.3% in real terms). The General Administrative category has decreased from the approved 2021 budget in anticipation of cost avoidance in areas such as Business Development & Travel, and Sponsorships, Conferences & Events. This reduction, when compared to previous years, will help mitigate growing budgetary lines such as the increase in IT Maintenance, as discussed above.
- 2.8 The incremental costs in IT Maintenance are directly related to the implementation of key backbone and client strategic IT capital projects. Directly related to the implementation of such projects, the organization starts incurring annual licensing expenses that become part of the General Administrative budget category.

Non-Discretionary Spending

- 2.9 The non-discretionary component totals US\$18.8 million. This budget category is composed of the following sub-categories: (i) IDB Services and others including rent and Service Level Agreements (SLAs), (ii) Board of Governors and Board of Executive Directors.

III. Capital Budget Proposal

Capital Budget Investments through the initial years

- 3.1 IDB Invest has built a solid information technology foundation based on prudent capital investments made in the initial post merge-out years. These investments reduced operational risk, reduced and/or eliminated manual processes, increased efficiencies, and promoted cross collaboration within different functions.
- 3.2 IDB Invest’s Information Technology Steering Committee (ITSC) whose members include a representative of each the institution’s department and the CIO of IDB, provided strategic direction and solid governance for the design and deployment of these investments.

Execution of 2021 Authorized Capital Budget

- 3.3 The 2021 Capital Budget request included three components: (i) IT Software and System related projects to manage the growing complexity of the portfolio as well as to

provide management with the necessary tools to support strategic decision-making, (ii) Process Improvements projects that yield efficiency gains, and (iii) Building and Infrastructure improvements for headquarters. The following paragraphs provide key highlights of the 2021 Capital Budget execution. **Information Technology (IT) Systems and Process Improvement** (US\$12.5 million and US\$0.8 million, respectively - forecasted to be 75% committed by the end of December 2021)

- 3.4 The 2021 IT and Process Improvement capital budgets funded three focus areas: (i) strengthening the backbone of the organization, (ii) digital integration of client experience, knowledge, and analytical tools, and (iii) non-discretionary projects to meet compliance and risk management requirements.
- 3.5 **Infrastructure Improvements** (US\$0.5 million – forecasted to be 20% committed by the end of December 2021)
- 3.6 Resources requested in this line are being used to repurpose and retrofit office space as IDB Invest continues to adapt to a post-pandemic environment where the health and safety of all IDB Invest personnel is a top priority. In addition, it is important to mention that all office changes and adaptations continue to evolve in line with the organizations RTO Framework.

Proposed 2022 Capital Budget

- 3.7 IDB Invest capital budgets are authorized on an annual basis. However, the underlying projects may extend over more than one year (often over a 3-year life span) and estimated budgets for each initiative reflect total estimated costs.
- 3.8 The capital budget proposal for 2022 supports key initiatives outlined in previous chapters. The total capital budget request for 2022 includes US\$5.3 million for non-discretionary projects -including the LIBOR Transition project- and US\$10.9 million for priority projects and US\$1.1 million for building and infrastructure investments mainly directed to adapt IDB Invest's facilities to a hybrid working environment. The total proposed Capital Budget amounts to US\$17.3 million. While capital projects usually extend over more than one year, the projects outlined below will all be initiated in 2022 and include total estimated budget for each initiative.
- 3.9 In line with the 2020-2022 Business Plan the organization continues to transform itself through digital technologies thus strengthening the backbone, leveraging knowledge, and further enabling a client-focused operation and culture.
- 3.10 The proposed budget includes the following components:
 - a) Strengthening our backbone and continue automating end to end processes to gain efficiencies, improve controls, and better manage the growing complexity of the portfolio and allowing the scaling of financial and non-financial product offerings
 - b) Digital integration of client experience, knowledge, and analytical tool: enabling a digital interaction with our clients to improve their experience with IDB Invest along different stages of the transaction cycle and the relationship management; continue building a digital knowledge sharing platforms and putting in place compliance controls and providing information and analytics tools to support strategic decision-making

- c) Non-Discretionary Projects: to comply with market standards and requirements such as LIBOR Transition, advancing of the implementation of an ALM/CTF framework, and the Data Privacy Policy implementation.
- d) Building and Infrastructure: Building and infrastructure improvements for Headquarters and country offices, including technology to adapt our structure to fully enable hybrid meetings on the upcoming return-to-office phase.

Figure 2. 2022 Capital Budget Proposal

	Strategies	USD
(US\$ million)		
STRENGTHEN BACKBONE	Treasury and Financial Management	2.9
	Middle and Back-offices	1.6
	Credit and Operational Risk Management	1.1
	Legal for Non-Financial Risk Initiatives	0.8
	Advisory Services	0.5
	Third Party Fund Management	0.1
	Computers & Conference Rooms	0.7
	Subtotal	7.8
DIGITAL INTEGRATION	Client 360 View	1.6
	Maximize Data Assets Utilization	0.9
	Knowledge	0.6
	Subtotal	3.1
NON- DISCRECIONARY / COMPLIANCE	LIBOR Transition	4.0
	Data Privacy	0.7
	AML	0.6
	Subtotal	5.3
FACILITIES	Infrastructure Improvements	1.1
	Subtotal	1.1
Total		17.3

ANNEX I: 2021 Administrative and Capital Budget Execution

Administrative Budget: The preliminary projected execution for 2021 amounts to US\$114.1 million of the approved budget of US\$119.5 million that will result in an under execution of US\$5.4 million or 4.5%. The figure below shows the estimated execution by discretionary and non-discretionary lines.

Estimated Administrative Budget Execution 2021

(US\$ million)	2021 Approved Budget US\$	2021 Projected Execution US\$	Variance Exec - Approved	
			US\$	%
Discretionary Expenses	101.0	95.6	-5.4	-5.3%
Non-Discretionary Expenses	18.5	18.5	0.0	0.0%
Administrative Budget GRAND TOTAL	119.5	114.1	-5.4	-4.5%

Capital Budget: The organization is projected to use US\$10.1 million (or 73% projected budget under execution) of the US\$13.8 million approved budget. In contrast to the Administrative budget, the capital budget can be used over multiple years. However, as recommended by the IDB's AUG following an internal audit of the budget function, the organization reports the usage of the Capital budget accordingly from year to year.

Projected 2021 Capital Budget Execution

(US\$ million)	2021 Approved Budget US\$	2021 Projected Execution US\$	Variance Exec - Approved	
			US\$	%
Computer Hardware & Software and Conference Rooms	0.1	0.1	0.0	0.0%
Systems Development & Process Improvement	13.2	9.9	-3.3	-25.2%
Facilities	0.5	0.1	-0.4	-80.0%
GRAND TOTAL	13.8	10.1	-3.7	-27.0%

Projected 2021 Administrative Budget Execution

	2021 Approved Budget	2021 Projected Execution	Increase (decrease) Over 2021 Approved	
			US\$	%
Workforce				
Salaries & Bonuses	47,390,099	47,864,000	473,901	
Staff Benefits	16,952,089	17,121,610	169,521	
Complementary Workforce	11,266,295	10,139,666	(1,126,630)	
Total	75,608,483	75,125,276	(483,208)	-0.6%
Consulting				
Project Consulting	3,100,000	2,635,000	(465,000)	
IT Consulting	1,820,000	2,002,000	182,000	
Other Corporate Consulting	2,537,585	2,156,947	(380,638)	
Outsourced Support	1,924,000	1,924,000	-	
Litigation	1,200,000	960,000	(240,000)	
Total	10,581,585	9,677,947	(903,638)	-8.5%
Administrative				
External Relations & Annual Reporting	686,500	617,850	(68,650)	
Business Meetings	262,193	196,645	(65,548)	
Translations	342,500	274,000	(68,500)	
External Auditing	450,000	450,000	-	
Funding - Capital Markets	1,167,200	1,050,480	(116,720)	
Business Development & Travel	3,839,000	383,900	(3,455,100)	
Sponsorships, Conferences & Events	976,900	732,675	(244,225)	
Communications	1,023,455	1,023,455	-	
Sustainability & Environmental Outreach*	-	-	-	
General Maintenance	450,000	337,500	(112,500)	
IT Software & System Maintenance	3,300,120	3,795,138	495,018	
Subscriptions & Memberships	954,402	954,402	-	
Staff Development	1,353,617	1,015,213	(338,404)	
Total	14,805,888	10,831,258	(3,974,630)	-26.8%
Discretionary Expenses Total	100,995,956	95,634,481	(5,361,475)	-5.3%
IDB Services and Others				
Office Occupancy	5,530,000	5,530,000	-	
Service Level Agreement	11,868,115	11,868,115	-	
Total	17,398,115	17,398,115	-	0.0%
Board of Governors/Executive Directors				
BOG/Executive Directors	1,116,077	1,116,077	-	0.0%
Total	1,116,077	1,116,077	-	0.0%
Non-Discretionary Expenses Total	18,514,192	18,514,192	-	0.0%
Administrative Budget GRAND TOTAL	119,510,148	114,148,673	(5,361,475)	-4.5%

*Note that the Sustainability & Environmental Outreach event takes place every other year.