

2023

**ADMINISTRATIVE
AND CAPITAL
BUDGET** 
PUBLIC VERSION

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ACRONYMS AND ABBREVIATIONS

| | |
|-----------|---|
| 2023 BP | 2023 Business Plan Update |
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| AUG | Office of Executive Auditor |
| BOARD | Board of Executive Directors |
| CCAC | Composite Cost Adjustment Factor |
| CECL | Current Expected Credit Losses |
| COVID-19 | Corona Virus Disease 2019 |
| CRM | Customer Relationship Management |
| CW | Complementary Workforce |
| CRS | Compensation and Rewards Recommendations |
| DELTA | Development Effectiveness Learning, Tracking and Assessment |
| DRA | Development Related Asset |
| ETH | Office of Ethics |
| 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 |
| OII | Office of Institutional Integrity |
| PEC | Product and External Services Consultant |
| RAROC | Risk-adjusted Return on Capital |
| RTO | Return-to-Office |
| SBE | Sustainable Budget Envelope |
| SEG | Social, Environmental and Governance Division |
| SLA | Service Level Agreements |
| SRP | Staff and Retirement Plans |
| TFFP | Trade Finance Facilitation Program |
| WTW | Willis Towers Watson |

Executive Summary

On September 12, 2022, the IDB Group Headquarters stepped into the fourth and final module of the Return to Office Framework approved by the Board in 2020. The country offices soon followed and as of the writing of this document 22 (79%) have also reached module 4. Management and the Board of Executive Directors (the Board) revised the original design of this final phase of the RTO and agreed on a hybrid model for its implementation.

IDB Invest's external stakeholders are also rapidly adjusting to varied versions of a new normal. Clients are once again eager to meet with project teams, Investors are moving away from virtual roadshows and key events such as FELABAN¹ are returning to large in-person formats.

Management believes that this collective shift to a new normal will result in an operating environment for 2023 that will be substantially different from the one observed during the pandemic years of 2020 and 2021 and will further evolve from the one observed through 2022.

In view of this change and mindful of the need to continue with a prudential approach to budget management, the administrative budget proposal that follows starts from the 2022 Approved Budget as a baseline (equivalent to a zero nominal increase) and limits growth to four specific focus areas that Management considers essential to execute on the proposed plan of operations for 2023 as presented in the 2023 Business Plan² (2023 BP). At the same time, this proposal builds on the framework set in the current Business Plan (Growth for Sustainable Impact 2020-2022)³ where it continues to focus on *gradually* achieving the organization's design structure and impact.

These four areas of focus are:

1. A proposed increase in the workforce budget to fund a meaningful salary increase and a small headcount growth,
2. A proposed increase in the IT Consulting and IT Maintenance budget lines to account for the impact on administrative expenses of previous capital budget implementations,
3. The reinstatement of a budget line to fund the institutional integration activity "Knowledge Week", and
4. An increase in the non-discretionary budget for IDB Services, Board of Governors, and Board of Executive Directors.

Chapter one of this document provides more details on the four elements described before.

Chapter two presents the full 2023 Administrative Budget envelope request for workforce, consulting, administrative and non-discretionary categories which results in US\$138.0 million, which represents a 10.5% nominal increase, equivalent to a 5.5% increase in real terms over the 2022 approved Administrative Budget.

Chapter three describes the proposed 2023 Capital Budget request which at US\$15.8 million remains at 2022 levels. Resources will be dedicated for Information Technology and Process Improvement (90%) and Facilities (10%). This document also includes an overview of the

¹ FELABAN is the annual meeting of the Latin-American Banking Federation, the key event for interacting with the region's financial sector and the prime source of knowledge and deals ranging from financial intermediaries, trade and mobilization.

² Document CII/GA-84

³ Document CII/GA-80-2 2020-2022 Business Plan and Administrative and Capital Budget Proposal. Revised version

implementation of Capital Projects, how they have been enhancing the efficiency of IDB Invest and improving the institution's ability to deliver on its core objectives.

Given the overlap of the budget discussions with the Board's consideration of a new Compensation and Rewards Recommendations⁴ (CRS) for IDB Invest an additional scenario is presented, should the Board deem appropriate to considerate it, that includes three components of the proposed CRS considered critical for the short term (i) The Special Pool, (2) The Market Alignment, and (3) The additional resources for recognition.

As was the case since last year, two separate documents -a Business Plan and an Administrative and Capital Budget Proposal- are presented to allow for a more focused discussion on these key institutional issues. Management renews its commitment to continually improve the quality of this document which now includes additional supporting information including -for example- more details about workforce, data series on past execution, and a more qualitative link to its application. To ensure consistency, both documents remain fully coordinated, and consequently, the 2023 Budget reflects Management's best judgment of the resources required to execute the priorities described in the 2023 BP and continue setting the basis for the institution's future.

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

⁴ Document CII/GN-307-3

I. FOCUSING ON KEY AREAS FOR 2023

- 1.1 As stated in the previous section, Management proposed to limit Administrative Budget Growth for 2023 to four areas of focus that Management considers essential to the ongoing success of IDB Invest operations and more specifically to execute on the proposed plan of operations for 2023 as presented in the 2023 Business Plan⁵ (2023 BP). The four areas of focus are: (1) A proposed increase in the workforce budget to fund a meaningful salary increase and a small headcount growth, (2) A proposed increase in the IT Consulting and IT Maintenance budget lines to account for the impact on administrative expenses of previous capital budget implementations, (3) The reinstatement of a budget line to fund the institutional integration activity “Knowledge Week”, and (4) An increase in the non-discretionary budget for IDB Services, Board of Governors, and Board of Executive Directors.

II. ADMINISTRATIVE BUDGET PROPOSAL

A. 2023 Administrative Budget Proposal – Overview

- 2.1 The proposed Administrative Budget for the year 2023 is US\$138.0 million, an increase of US\$13.1 million from 2022, which represents a 10.5% nominal and 5.5% increase in real terms.
- 2.2 It is worth noting that the approved administrative budget for 2022, which is the baseline for 2023, retained the significant US\$3.8 million reduction in administrative and consulting expenses introduced in 2021, confirming that savings in travel, business development and other lines achieved at that time will be sustained in the “new normal”⁶.
- 2.3 Moreover, unspent budget cannot translate automatically into savings. However, management continues to seek synergies and savings to do the same with less (or more with the same) and those initiatives become permanent savings.

⁵ Document CII/GA-84

⁶ Document CII/GA-80-17 2022 Administrative and Capital Budget Proposal; section 2.19

Figure 1. 2023 Administrative Budget Proposal

| | 2022 Approved Budget | 2023 Proposed Budget | Increase (decrease) Over 2022 Approved | | Real Increase |
|---|----------------------------|----------------------------|---|--------------|------------------|
| | | | US\$ | % | % |
| Workforce | | | | | |
| Salaries & Bonuses | 52,340,455 | 59,274,879 | 6,934,424 | 13.2% | |
| Staff Benefits | 18,610,129 | 20,957,933 | 2,347,804 | 12.6% | |
| Complementary Workforce | 9,438,305 | 7,178,877 | (2,259,428) | -23.9% | |
| Total | 80,388,889 | 87,411,689 | 7,022,799 | 8.7% | 3.7% |
| Consulting | | | | | |
| Project Consulting | 3,333,277 | 3,333,277 | - | 0.0% | |
| IT Consulting | 2,020,000 | 3,359,873 | 1,339,873 | 66.3% | |
| Other Corporate Consulting | 2,574,048 | 2,574,048 | - | 0.0% | |
| Outsourced Support | 2,160,000 | 2,160,000 | - | 0.0% | |
| Litigation | 1,200,000 | 1,200,000 | - | 0.0% | |
| Total | 11,287,325 | 12,627,198 | 1,339,873 | 11.9% | 6.9% |
| Administrative | | | | | |
| External Relations & Annual Reporting | 770,000 | 770,000 | - | 0.0% | |
| Business Meetings | 291,121 | 291,121 | - | 0.0% | |
| Translations | 327,500 | 327,500 | - | 0.0% | |
| External Auditing | 450,000 | 450,000 | - | 0.0% | |
| Funding - Capital Markets | 1,187,200 | 1,187,200 | - | 0.0% | |
| Business Development & Travel | 3,452,349 | 3,452,349 | - | 0.0% | |
| Sponsorships, Conferences & Events | 822,058 | 822,058 | - | 0.0% | |
| Communications | 1,036,850 | 1,036,850 | - | 0.0% | |
| Sustainability & Environmental Outreach* | - | - | - | 0.0% | |
| General Maintenance | 355,535 | 355,535 | - | 0.0% | |
| IT Software & System Maintenance | 3,500,120 | 5,261,511 | 1,761,391 | 50.3% | |
| Subscriptions & Memberships | 942,825 | 942,825 | - | 0.0% | |
| Staff Development** | 1,262,417 | 3,062,417 | 1,800,000 | 142.6% | |
| Total | 14,397,975 | 17,959,366 | 3,561,391 | 24.7% | 19.7% |
| Discretionary Expenses Total | 106,074,190 | 117,998,253 | 11,924,063 | 11.2% | 6.2% |
| IDB Services and Others | | | | | |
| Office Occupancy | 5,806,500 | 6,096,825 | 290,325 | 5.0% | |
| Service Level Agreement | 11,868,115 | 12,745,972 | 877,857 | 7.4% | |
| Total | 17,674,615 | 18,842,797 | 1,168,182 | 6.6% | 1.6% |
| Board of Governors/Executive Directors | | | | | |
| BOG/Executive Directors | 1,139,300 | 1,196,265 | 56,965 | 5.0% | |
| Total | 1,139,300 | 1,196,265 | 56,965 | 5.0% | 0.0% |
| Non-Discretionary Expenses Total | 18,813,915 | 20,039,062 | 1,225,147 | 6.5% | 1.5% |
| Administrative Budget GRAND TOTAL | 124,888,104 | 138,037,315 | 13,149,210 | 10.5% | 5.5% |

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

** Knowledge week is included in Staff Development in year 2023 - US\$1.8million

2.4 As is the norm, the 2023 Administrative Budget is subdivided into Discretionary and non-Discretionary expenses. Discretionary expenses amount to US\$118.0 million while non-Discretionary expenses total US\$20.0 million.

Discretionary Expenses

- 2.5 The discretionary component of the Administrative Budget Proposal for 2023 is US\$118.0 million. This budget category is divided into the following sub-categories: (i) workforce, (ii) consulting, and (iii) administrative costs. Figure 7 below, shows the breakdown for the discretionary items by sub-category with their respective changes from the 2022 Approved Budget.

Figure 2. Discretionary Expenses

| US\$ million | 2022 | 2023 | Increase (decrease) | | Real |
|----------------|--------------------|--------------------|---------------------|--------------|-------------|
| | Approved Budget | Proposed Budget | Over 2022 Approved | | Increase |
| | | | US\$ | % | % |
| Workforce | 80.4 | 87.4 | 7.0 | 8.7% | 3.7% |
| Consulting | 11.3 | 12.6 | 1.3 | 11.9% | 6.9% |
| Administrative | 14.4 | 18.0 | 3.6 | 24.7% | 19.7% |
| Total | 106.1 | 118.0 | 11.9 | 11.2% | 6.2% |

Workforce Budget Proposal

- 2.6 The assumptions to prepare the Workforce budget for 2023 are based on the plan of operations projected for 2023 in the 2023 BP. The proposed workforce budget builds on the framework set in the current Business Plan (Growth for Sustainable Impact 2020-2022)⁷ where it continues to focus 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.
- 2.7 **Workforce Cost - US\$87.4 million:** (nominal increase of 8.7%, 3.7% in real terms), approximately 63%, of the proposed administrative budget.
- 2.8 Workforce 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.
- 2.9 The 2023 proposed Workforce Budget is consistent with past requests where IDB Invest is gradually growing its workforce based on carefully performed workforce analysis to focus the resources on the context of the sustainable approach and prioritized per business priorities and roles in the field.

⁷ Document CII/GA-80-2 2020-2022 Business Plan and Administrative and Capital Budget Proposal; Revised Version

Consulting and Administrative

- 2.10 The estimated 2023 Consulting and Administrative budget is US\$30.6 million, an increase of US\$4.9 million from 2022, which represents a 19.1% nominal and 14.1% increase in real terms.

Non-Discretionary

- 2.11 The non-discretionary component estimate totals US\$20.0 million representing a 6.5% nominal increase and 1.5% real increase. 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

- 3.1 This section provides an overview of IDB Invest's multi-year Capital Budget Plan, which includes the annual Capital Budget Call process and criteria, ongoing project implementation highlights and challenges, and new projects to start in 2023. A multi-year Capital Budget Plan fosters an efficient and effective allocation of corporate capital resources in a portfolio of projects that support current Bank strategies through automation, modernization and/or transformation of processes, tools, and post-pandemic work environment. All this with the objective of minimizing operational risk and processing time while maximizing time spent on innovation and problem solving.

A. Ongoing project implementation highlights and challenges

- 3.2 In the past three years the Capital Budget has funded four major focus areas: (i) Strengthening the backbone of the organization, (ii) digital integration of the client experience, knowledge, and analytics tools (iii) non-discretionary projects to meet compliance and risk management and requirements and (iv) hybrid work environment enablement.
- 3.3 In the areas of **Information Technology (IT)** and **Process Improvement**, Management continues to leverage prior investments in key IT assets by consolidating and enabling business processes, building upon the core platforms as well as other IT solutions in the portfolio, including treasury, risk, data governance, knowledge, and business intelligence solutions.
- 3.4 In the area of **compliance**, the organization continues to devote efforts to enhancing its value by completing the Libor Transition⁸, Data Privacy and Anti-Money Laundering Projects.
- 3.5 In **facilities**, resources 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 Return to the Office (RTO) Framework.
- 3.6 In 2022, the organization is forecasting a Capital Budget execution of about 70.3%. However, as previously stated, Capital Projects often extend over more than one year therefore the implementation of some projects approved in 2022 is expected to continue in 2023.

B. 2023 Capital Budget Proposal

- 3.7 The capital budget proposal for 2023 supports key initiatives outlined in previous chapters. The total capital budget request for 2023 includes: US\$14.3 million for ongoing

⁸ The Secured Overnight Financing Rate (SOFR) is intended to replace the US dollar London Interbank Rate (US LIBOR) in future financial contracts. SOFR was selected by the Alternative Reference Rates Committee (ARRC) chaired by the New York Federal Reserve in 2017.

and priority projects, US\$1.5 million for non-discretionary projects. The total proposed Capital Budget amounts to US\$15.8 million.

3.8 The proposed budget is classified as follows:

- (i) **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
- (ii) **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
- (iii) **Non-Discretionary Projects** to comply with market standards and requirements such as advancing of the implementation of an ALM/CTF framework, and the Data Privacy Policy implementation.
- (iv) **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 3. Capital Budget Proposal

| (US\$ million) | Strategy | US\$ |
|---------------------------------------|--|-------------|
| STRENGTHEN BACKBONE | Treasury and Financial Management | 2.8 |
| | Middle and Back-offices | 3.2 |
| | Credit and Operational Risk Management | 1.0 |
| | Legal for Non-Financial Risk Initiatives | 0.8 |
| | Advisory Services | 1.0 |
| | Product Enablement | 1.3 |
| | Computers Software and Hardware | 0.5 |
| | Subtotal | 10.5 |
| DIGITAL INTEGRATION | Digital Transformation | 0.7 |
| | Marketing & Communication | 0.5 |
| | Client 360 View | 0.6 |
| | Maximize Data Assets Utilization | 1.0 |
| | Knowledge Management | 0.9 |
| Subtotal | 3.8 | |
| NON-DISCRECIONARY / COMPLIANCE | Data Privacy | 0.6 |
| | AML | 0.8 |
| | Subtotal | 1.5 |
| | Total | 15.8 |

ANNEX I - 2022 Budget Execution

Administrative Budget: The preliminary projected execution for 2022 amounts to US\$121.8 million of the approved budget of US\$124.9 million that will result in an under execution of US\$3.1 million or 2.5%. The Figure below shows the estimated execution by group and type.

| | 2022 Approved Budget | 2022 Projected Execution | Increase (decrease) Over 2022 Approved | |
|---|----------------------------|--------------------------------|---|---------------|
| | | | US\$ | % |
| Workforce | | | | |
| Salaries & Bonuses | 52,340,455 | 51,817,050 | (523,405) | |
| Staff Benefits | 18,610,129 | 18,424,028 | (186,101) | |
| Complementary Workforce | 9,438,305 | 9,343,922 | (94,383) | |
| Total | 80,388,889 | 79,585,000 | (803,889) | -1.0% |
| Consulting | | | | |
| Project Consulting | 3,333,277 | 2,833,285 | (499,992) | |
| IT Consulting | 2,020,000 | 2,720,000 | 700,000 | |
| Other Corporate Consulting | 2,574,048 | 2,187,941 | (386,107) | |
| Outsourced Support | 2,160,000 | 2,160,000 | - | |
| Litigation | 1,200,000 | 840,000 | (360,000) | |
| Total | 11,287,325 | 10,741,227 | (546,099) | -4.8% |
| Administrative | | | | |
| External Relations & Annual Reporting | 770,000 | 693,000 | (77,000) | |
| Business Meetings | 291,121 | 232,897 | (58,224) | |
| Translations | 327,500 | 262,000 | (65,500) | |
| External Auditing | 450,000 | 450,000 | - | |
| Funding - Capital Markets | 1,187,200 | 1,068,480 | (118,720) | |
| Business Development & Travel | 3,452,349 | 1,726,175 | (1,726,175) | |
| Sponsorships, Conferences & Events | 822,058 | 657,646 | (164,412) | |
| Communications | 1,036,850 | 1,036,850 | - | |
| Sustainability & Environmental Outreach* | - | 250,000 | 250,000 | |
| General Maintenance | 355,535 | 284,428 | (71,107) | |
| IT Software & System Maintenance | 3,500,120 | 4,025,138 | 525,018 | |
| Subscriptions & Memberships | 942,825 | 942,825 | - | |
| Staff Development** | 1,262,417 | 1,009,934 | (252,483) | |
| Total | 14,397,975 | 12,639,372 | (1,758,603) | -12.2% |
| Discretionary Expenses Total | 106,074,190 | 102,965,599 | (3,108,590) | -2.9% |
| IDB Services and Others | | | | |
| Office Occupancy | 5,806,500 | 5,806,500 | - | |
| Service Level Agreement | 11,868,115 | 11,868,115 | - | |
| Total | 17,674,615 | 17,674,615 | - | 0.0% |
| Board of Governors/Executive Directors | | | | |
| BOG/Executive Directors | 1,139,300 | 1,139,300 | - | |
| Total | 1,139,300 | 1,139,300 | - | 0.0% |
| Non-Discretionary Expenses Total | 18,813,915 | 18,813,915 | - | 0.0% |
| Administrative Budget GRAND TOTAL | 124,888,104 | 121,779,514 | (3,108,590) | -2.5% |

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

Capital Budget: The organization is projected to use US\$12.1 million (or 70.3% projected budget under execution) of the US\$17.3 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.

| (US\$ million) | 2022 | 2022 | Variance | |
|--|-------------------------|-----------------------------|-------------------------|---------------|
| | Approved Budget US\$ | Projected Execution US\$ | Exec - Approved US\$ | % |
| Computer Hardware & Software and Conference Rooms: | 1.3 | 1.1 | -0.2 | -14.0% |
| Systems Development & Process Improvement | 15.5 | 10.9 | -4.6 | -29.5% |
| Facilities | 0.5 | 0.1 | -0.4 | -75.0% |
| GRAND TOTAL | 17.3 | 12.1 | -5.1 | -29.7% |