

PUBLIC

DOCUMENT OF THE INTER-AMERICAN INVESTMENT CORPORATION

**NEW VISION AND BUSINESS MODEL FOR IDB INVEST: CAPITALIZATION PROPOSAL AND  
IMPLEMENTATION PLAN**

***SUMMARY, RECOMMENDATIONS FOR GOVERNORS, AND PROPOSED RESOLUTION***

PUBLIC VERSION

MARCH 2024

This document is a summary of the document CII/CA-221 that has been revised for public release.

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## ABBREVIATIONS

CAR	Capital Adequacy Ratio
CDC	Country Development Challenges
COF	Country Offices
DRA	Development Related Assets
EBRD	European Bank for Reconstruction and Development
ESG	Environmental, Social, and Governance
G20	Group of Twenty
G20 CAF	G20 MDB Capital Adequacy Framework
GCI	General Capital Increase of IDB Invest
GDI	Gender Equality, Diversity, and Inclusion
GEM	Global Emerging Markets
IBA	Interest-Bearing Assets
IDB	Inter-American Development Bank (or “Bank”)
IDB Invest	Inter-American Investment Corporation
IFC	International Finance Corporation
KPI	Key Performance Indicator
LAC	Latin America and the Caribbean
MDBs	Multilateral Development Bank
MSMEs	Micro-and medium-sized enterprises
NSG	Non-Sovereign Guarantee
OVE	Office of Evaluation and Oversight
SDG	Sustainable Development Goals
S&I	Small and Island Countries
TC	Technical Cooperation

## EXECUTIVE SUMMARY: The case for a 21<sup>st</sup> Century DFI

### Abstract

The document that follows presents for the Governor's consideration a **pioneering new vision and business model** that aims to **transform IDB Invest** into a Development Finance Institution (DFI) for the 21<sup>st</sup> century, one that could **chart a course for others to follow**.

Under this new vision, IDB Invest will move from a traditional "buy and hold" organization to one that "originates to share." This new framework places mobilization and development impact at the center of each investment decision, ensuring that **crowding-in private investors at scale** happens **first** at the projects' inception **and later** through the cycle by sharing assets initially placed on IDB Invest's books. This approach will generate a virtuous cycle of releasing and redeploying capital, further increasing the participation of private investors and significantly improving capital efficiency.

With a sharp focus on success, the vision targets **intentionality and selectivity** and a **revamped development impact framework**, coupled with a **bolder risk management** approach and a **strong capital management structure** to ensure long-term financial sustainability. Furthermore, specific products and instruments will be deployed to significantly increase the institution's capacity to undertake **equity investments** and **riskier lending** operations, to reach yet unreachable countries and regions with **local currency** and **technical assistance** solutions, and to enhance mobilization capacity through **risk transfers** and **de-risking** structures.

This bold new vision **cannot be achieved with existing capital resources**; therefore, the document also addresses the need for additional capital and the mandate to deploy that capital differently.

The combination of the new business model and additional capital is expected to generate **US\$102 billion of long-term financing to the region over a 10-year period**, a nearly two-fold increase when compared to the status quo. Of that amount, US\$59 billion (58%) would be achieved through mobilization, more than two times what would be possible with the current business model.

More importantly, **the expected outcomes** include 2.5 million MSMEs reached, 9.5 million jobs supported, 306 thousand women and 1.6 million counted among the poor and vulnerable population in the region also directly supported. Moreover 3.9 million tons of CO2 emissions reductions and 1.4 thousand MW of installed power generation from renewable sources are also expected outcomes of the new vision.

When all is said and done, the new vision and business model **offers a real chance** to make a difference **at a scale that is simply not possible without embracing change of an equal scale and ambition**, without the courage to innovate, without high aspirations, without doing what is required to **improve lives** throughout the Latin American and Caribbean region we have all pledged to serve.

## From 1.0 to 2.0 – A summary

The capitalization proposal approved eight years ago by the Board of Governors in Busan reaffirmed the Inter-American Investment Corporation's (IIC) purpose as a Development Finance Institution (DFI) focused on impact through the private sector. It led to a US\$2.03 billion capital increase for the IIC -now IDB Invest- allowing the newly merged-out<sup>1</sup> institution to significantly increase its deployment of patient and flexible capital aiming for systemic change at the sector and country levels. Through its support for growth and innovation in private sector markets, IDB Invest, among other priorities, addressed the urgent challenges posed by climate change, promoted gender equality, diversity, and inclusion and sought to bridge the gap for MSME financing in the LAC region.

Ultimately, this decision by the Governors<sup>2</sup> resulted in IDB Invest's **current business model** focused on delivering impact primarily through lending products with a small capacity for more capital-intensive products, such as equity investments.<sup>3</sup>

IDB Invest's first 18 months were anticipated as "hit-the-ground-running" based on the IDB Group's previous experience supporting the private sector. Instead, they were dedicated to building a team and creating unity of purpose out of diversity of origin.<sup>4</sup> By the end of 2017, the institution had gained momentum and by early 2020, was aiming for full consolidation followed by **gradual and prudent** growth, **full capital deployment by 2025**, and beyond that point, settling into its long-term sustainable operational level, as projected in Busan.<sup>5</sup> A global pandemic radically changed that path, transforming 2020 to 2022 into **years of accelerated growth** to meet the region's urgent needs and, relevant to the current discussion, advancing by two years the date for **full capital deployment** which was reached by the end of 2023.<sup>6</sup>

Despite facing startup challenges and an unprecedented global crisis, **IDB Invest delivered**. By the end of 2022, the organization had channeled over US\$42 billion in resources to the region, tripling the IDB Group's pre-merge out deployment capacity. Along the way, during IDB Invest's first seven years, five million MSMEs were reached with much needed financial support, 14 million tons of CO2 emissions were reduced, 600,000 jobs were supported by companies financed by IDB Invest operations, and 220 mobilization partners came on board to provide additional resources to the region following IDB Invest's lead.

Still, IDB Invest's Board of Governors, its Board of Executive Directors and Management looked beyond the successful status quo. To all, the stark reality that the world and the region had changed was clear and present.

Due to the Covid-19 pandemic, the climate crisis, and rising global geopolitical instability, the investment gaps in Latin America and the Caribbean have increased dramatically while

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<sup>1</sup> CII/CA-556 IDB Invest is the result of the merger of three pre-existing private sector-focused windows of the IDB Group, the Inter-American Investment Corporation, the Structured and Corporate Finance Department and the Opportunities for the Majority Initiative both part of IDB.

<sup>2</sup> Busan Resolution CII/AG-9/15 and CII/AG-2/15

<sup>3</sup> All mentions of equity investments in the document refer to both direct and indirect investments (through investment funds) in companies with the capacity to drive substantial developmental impact.

<sup>4</sup> IDB Invest original workforce was planned at 410. It started operations with 330, originating from IIC, the IDB and outside the organization.

<sup>5</sup> Busan projections defined this annual operational level at US\$4.0 to 4.5 billion in lending and US\$25 million in equity investments.

<sup>6</sup> This is reflected in IDB Invest having reached its long-term sustainable lending levels.

governments are facing limited fiscal space to address these crises. In this context, DFI shareholders have called on these institutions to optimize their balance sheets and maximize their use of capital by leveraging their knowledge of emerging markets and revamp their risk-taking capacity to boost mobilization of private investment for development. At the same time, even though global assets under management have soared, alongside investor interest in sustainable finance, only a small portion of the resources invested in sustainable finance reaches Latin America and the Caribbean.

But despite the challenges it faces, LAC holds immense opportunities and economic potential that can be harnessed to enhance the lives of people in the region and globally. By capitalizing on its abundant natural and human resources, the region can play a pivotal role in addressing global issues such as climate change, biodiversity loss, and food insecurity. The region contains over 40% of the Earth's biodiversity and harbors 57% of the world's remaining primary forests, including a quarter of the planet's mangroves. Moreover, it stands as the world's largest food exporter, producing 40% of globally traded food and holds nearly 60% of the world's lithium reserves, an essential component for a clean energy transition.

Collectively, the shareholders concluded that to effectively address the region's challenges and harness its great potential, the organization's business model **needs to evolve**.

## **A Pioneering New Vision and Business Model**

Against this backdrop, Governors, Directors, and Management viewed the experience of IDB Invest's first seven years as an opportunity for **driving change** leading to a new scale of **development impact**.

We envisioned a DFI for the 21<sup>st</sup> century, one that could chart a course for others to follow.

This vision would require **inspiration and innovation** to design the tools, conditions, and incentives that attract **new partners to all countries** in the LAC region.

To start on this path, the institution must, above all, be capable of meeting the **needs of all countries** in the region and, given its most pressing challenges, become a **climate and GDI-smart** institution.

To support this vision, IDB Invest must innovate in *knowledge, products and capital management* to develop an **intentional approach** to selectivity, to deploy a revamped **solutions catalogue** to meet country needs, and to implementing a **bolder risk approach**.

The effective implementation of the previously outlined factors will lead to **Crowding-in private investors at scale** in all its borrowing member countries which, in addition to the expected development impact of IDB Invest's interventions, will be the ultimate measure of success for the new business model.

Together we have co-created a New Business Model for IDB Invest, with **mobilization at scale** at its core, setting the stage to transform the organization from a largely "buy and hold" deal originator to a dedicated originate-to-share conduit for **channeling capital from global and regional investors to impactful projects** in the region. More importantly, a business model that benefitting from a productive dialogue with the private sector, the DFI community and its

shareholder countries, will tackle difficult issues such as poverty and vulnerability, a decided shift to additionality and a revamped risk appetite designed to crowd-in (and avoid crowd-out) private sector investment to the region.

**With an Ambitious Social, Climate and GDI Agenda**

The targets that set the new model in motion will make IDB Invest **the most ambitious of its peer institutions**, in the **scale** at which it will mobilize private financing and its **focus** on development impact. This will mean, among others, increasing its support for the region’s social agenda in 70% of new projects. It will also mean increasing support for the cross-cutting priorities of climate change and gender equality, diversity, and inclusion (GDI), with new targets of 60% for green finance<sup>7</sup> and 60% of projects supporting GDI,<sup>8</sup> as reflected in the scorecard in figure 4.

Even more important are the potential outcomes.

An analysis of projected operations, DRA portfolio composition and mobilization efforts indicates that -at peak<sup>9</sup>- the new business model would generate annual financing for 2.5 million MSMEs, 306,000 women entrepreneurs, 44,000 farmers, and 1.6 million poor and vulnerable people. Also at peak, new clean energy projects would reach 1,400 MW per year, 3.9 million tons of CO2 would be reduced, and companies financed would support 9.5 million jobs. This list only offers a sample, much more can be targeted and tracked through a revamped impact framework and an effective corporate scorecard.

**Projection of expected outcomes**

	Indicator	Units	2.0 Ambition at peak
Outcomes	MSMEs	#	2.5 million MSMEs financed
	Jobs Supported	#	9.5 million jobs supported
	Broadband access	#	5.1 million beneficiaries with new access to at least a 4G mobile network
	Women direct beneficiaries P&V	#	306 hundred thousand women direct beneficiaries
	Farmers supported	#	1.6 million poor and vulnerable population benefited 44 thousand farmers with improved access to agricultural services and investments
	Reduction of emissions	Tons	3.9 million tons CO2 emissions reductions
	Renewable power generation	MW	1.4 thousand MW installed power generation capacity from renewable sources

**A Capitalization Proposal to Link Aspirations with On-The-Ground Deployment**

To realize the new vision, IDB Invest will need to significantly increase its level of activity, revamp its risk appetite, and deploy innovative products aimed at crowding-in private sector investment at scale. This connection between ambition, scale and the need for additional capital was acknowledged by the Governors’ Panama mandate to develop a capitalization proposal and an implementation plan for the New Vision and Business Model for IDB Invest.

<sup>7</sup> The percentage of long-term commitments (own account and mobilization) that qualify as green finance following the IDB Group methodology for Green Finance Tracking (CII/GN-490), a complement to the already applied methodology to report climate finance (own account and mobilization) following the Joint MDB Climate Finance Methodology.

<sup>8</sup> The percentage of the number of long-term commitments supporting gender and/or diversity that meet the conditions for alignment.

<sup>9</sup> Expected at year 8+ of the capitalization period.

To adequately reflect the new vision's goals and aspirations, into a financial scenario, the **capitalization proposal** (i) **defines** foundation principles and deployment levers, (ii) **links** foundation principles and deployment levers to aspirations and KPIs, (iii) **frames** the results within an enhanced capital allocation model and (iv) **presents** the results through detailed financial projections. More specifically, it demonstrates that **additional capital is needed** to reach the new model's level of ambition while at the same time ensuring the institution's **long-term financial sustainability**.

At the proposal's **foundation** sit **three principles**: (i) The Development Related Assets (DRA) portfolios -booked and mobilized- are **fully compliant** with the new model's Impact KPIs<sup>10</sup>, (ii) All scenarios **maximize and optimize** the use of capital<sup>11</sup>, and (iii) Ambition is balanced with adequate levels income stability and long-term **financial sustainability**.

Additionally, the capitalization proposal relies on **six deployment levers** to provide the connecting tissue between aspiration and actual resources flowing to the region, and originating from lessons drawn from eight years of operations and over 600 projects that included partnerships with 220 investors.

With these valuable market references as guides, it became clear that IDB Invest needed to: (i) Create the capacity for **risk transfers** and de-risking/re-risking products as investors are mostly attracted to investment-grade type deals, (ii) Increase its **local currency capacity** and its ability to reach all countries, (iii) Increase its **equity investment capacity**, a powerful impact tool and as patient investor also a source of substantial comfort to investors, (iv) Establish an **upstream and technical cooperation facility**, understanding that expertise and "upstream" resources can be effective tools to get companies and projects up to speed, and, (v) Increase its capacity to take on **additional CCC- like risk**, given that its current capacity has severely limited operations in several countries and in specific regions within these countries.

The first five levers **deployed as a cohesive package** provide **the new vision's substantial lift** for the sixth deployment lever, **mobilization** which directly links to the high aspiration to crowd-in private sector investment at scale. More importantly, solving these gaps would have a **collective** impact that goes beyond the sum of its parts, allowing IDB Invest to reach countries, sectors, and projects that it cannot serve today even when it is willing to intervene alone.

After a careful analysis of the merits and limitations of up to 20 different financial scenarios, IDB Invest's Board of Executive Directors and Management **are recommending and submitting** for the Governor's consideration a capital increase of **US\$3.5 billion** for IDB Invest. The proposal is constructed so that it enables transition to, and successful delivery of the New Vision without compromising the financial sustainability of IDB Invest. At this level, the allocation of capital to the deployment levers **-that are in essence the financial drivers of the new vision-** reaches meaningful levels without jeopardizing the institutions' income generation capacity. At the same time, it provides sufficient financial flexibility to ensure **predictable deployment** for all levers and the necessary agility to trade-off between levers and adapt to changing circumstances.

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<sup>10</sup> More granularly, the ambitions and aspirations can be mapped to specific deployment levers as shown in the body of this document.

<sup>11</sup> They are therefore aligned with applicable G20 CAF recommendations and allow for the projection of future capital efficiency gains under the new business model.

This proposal represents 1.1 times<sup>12</sup> or more than double the institutions' capital base as of December 2023. It is also projected to be significantly more efficient at delivering resources to the region than all previous GCI's, generating US\$4.8<sup>13</sup> of average DRAs per dollar of total capital provided by the shareholders through the projected period, **8.2 times and 2.7 times<sup>14</sup> more** when compared to the institution's previous GCI's in 1999 and 2015 respectively.

At this capitalization level, the proposal enables a projected US\$102 billion of long-term financing to the region over a 10-year period, a nearly two-fold increase when compared to the status quo. More importantly, US\$59 billion (58%) of that amount would be achieved through mobilization, more than two times what would be possible with the current business model. What underpins these results is **the allocation of capital to the deployment levers**. Under this proposal, year 10 balances for equity investments would reach US\$1.1 billion, for CCC-like investments US\$1.2 billion, for risk transfers US\$5.7 billion, for local currency operations US\$11.1 billion, and for the upstream and technical cooperation facility US\$180 million.

The capacity to extend the scope and scale of mobilization instruments far beyond their current capabilities is where the true power of the new vision resides. Through the collective capacity of the deployment levers, A/B loan structures **can reach countries currently not served, currencies, and test new structures** such as A/B Bonds. Guarantees **can expand to include portfolio risk-sharing instruments** and a potential rating improvement would boost the appeal of these products for investors. Perhaps one of the biggest opportunities to supplement the increased ambition for mobilization when transactions are structured and committed lies in asset distribution. Through the power of the levers, asset distribution can evolve from ad-hoc project-by-project operations **to highly scalable portfolio-based operations**. Moreover, IDB Invest's equity capacity can be deployed to generate **asset warehousing capacity and credit enhancements** that can open the door to countries, regions, and sectors inaccessible with current instruments.

## **A Solid Implementation Plan to Match the Vision**

IDB Invest will revamp and strengthen its **impact model**, transform how it identifies country needs in deeper dialogue with governments, develop the capability to select and develop investment opportunities that might not be currently bankable, and strengthen its management of development effectiveness through the complete investment lifecycle with an improved impact management framework.

IDB Invest will revise its **organizational model**, it will evolve towards a structure that balances industry and country perspectives, enhancing field presence while increasing delegation of decision-making authority to the region, and attracting a diverse pool of talent to develop a deeper engagement with countries and clients and identify and manage projects that meet the most pressing development needs of the region. The new model will also require updating the

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<sup>12</sup> As a reference, IIC's US\$500 million first General Capital Increase (GCI) approved in 1999 and IIC's US\$2.03 billion second GCI approved in 2015 both more than tripled -2.4 times- the institution's capital base in 1999 and 2015 respectively.

<sup>13</sup> During the pre-merge out era (2009 to 2015 to match IDB Invest's analyzed period) the IIC generated US\$0.58 of average DRAs per dollar of total capital provided by the shareholders. IDB Invest's current business model at US\$1.77, tripled the one from the previous era.

<sup>14</sup> For comparison purposes, these numbers do not include mobilization, and given the new model's focus on originate-to-share as opposed to the buy-and-hold focus of the previous iterations, the gains in efficiency would be even more substantial.

human capital and talent model and aligning the organizational culture and incentives with the greater ambition for impact and focus on mobilization.

The New Vision will also require a new **operational model**. That means revamped financial and non-financial solutions, a new risk appetite and increased financial effectiveness and efficiency. To achieve this, IDB Invest must overhaul its transaction cycle from origination to impact and reinforce its backbone by enhancing agility and bolstering the capacity to identify, structure and manage risks to provide complex solutions for clients.

The growth of IDB Invest since the Merge-Out of the IDB Group private sector activities in 2015<sup>15</sup>, and looking ahead, a greater volume and complexity of activity, a bolder risk appetite, decentralization of the institution and more streamlined approval processes will have resource and organizational implications for the Board of Executive Directors, leading to important reforms to the **governance model**. Accordingly, measures will be necessary to support the IDB Invest Board of Directors with its workload, organization and strategic oversight as the institution moves into its next phase, while enhancing synergies and symmetries with the IDB Board of Directors.

### **A Strategic and Monitoring Framework to Ensure Delivery and Accountability**

To ensure full agency through the implementation process, Management will continue using the proven strategic planning framework in place since 2008. Action plans will complement the framework and direct IDB Invest's strategic approach for specific priority areas.

To enable the Governors and the Board to monitor the implementation of the New Vision, Management developed a **series of implementation milestones**<sup>16</sup> and a **comprehensive corporate scorecard** detailed later in the document. Management will report on corporate scorecard results and progress on the implementation activities and milestones through the consolidated quarterly reports to the Board, including a year-end summary as part of the fourth quarter report. The IDB Group Office of Evaluation and Oversight (OVE) will play an important role in informing the long-term implementation of the New Vision. Given implementation timelines, a midterm evaluation should begin in 2029 or later and a full evaluation in 2033 or later.

### **A Vision of Innovation, Impact, and Lives Improved**

If the Governors elect to move forward with the capitalization proposal and implementation plan, **IDB Invest will be the first DFI** to transition into this **new originate-to-share model**, the first to write the proof of concept contained in this document, ask for the resources required and set out to demonstrate that **this idea is feasible and viable for real-world application**, that once put into practice, IDB Invest shareholders can use this new business model to **move other institutions** towards more impact and more efficient leverage of scarce resources.

Perhaps the best news is that IDB Invest has done this before. The 2015 Renewed Vision was an ambitious proof of concept, successfully implemented to create the IDB Group's private sector vehicle that is now once again showing its **capacity for transformation**, its willingness to leave

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<sup>15</sup> Busan Resolution CII/AG-9/15 and CII/AG-2/15

<sup>16</sup> A complete list of activities and milestones is included as Annex I to CII/GN-523-3, New Vision and Business Model for IDB Invest: Implementation Plan and Capitalization Proposal.

the past achievements behind and boldly face a new challenge. Since Inception, IDB Invest has also faced difficult crises, resulting from fluctuations in market conditions, or even a global pandemic. Each one was overcome through careful planning, close collaboration between Management and the Board of Executive Directors and prudent exercise of agency. Similar events will likely be a part of the future. Management and the Board will be prepared to again work together should the need arise.

The vision to become a **conduit at scale** for channeling capital from **global and regional investors** to **impactful projects in the region** and aim for targets that place IDB Invest as **the most ambitious** of its peer institutions, is only the start. The projected results -measured in **millions** of jobs supported and MSMEs financed, and **hundreds of thousands** of women entrepreneurs and farmers reached- resulting from US\$102 billion of long-term financing projected to benefit the region is what will justify the expenses and efforts needed to support and develop this idea.

The vision also includes new instruments to **manage risk intelligently** to reach companies with **equity investments**, offer **technical assistance** and **local currency** to reach corners of our region where the current model simply cannot take us.

IDB Invest's Board of Governors, its Board of Executive Directors and its Management come together once again with an opportunity to prove that this institution is well-positioned to spearhead a new era, **to be the first DFI for the 21<sup>st</sup> century**.

## The New Vision and Business Model at a Glance

Impact Aspirations	Pillars	Current Model	New Vision
<ul style="list-style-type: none"> <li>• Meeting the heterogenous needs of the region with an increased focus on the social agenda</li> <li>• Becoming a climate and GDI-smart organization</li> <li>• Developing an intentional approach to selectivity</li> <li>• Deploying a solutions catalogue to meet country needs and client and investor demand</li> <li>• Implementing a bolder risk approach to push the development frontier</li> <li>• Crowding-in private investors at scale</li> </ul>	Raising the Level of Impact and Ambition	Origination focused on already bankable projects, informed by the country strategies and selectivity framework.	Intentional focus on creating markets and opportunities aligned with countries needs based on closer dialogue.
		Support to key social agenda priorities when opportunities arise and without a country-level approach.	Dialogue with countries to identify priority needs and diversification due to bolder risk appetite, enhanced financial capacity, and new upstream capabilities.
		Climate and gender are key targets and sources of business, but mainstreaming is limited due to resource constraints.	Shift to climate and GDI as a mindset. More ambitious targets, deepened mainstreaming efforts and measurement. Greater impact through more volume and ability to innovate.
		Focus on quality at entry and on individual transactions. Portfolio approach considers dual mandate of impact and financial sustainability.	Enhanced focus on managing projects at the portfolio and sub-portfolio levels vs. project-level. Balance impact and financial sustainability mandates.
	Enhanced Suite of Development Solutions	A safeguards approach to risk – IDB Invest manages risk to ensure financial sustainability.	A bolder risk appetite approach along with financial and non-financial re-risking measures to expand our development impact and attract investors.
		A solutions catalogue that serves as proof of concept – IDB Invest has been able to pilot solutions that meet diverse sector and country needs but is limited in its ability to expand these approaches.	A flexible and tailored solutions catalogue that meets the needs of countries and clients across the region. Financial Innovation to take risk, innovate, and unlock additional private investments towards the SDGs.
		Advisory services focused on a limited set of issues relying heavily on donor resources.	Strategy-driven advisory services to multiply impact. Focus on areas where they can best support IDB Invest’s strategy and country priorities, including upstream work and issue-based expertise.
		A project-by-project approach to mobilization.	A mobilization mindset from origination, to booking, supervision, and asset distribution. A new set of mobilization tools.
IDB Group Synergies	Limited private sector perspective in Group strategies. Fruitful collaboration driven by proactive individuals and existing networks.	Private sector perspective deeply integrated in Group strategies. Enhanced operational cooperation for the benefit of countries. Systematic collaboration on operations and knowledge.	

## 1. INTRODUCTION

- 1.1. Since 2020, political and economic circumstances—including the Covid-19 crisis, the accelerating climate crisis, and growing global political and economic instability—have contributed to rapidly increasing development gaps in Latin America and the Caribbean. Acknowledging the growing needs of the region, at the 2021 Annual Meeting, the Boards of Governors (“the Governors”) of IDB and IDB Invest expressed a desire for a thorough review of those needs and identified areas for further analysis to inform their continuing consideration of the region’s challenges and the IDB Group’s role in the region.<sup>17</sup>
- 1.2. Pursuant to this mandate, IDB Group Management and the Boards of Executive Directors (“the Board”) distributed seven analytical documents to the Governors in advance of the 2022 Annual Meeting, including a comprehensive analysis of the region’s growing private sector investment gaps, which underscored the opportunity to strengthen the Group’s ability to address those gaps by positioning IDB Invest<sup>18</sup> to mobilize third-party investors at scale, thus maximizing the development impact and reach produced by shareholders’ capital (i.e., originate-to-share). The analysis concluded that such a change would not only be a shift in focus for IDB Invest but would be a completely new vision and business model, requiring a larger organization with greater capacity to take on financial and non-financial risk. In response to the analytical documents, IDB Invest Governors mandated the preparation of a proposal for a new vision and business model (“the New Vision”) for IDB Invest.<sup>19</sup>
- 1.3. During 2022, Management and the Board co-created a detailed proposal for the New Vision and its financial, resource, operational, and institutional implications, which was distributed to Governors in advance of the 2023 Annual Meeting.<sup>20</sup> The detailed New Vision went beyond the originate-to-share concept, including a comprehensive proposal to increase IDB Invest’s impact and ambition in all of its regional developing member countries, thereby scaling up both the dollars it deploys to the region by mobilizing more and the impact for each dollar invested. The proposal included a detailed set of organizational implications—including changes that would be required to implement the New Vision—and financial and resource implications, such as the need for greater scale to absorb risk, a higher share of its financing in assets rated CCC and in equity, and an Upstream and Technical Cooperation Facility (Upstream and TC Facility)—funded through retained earnings—to finance advisory services and upstream interventions to create projects and markets where they do not yet exist. The proposal also included an illustrative set of financial projections.
- 1.4. The Board of Governors welcomed the progress made on the new vision and business model proposal at the 2023 Annual Meeting and mandated the IDB Invest Board of Directors to direct Management to prepare an Implementation Plan and Capitalization

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<sup>17</sup> CII/AG-2/21. March 21, 2021.

<sup>18</sup> CII/CA-206. February 28, 2022. *Private Sector and Resource Mobilization. Working Group 3.*

<sup>19</sup> CII/AG-3/22. March 28, 2022. *New Value Proposition for the Inter-American Development Bank and the Inter-American Investment Corporation.*

<sup>20</sup> CII/CA-214. March 3, 2023. *Proposal for a new vision and business model for IDB Invest: Summary and recommendations for Governors.*

Proposal (“the Proposal”) for the New Vision.<sup>21</sup> Over the course of 2023, Management and the Board engaged in a deeply collaborative process to fulfill this mandate encompassing 10 meetings of the Committee of the Board—including a comprehensive proposal<sup>22</sup> distributed in September as per the terms of the resolution—and culminating in this summary document and recommendations for Governors. The proposal is informed by recommendations of the Evaluation of IDB Invest<sup>23</sup> as approved by the Board, consultations with MICI and OII, and other external evaluations such as the Multilateral Organization Performance Assessment Network (MOPAN) assessment of IDB Invest. The proposal also incorporates insights and recommendations from global discussions on MDB reforms to better address global challenges and achieve poverty reduction and inclusive economic growth through an increased mobilization of private sector resources.

- 1.5. Concurrently, as per the terms of the resolution, the IDB Invest Board and Management worked jointly with the IDB Board and Management to prepare a new IDB Group Institutional Strategy,<sup>24</sup> including a framework and implementation plan for strengthening governance and synergies<sup>25</sup> within the IDB Group.
- 1.6. This document presents a comprehensive summary of the Proposal: Chapter 2 presents the key aspects and impact aspirations of the New Vision; Chapter 3 contains the capitalization proposal and financial considerations, taking into account the recommendations of the G20 CAF; Chapter 4 includes a comprehensive scorecard and monitoring framework; Chapter 5 summarizes the implementation plan, including the new impact, operational, and organizational models, the IDB Group Synergies Framework, the new governance model, and an analysis of implementation risks; and finally, Chapter 6 presents details on the mechanics of the capital increase and institutional considerations.

## 2. THE NEW VISION AND BUSINESS MODEL

- 2.1. **In recent years, private sector investment gaps in LAC have grown precipitously, with demand for financing far exceeding available supply<sup>26</sup>.** According to the OECD, investment needs in key SDG sectors in emerging markets are estimated at \$3.9 trillion per year globally. With a mere \$1.4 trillion invested in the SDGs each year, the global development community must fill an annual gap of \$2.5 trillion. It is estimated that the impact of the COVID-19 pandemic has increased this gap to \$4.2 trillion per year for developing countries<sup>27</sup>. In LAC, with governments facing a limited fiscal space, private investment in development becomes crucial to address this investment gap. Before the pandemic, the Graduate Institute of International and Development Studies at Geneva had estimated that this financing gap for IDB borrowing member countries ranged between approximately \$500 billion and \$700 billion annually. In particular, the region faces a significant

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<sup>21</sup> CII/AG-3/23. March 19, 2023. *New Vision and Business Model for the Inter-American Investment Corporation*.

<sup>22</sup> CII/GN-523-3. September 20, 2023. *New Vision and Business Model for IDB Invest: Implementation Plan and Capitalization Proposal*.

<sup>23</sup> CII/RE-83-2. April 3, 2023. *Evaluation of IDB Invest*.

<sup>24</sup> CII/GN-521-4. October 20, 2023. *IDB Group Institutional Strategy: Transforming for Scale and Impact*.

<sup>25</sup> CII/GN-521-3. September 21, 2023. *IDB Group Synergies Framework*.

<sup>26</sup> As part of the analytical work mandated by the Governors in the Resolution adopted in the Annual Meeting in Barranquilla, the IDB Group Management undertook a comprehensive examination of “the scope of the development challenges in its regional developing members, as well as their overall financial resource absorption capacity and fiscal constraints”, including a comprehensive inventory of the structural bottlenecks constraining growth in the Region and the heterogeneous needs of the countries. See “Strategic Chapter” (CII/GN-478-3)

<sup>27</sup> Organization for Economic Co-operation and Development (2021). *Global Outlook on Financing for Sustainable Development 2021*.

infrastructure deficit and must shift investments towards low-carbon, resilient infrastructure. Over the next decade, the region must invest a minimum of US\$2.2 trillion in infrastructure to achieve the SDGs in each country by 2030.<sup>28</sup> On average, the private sector has contributed 46% of investments in infrastructure in the region during the past decade. A similar level of private participation in the future would mean an annual demand for private investment in infrastructure of US\$265 billion in the electricity sector, US\$448 billion in transport, US\$171 billion in water and sanitation, and US\$135 billion in telecommunications. The credit gap facing micro, small and medium enterprises (MSMEs) is also huge at about US\$1.2 trillion.<sup>29</sup> Despite representing 99% of firms in the region, MSMEs receive less than 15% of credit provided to businesses. The situation is worse for women-owned and diverse MSMEs, women-owned MSMEs alone face an estimated financing gap of US\$156 billion. The region also faces significant investment needs to increase productivity, adapt to climate change, and help reduce global food insecurity through the corporate sectors. LAC is also a major producer of critical energy transition minerals, with a significant potential to grow. Across all productive sectors, the investment gap in research and development required to reach the ratio of advanced economies (in proportion to economic output) stands at 2% of total GDP, or US\$120 billion per year.<sup>30</sup> In the agriculture sector alone, the investment needed to close research and development gaps to increase productivity and innovation is estimated at US\$8.5 billion per year.<sup>31</sup> Similarly, the region faces a climate adaptation financing gap of an estimated US\$14.7-18.1 billion per year needed to address and prevent the continued losses it is already experiencing.<sup>32</sup> In parallel, the financial, non-financial, and integrity risk profile of the region has also grown, adding to the complexity of addressing these investment gaps.

- 2.2. **Despite the challenges it faces, LAC holds immense opportunities and economic potential that can be harnessed to enhance the lives of people in the region and globally.** By capitalizing on its abundant natural and human resources, the region can play a pivotal role in addressing global issues such as climate change, biodiversity loss, and food insecurity. The region contains over 40% of the Earth's biodiversity<sup>33</sup> and harbors 57% of the world's remaining primary forests, including a quarter of the planet's mangroves<sup>34</sup>. Moreover, it stands as the world's largest food exporter, producing 40% of globally traded food<sup>35</sup> and

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<sup>28</sup> Bricchetti, J., Mastronardi, L., Rivas, M., Serebrisky, T. and B. Solís (2021). "Investment needed through 2030 to meet the Sustainable Development Goals". Inter-American Development Bank, Washington DC.

<sup>29</sup> SME Finance Forum estimations. The gap is defined as the difference between current supply and potential demand which can potentially be addressed by financial institutions.

<sup>30</sup> R&D data is sourced from OECD, and the World Bank and GDP data from the IMF Datamapper.

<sup>31</sup> IFPRI (2018) The Agricultural R&D Investment Gap in Latin America and the Caribbean.

<sup>32</sup> Meirovich, H., S. Gomez and I. Araujo (2022) "Scaling Adaptation Finance in the Private Sector", IDB Invest.

<sup>33</sup> United Nations Environment Programme World Conservation Monitoring Centre (UNEP-WCMC) and International Union for Conservation of Nature (IUCN). 2016. Protected Planet Report 2016. UNEP-WCMC and IUCN, Cambridge, United Kingdom and Gland, Switzerland.

<sup>34</sup> Quiroga, R.E., Perazza, M.C., Corderi, D., Banerjee, O., Cotta, J.N., Watkins, G.G., and Sancho, J. 2016. Environment and Biodiversity: Priorities for Protecting Natural Capital and Competitiveness in Latin America and the Caribbean. Inter-American Development Bank, Washington, DC.

<sup>35</sup> Morris, M., Sebastian, A. R., Perego, V. M. E., Nash, J. D.; Diaz Bonilla, E. Pineiro, V., Laborde, D., Chambers, T. T., Prabhal, P., Arias, J., De Salvo, P. and Centurion, M. Elizabeth. "Future Foodscapes: Re-imagining Agriculture in Latin America and the Caribbean". Washington, D.C. World Bank Group. Available at <http://documents.worldbank.org/curated/en/942381591906970569/Future-Foodscapes-Re-imagining-Agriculture-in-Latin-America-and-the-Caribbean>.

holds nearly 60% of the world's lithium reserves<sup>36</sup>, an essential component for a clean energy transition.

- 2.3. **The volume of assets under management has grown, as has investor appetite for sustainable finance.** Global assets under management have grown from US\$73 trillion in 2016 to US\$112 trillion in 2021.<sup>37</sup> In parallel with this, retail and institutional investors have also become more interested in sustainable investment products, and thematic issuances such as green and social bonds<sup>38</sup> have grown accordingly, exceeding US\$1 trillion in 2021.<sup>39</sup>
- 2.4. **Despite substantial investment needs in LAC and the growth of private investor appetite for sustainable finance, global and local investable assets are not being connected to sustainable investment needs in the region.** In 2021, only 1.6% of the global volume of green bond issuances originated in LAC.<sup>40</sup> Both public and private barriers hinder the alignment of global and domestic private capital flows towards the region's development challenges, including: a limited number of efficient, sustainable, fiscally responsible, and bankable projects; gaps in transparency and integrity, rule of law, and conflict resolution mechanisms; regulatory frameworks that are not sufficiently developed to promote greater use of capital markets at the international and domestic level; limited institutional capacity of some sponsors; and a limited number of investment-grade economies. There are also mismatches between the risk appetite of investors and the needs of the region in areas such as local currency and governing law.
- 2.5. **Since 2016, IDB Invest has developed a series of comparative advantages that make it an impact-driven private sector development bank, with a track record, a solid structure, deep market intelligence and expertise, and a local presence in every country in the region.** Building on IDB's 60 years of experience supporting economic development in LAC, IDB Invest developed the capacity to manage complex and risky projects while maintaining high environmental and social standards. And it has become a leader in measuring and managing impact throughout the project cycle.<sup>41</sup> In seven years, it has become the partner of choice for the private sector, with deep sectorial and country expertise that attracts industry leaders across priority sectors and geographies to finance projects that. Among investors, IDB Invest is a recognized mobilization partner in the region, more than tripling core mobilization from US\$860 million in 2016 to US\$3.1 billion in 2022.
- 2.6. **Given the increasing global demand for sustainable assets and the region's investment needs, IDB Invest is uniquely positioned to pioneer a new originate-to-share<sup>42</sup> business model.** Through the originate-to-share business model, IDB Invest can become a bridge between priority development gaps in the region and investors by originating impactful

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<sup>36</sup> Economic Commission for Latin America and the Caribbean (ECLAC). 2023. Economic Commission for Latin America and the Caribbean. Lithium extraction and industrialization. Santiago, Chile.

<sup>37</sup> Boston Consulting Group. 2022. *Global Asset Management 2022—20<sup>th</sup> Edition: From Tailwinds to Turbulence*.

<sup>38</sup> Thematic issuances include green, social, sustainability, sustainability-linked, and transition bonds.

<sup>39</sup> Climate Bonds Initiative. 2022. *Sustainable Debt Market Summary H1 2022*.

<sup>40</sup> Ibid.

<sup>41</sup> IDB Invest was an early adopter of advanced impact management practices such as the portfolio approach (see: Impact Frontiers. (2020) *Impact-Financial Integration: A Handbook for Investors*.) and is a founding signatory and Advisory Board member of the Operating Principles for Impact Management (see: <https://www.impactprinciples.org/>).

<sup>42</sup> The originate-to-share model is predicated on always retaining at least the minimum exposure required to track the impact of an investment and work with the client to manage development objectives as necessary through repayment.

development assets, structuring them to meet investor needs with a suite of financial and non-financial re-risking tools, and mobilizing the greatest portion possible to promote impact and attract local and international investors. Effectively, IDB Invest can transform itself from a traditional DFI, focused on investing its capital to support individual projects, to a conduit for channeling financial resources from global and regional investors to sustainable projects in LAC. Attracting investors to projects will not mean sacrificing impact. To the contrary, IDB Invest's strong reputation for impact is a core competitive advantage, one it will seek to reinforce by further enhancing its development effectiveness and selectivity. While the new model and capitalization proposal would enable doubling IDB Invest's long-term financing to the region compared to the status-quo, it will still represent a small fraction of the region's needs. Therefore, the new model will prioritize the quality and impact of its interventions, expanding its range of tools and risk capacity, growing its reach to benefit all countries, and supporting transformative projects throughout the region. This transformation is consistent with the G20 Capital Adequacy Framework Review<sup>43</sup> recommendations for MDBs to make the most efficient use of the scarce public resources under their stewardship and attract additional capital from market sources more effectively.

- 2.7. **At the same time, by increasing the share of resources it mobilizes, IDB Invest can free up capital to finance high-impact projects outside the risk appetite of co-investors.** While investors are already interested in a wide range of the projects IDB Invest finances, the perceived risk-return profile of some high-impact projects may fall outside the risk appetite of commercial investors. Therefore, by maximizing the portion of each transaction it mobilizes, IDB Invest can focus its own resources on the high-impact projects, sectors, and countries within its mandate, where the real or perceived risk is too high for commercial investors, as is the case with many small and vulnerable countries. IDB Invest has been piloting some of the elements of the New Vision to the extent possible given the limitations of its current scale and risk absorption capacity. For example, by creating solutions that meet diverse sectoral and country needs and attract capital from domestic and international investors, IDB Invest has been steadily increasing its mobilization ratio in recent years.
- 2.8. **This shift in business model incorporates the recommendations of the G20 and the MDB reform agenda and is consistent with the new IDB Group Institutional Strategy.** The development of the New Vision considers previous and ongoing efforts to increase impact and enhance efficiencies for partner countries through synergistic collaboration among DFIs<sup>44</sup>. It is also closely aligned with global discussions and calls for an evolution of DFIs (e.g., the Bridgetown initiative, the Summit for a New Global Financing Pact, the Triple Agenda on Strengthening MDBs, and the G20 Capital Adequacy Framework Review and Recommendations Roadmap), and has been developed concurrently with the new IDB Group's Institutional strategy. Specifically, the new model addresses the recommendations

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<sup>43</sup> Boosting MDBs' investing capacity. (2022) *An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks*.

<sup>44</sup> To illustrate the growing collaboration among DFIs, IDB Invest and the World Bank's Multilateral Investment Guarantee Agency (MIGA) have recently signed a four-year partnership to attract more private investment to development projects in Latin America and the Caribbean. The agreement will strengthen collaboration between the two institutions and help develop a shared pipeline of projects.

to increase focus on the social agenda, contribute to addressing global challenges, make the most efficient use of scarce public resources, attract additional capital from market sources, revise the risk appetite, scale up risk transfers, develop innovative mobilization and re-risking tools, and address foreign exchange risks to drive investments.

### **Impact Aspirations and Pillars of the New Vision**

- 2.9. **The ultimate purpose of the New Vision is to scale IDB Invest’s impact in each of its borrowing member countries, based on six impact aspirations.** The first and second, defined the institutional goals: (i) Meeting the heterogeneous needs of the region, and (ii) Becoming a climate and GDI-smart institution. The next three defined the instruments needed: (iii) An intentional approach to selectivity based on innovations in knowledge; (iv) Deploying a solutions catalog to meet country needs and clients and investors demand based on innovations in products; and (v) Implementing a bolder risk approach to push the development frontier based on innovations in capital management. The last aspiration defined the final objective (vi) Crowding-in private investors at scale. Through these impact aspirations, IDB Invest will increase both the development effectiveness of its operations—ensuring investments are flowing to projects with the highest opportunity for impact in each country—and the volume of investment it channels to projects in LAC through the originate-to-share business model. In this way, IDB Invest will multiply its impact, achieving more volume and impact-per-dollar.
- 2.10. **To accomplish these impact aspirations, IDB Invest will need to transform the way it does business through three pillars.** First, it will increase its impact and ambition by strengthening how it identifies country needs, enables private sector support for the social agenda, supports cross-cutting priorities, and manages development effectiveness. Second, it will expand its toolkit of development solutions to enable more impact, mobilize more investors, and further mainstream its cross-cutting priorities. Third, it will strengthen its relationship with the rest of the IDB Group, one of its core comparative advantages.
- 2.11. **The first pillar of the New Vision is increasing IDB Invest’s impact and ambition by strengthening how it identifies country needs, enables private sector support for the social agenda, supports cross-cutting priorities, and manages development effectiveness.** To maximize its impact, IDB Invest will strengthen how it identifies and responds to countries’ heterogeneous development needs through the private sector with a more intentional approach to selectivity. This will entail working closely with countries—through deeper and more frequent dialogue with governments and relevant public sector agencies—to identify the overlap of development needs, private sector investment opportunities, and country priorities. This dialogue at country level will also include clients, partners, business associations, and civil society. To address the needs identified through this process, IDB Invest will need greater capacity to work upstream to strengthen transactions, clients, and markets that are not yet bankable and ensure its impact goes beyond that of individual projects and generates change at the sector or country level. Likewise, a redesigned social agenda and an increased level of ambition in support for poor and vulnerable populations and MSMEs to foster inclusive growth will be critical for addressing the needs of each of IDB Invest’s borrowing member countries. To complement

its identification of country and sector needs, IDB Invest will enhance its contribution to its cross-cutting priorities and become a climate-smart and GDI-smart institution. For climate change, this will mean shifting from seeing climate finance as a portion of IDB Invest's business, to applying a climate mitigation and adaptation lens to everything it does. IDB Invest will need to reinforce its internal capacity for identifying and structuring an increased volume of projects contributing predominantly to climate financing with a strong focus on adaptation and resilience. At the same time, raising IDB Invest's GDI ambition is critical for supporting the region's recovery from crises, which have disproportionately affected vulnerable populations. Finally, enhancing development effectiveness will require reinforcing how IDB Invest manages impact throughout the transaction process and adapting its Impact Management Framework to the New Vision.

- 2.12. **The second pillar of the New Vision is a new toolkit of development solutions to enable more impact, mobilize more investors, and further mainstream cross-cutting priorities.** Increasing IDB Invest's capacity to absorb a greater share of assets with a higher financial risk profile while ensuring financial sustainability will require a larger balance sheet, a new bolder risk approach, and more complex financial solutions. Local currency will be an important part of IDB Invest's enhanced development solutions, as clients with local currency revenues need access to local currency financing, while international investors typically have limited capacity to absorb currency risk. In addition, to structure and package development assets for a wider range of investors, IDB Invest will need a new set of mobilization tools. In terms of non-financial products, to support the new role of upstream work and increased ambition for cross-cutting priorities, IDB Invest will need to develop a new generation of advisory services tools, new mechanisms to support the identification and development of upstream efforts, and a dedicated source of financing. IDB Invest will also need to strengthen management of non-financial risks, transparency, and reporting by building on existing sustainability practices, expanding its toolbox and expertise to support a larger number of high-impact operations with complex social, environmental, and reputational considerations.
- 2.13. **The third pillar is a strengthened public-private approach to development through enhanced synergies with the rest of the IDB Group.** Development through the private sector is an intrinsically public-private endeavor that requires an IDB Group approach. Fostering development through the private sector depends on having a regulatory framework that promotes an enabling environment for investment, while public programs aimed at promoting growth rely on the private sector to realize their benefits. IDB Invest's work to promote development through the private sector is complemented by IDB's work to create the enabling environment and prepare new areas for private investment. In turn, IDB Lab's focus on supporting early growth ventures, as the Innovation and venture arm of the IDB Group, beyond the risk appetite of IDB Invest is also a valuable complement. IDB Invest can scale up IDB Lab's equity investments, and leverage IDB Lab's "extreme" upstream work to support the expansion of new technologies and business models. This continuum of solutions that the IDB Group offers is unique among multilaterals, a competitive advantage the New Vision will further maximize to support impact.

- 2.14. **The new originate-to-share business model represents a new way of working for IDB Invest.** At the origination and structuring phase, the organization will need to adapt and manage a significant increase in the number and complexity of operations and develop financial solutions that have mobilization potential. At the booking and supervision phase, a bolder risk approach, together with the expected growth in the number of transactions and an increasing participation of mobilization partners will demand enhanced capabilities, systems and resources to holistically manage the portfolio. In this context, IDB Invest will need to transform the way it books, monitors, and manages its portfolio, with a higher number of projects needing to be accounted for at fair/market value. An increased portion of product innovation will occur between project booking and asset distributions under the new business model to find adequate project portfolios suitable for securitization and state-of-the-art pricing models. In addition, a more refined and sophisticated asset liability and capital management framework will need to be created to ensure that asset distribution do not compromise the institution’s financial sustainability and income generation capacity.
- 2.15. **Implementing the New Vision will require changes in IDB Invest’s impact model, operational model, and organizational model.** Chapter 5 presents the outline of an implementation plan for these changes, the details of which were distributed to the Board of Directors in September 2023,<sup>45</sup> consistent with the terms of the Panama Resolution.<sup>46</sup>
- 2.16. **To realize the impact aspirations of the New Vision, IDB Invest will need to significantly increase its capital to achieve a meaningful level of business activity across six deployment levers.** These deployment levers are the key financial drivers of the new business model and include capacity to: 1) undertake equity investments; 2) originate and book riskier assets; 3) undertake risk transfers; 4) increase the number and complexity of local currency operations; 5) create an upstream and technical cooperation facility; and 6) enhance mobilization in all its forms. These six deployment levers are the necessary financial drivers to deliver on the impact aspirations of the New Vision as shown in the figure below.

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<sup>45</sup> CII/GN-523-3. September 20, 2023. *New Vision and Business Model for IDB Invest: Implementation Plan and Capitalization Proposal.*

<sup>46</sup> CII/AG-3/23. March 19, 2023. *New Vision and Business Model for the Inter-American Investment Corporation.*

Figure 1. Heatmap showing the interlinkage between deployment levers and impact aspirations

Linkage Legend
Direct
Indirect

Deployment Levers						
Impact aspirations	Mobilization	Equity Investments	CCC-like Investments	Risk Transfer	Local Currency	Upstream & Technical Cooperation
<b>Meeting the heterogenous needs in the region with an increased focus on the social agenda</b>	Multiplying the impact of IDBI's own capital to serve the region's developmental needs	Financing for impact where growth capital is required	Providing debt financing to riskier clients, sectors and geographies	Deploying the originate-to-share model to a broader range of projects	Financing inclusive growth where local currency solutions are needed	Providing advisory and upstream work to strengthen clients and markets
<b>Becoming a climate and GDI-smart institution</b>	Channel third-party capital to IDBI originated climate and GDI projects	Influencing ESG practices and focus on impact at the board level	Nurture the climate and GDI agenda across risk spectrum	Contribute to developing markets for climate and GDI-smart assets	Nurture the climate and GDI agenda across markets	Design and develop new markets and pathways to achieve climate and GDI goals
<b>An intentional approach to selectivity</b>	Ability to address most pressing needs beyond IDBI's own capacity	Channel equity financing to emerging technologies and priority sectors	Risk capacity to support the needs identified	Capacity to support the most pressing needs by actively managing portfolio	Local currency solutions and expertise to support needs identified	Create impactful opportunities aligned with needs and priorities
<b>A solutions catalogue to meet country needs and clients and investors</b>	Moving from buy-and-hold to originate-to-share business model	Broadening capacity for equity and equity-like products	Expand reach of debt financing across the region	Connecting a broader investor base to the region	Broadening currency catalog and capacity across the region	Scale up IDBI's non-financial value add
<b>Implementing a bolder risk approach to push the development frontier</b>	Systematic approach to warehousing and selling assets.	Most capital-intensive deployment	Bolder risk ambition at the development frontier	Boost ability to manage capital more effectively	Risk capital to manage market risks efficiently and reach less liquid markets	Proactively manage non-financial risks
<b>Crowding-in private sector at scale</b>	Serving as a bridge between priority development gaps in the region and private sector investors	Lead with sustainable and responsible investment practices	Complement private sector financing gaps	Bridging investors risk appetite	Enable local currency mobilization	Bridging clients with global value chains and international capital markets

### 3. CAPITALIZATION PROPOSAL

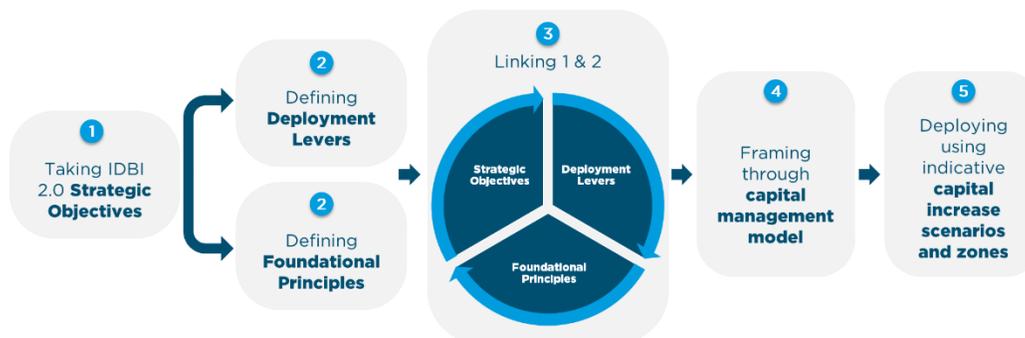
- 3.1. **This chapter presents the capitalization proposal for US\$ 3.5 billion of paid-in capital prepared jointly by the Board of Executive Directors and Management.** The proposal is constructed so that it enables transition to, and successful delivery of the New Vision through the six deployment levers without compromising the financial sustainability of IDB Invest. It also, creates financial flexibility, which in turn provides agency to Management and the Board of Executive Directors and with it an increased ability to respond to change.
- 3.2. **This chapter will cover the following financial aspects of the proposal.** First, it establishes clear links between impact ambition and financial deployment. It then highlights the importance of deploying all levers cohesively for greater impact and for meaningful capacity. After that, the financial sustainability in the new business model is presented including the elements of innovation, efficiency, and agency in capital management. All is then brought together in the final section that presents the joint Capitalization Proposal by the Board of Executive Directors and Management and its comparison to alternative scenarios.

#### Linking Impact Ambition with Financial Deployment

- 3.3. **The Strategic deployment process defines the financial drivers of the new business model within the context of strategic objectives, foundational principles, and enhanced capital management.** Strategic deployment encompasses the entire process of: (i) taking the strategic objectives of IDB Invest 2.0 as given; (ii) defining the foundational principles and the deployment levers of the new business model; (iii) linking the strategic objectives with the foundational principles and the deployment levers; (iv) framing the results within an enhanced capital management model commensurate with the risk ambition of IDB Invest

2.0; and (v) deploying the results into indicative capital increase scenarios. Figure 2 below brings together the components of the overall strategic deployment process.

**Figure 2. Overall Strategic Deployment Process**



- 3.4. **Management defined the following three foundational principles that are integral to all financial scenarios:** (i) All capitalization scenarios present Development Related Asset (DRA) portfolios (booked and mobilized) that are fully compliant with the Impact KPIs; (ii) All scenarios maximize the use of capital and are aligned with applicable G20 CAF recommendations; and (iii) Ambition is balanced with adequate levels of income-generating assets required for income stability and financial sustainability while maximizing the capital deployment to the levers.
- 3.5. **Six deployment levers serve as the key financial drivers of the new business model.** They include capacity to: 1) undertake equity investments<sup>47</sup>, 2) originate and book riskier assets<sup>48</sup>, 3) undertake risk transfers<sup>49</sup>, 4) increased number and complexity of local currency operations, 5) create an upstream and technical cooperation facility, and 6) Mobilization in all its forms. The six levers are defined as follows:
- 3.6. **Equity investments: Meaningful equity financing capacity boosts impact through innovation and development of private sector companies when growth capital is needed.** Debt financing alone cannot meet the heterogenous needs of the region. The emerging technology sector in the region represents a clear area of opportunity. Beyond the provision of much-needed financing, equity investments provide an opportunity for IDB Invest, as a member of their board, to set climate, ESG, corporate governance and GDI strategies at the core of investee companies. IDB Invest’s equity investments have a high degree of complementary with the early-stage equity supported by IDB Lab, a solutions suite unique to the IDB Group.
- 3.7. **Riskier Assets (CCC-like): Ability to provide debt financing to riskier clients, sectors, countries, or regions enables IDB Invest to reach high-impact projects in more challenging**

<sup>47</sup> Equity investments include both equity and quasi-equity investments. Equity-like capital requirements for IDB Invest to retain junior tranches in portfolio-based risk transfers are included under the risk transfer lever

<sup>48</sup> Modeled using the risk-return profile and capital allocation requirements of CCC+ assets present in the IDB Invest portfolio.

<sup>49</sup> Risk transfers refers to strategic actions taken to manage capital utilization by either divesting assets or employing market instruments, aiming to transfer credit risks and optimize financial resources.

**environments.** This is most relevant in small and vulnerable countries, but also in less economically developed regions within countries, and will help IDB Invest further diversify its impact in a meaningful way across all countries and expand the reach of its social agenda, allowing for more investments with less mature actors that support poor and vulnerable populations, MSMEs. It also enhances IDB Invest capacity to play a counter-cyclical role. Like equity investments, this lever entails a bolder risk ambition that caters to meeting the heterogenous client and country needs.

- 3.8. **Risk Transfers: Risk transfers is a critical lever of the originate-to-share business model that broadens the avenues to catalyze private sector financing and to manage IDB Invest's capital more efficiently.** It involves the use of IDB Invest's own capital to open new ways to mobilize financing for more countries and to expand mobilization to a wider range of investors with varying degrees of risk appetite, enabling the overall reach beyond traditional mobilization. Furthermore, risk transfers unlock the ability to manage IDB Invest's capital more effectively in line with the G20 CAF recommendations. In addition to single-asset risk transfers, the new business model enables IDB Invest to systematically transfer credit risk on a portfolio basis to the financial markets, which is currently unattainable given the size of IDB Invest's balance sheet. This is envisioned to represent a substantial portion of overall risk transfers under the new business model. The risk transfer lever includes equity-like capital requirements to enable the retention of junior tranches by IDB Invest in portfolio-based mobilization structures.
- 3.9. **Local Currency: Financing in local currency is essential for private sector businesses, expanding the reach where IDB Invest can make a difference.** By utilizing local currency solutions, IDB Invest can reduce the currency risks to its clients, expand the set of projects to be financed, strengthen its additionality, and enhance financial inclusivity within the developing member countries. Scaling up local currency financing and reach across the region requires significant capital to manage market risks efficiently, to reach less liquid local currency markets and to facilitate local currency mobilization to crowd international investors into local currency projects. To provide local currency financing in less developed local currency markets where IDB Invest has no local currency solution today, IDB Invest would need to manage and retain market risks. This is a capital-intensive proposition but the only one to unlock local currency financing when market risks cannot be fully hedged. Local currency financing is an important way of meeting the heterogeneous needs of the region, from small corporate clients in S&I countries to large infrastructure projects.
- 3.10. **Upstream and Technical Cooperation Facility: Advisory services allow IDB Invest to help clients develop climate, ESG and GDI strategies and through upstream work IDB Invest can become more responsive to country needs and be more intentional and selective, helping develop impactful investment opportunities in priority areas.** In addition to a bolder risk appetite and increased origination and structuring capabilities, expanding IDB Invest's work in priority areas such as S&I countries, or the Amazon region will be dependent on IDB Invest's ability to develop upstream work and provide advisory services to build capacity and create a new generation of bankable projects. Work in new sectors such as in energy transition minerals will also require technical cooperation to ensure identification and management of non-financial risks.

- 3.11. **Mobilization: An ambitious increase in IDB Invest’s mobilization ratio is a central element of the transition to an originate-to-share business and its where the impact of all other deployment levers is fully felt.** It requires a change in business model, moving beyond catalyzing commercial bank financing and credit insurers on pari-passu and project-by-project basis. This involves warehousing and packaging assets for distribution on a systematic basis. It will help attract investors at scale towards the region’s social agenda and towards global priorities such as climate finance and to catalyze additional financing into more countries in the region. Scaling up mobilization is the most efficient way to use shareholders’ capital to channel additional resources to the region for impact, consistent with the G20 CAF recommendations. Mobilization is the resulting lever that brings together the originate-to-share business model scaling up the ability to crowd in the private sector.

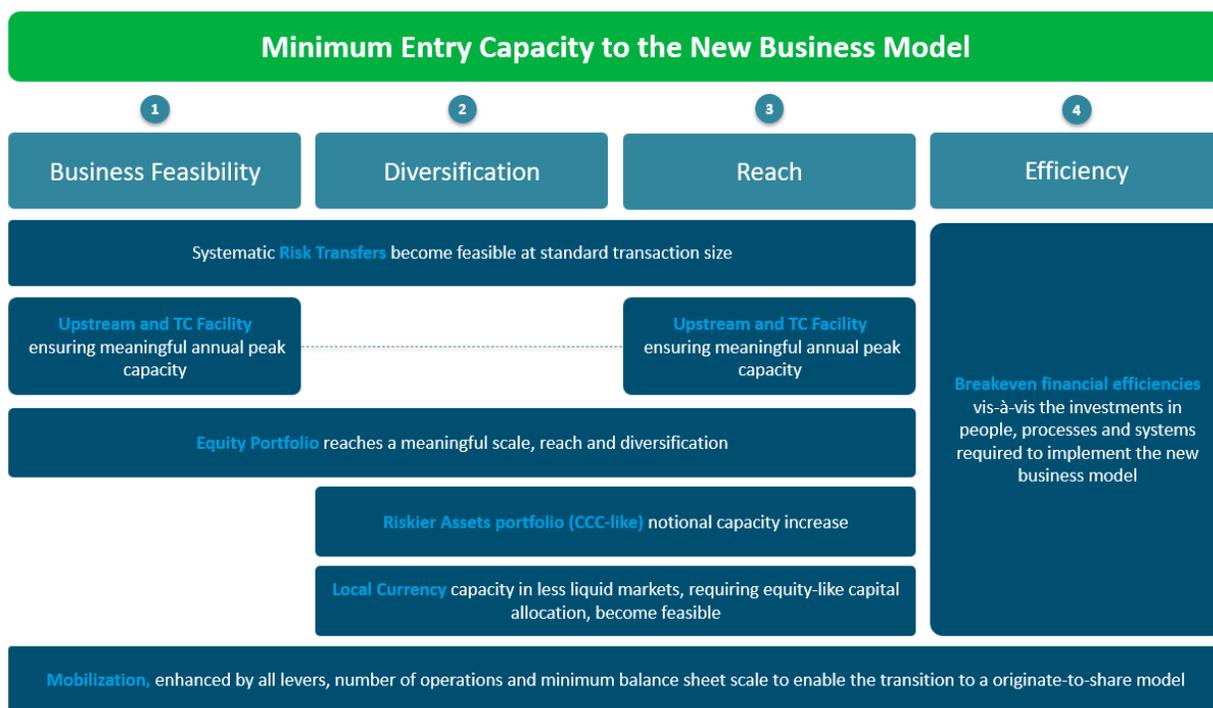
#### **Deploying all Levers Cohesively for Greater Impact**

- 3.12. **Experience has shown that achieving development impact is vastly more complex than associating dollars and impact as if a direct one-to-one mapping between the two was all it took.** These interactions are intertwined and multifaceted. Therefore, linking the two requires all deployment levers and the impact framework that tackles the needs of the region, as shown in Figure 1.
- 3.13. **Focus on individual levers would only be effective in certain countries or regions within larger economies and would not serve the heterogenous needs of the region.** It would hinder IDB Invest’s impact where investor appetite already exists, and in certain sectors where additional investor appetite would be motivated, for example, by the “natural de-risking” of an infrastructure deal that moves past the greenfield construction phase.
- 3.14. **Important lessons were drawn from eight years of operations at IDB invest to craft a broader view that is consistent with the ambition of the New Vision and supported by the six deployment levers.** This includes the following: (i) large majority of investors are attracted to investment-grade assets; (ii) ability to operate in local currency is essential for certain projects; (iii) co-financiers get substantial comfort when IDB Invest is an equity investor; (iv) investors understand that technical assistance can get companies up to speed and are vital to prepare quality projects; and (v) limited capacity to absorb riskier assets is a limiting factor in financing deals in several countries (and regions within countries) in the region.
- 3.15. **The successful implementation of the new business model relies on the complementary attribute of all six levers.** The first five levers – equity investments, riskier assets, risk transfers, local currency, and an upstream and TC facility – deployed as a cohesive package provide a substantial lift for the sixth: mobilization. In fact, achieving the full scalability potential of IDB Invest operations will require the effective, collective, and cohesive implementation of all deployment levers and mobilization instruments alongside the mandate and the necessary capital to give the new model a reasonable chance for success. The levers must also be deployed at a certain meaningful scale.

#### **Deploying all Levers at a Meaningful Scale**

3.16. **The change from IDB Invest’s current buy-and-hold business model to the new originate-to-share model is not a marginal change that can be scaled up incrementally.** It is a substantive jump that requires minimum entry investments and sufficient scale and balance sheet size to enable: (1) business feasibility of the individual levers, (2) adequate business line diversification, (3) the capacity to reach riskier clients with high impact potential, and (4) sufficient financial efficiency. Meeting these minimum entry conditions enables a cohesive deployment of all levers and in turn enables IDB Invest to catalyze private sector financing to the region at scale. Figure 3 below lays out the rationale for the minimum capacity constraints for the new business model.

**Figure 3. Minimum Entry Capacity to the New Business Model**



3.17. **While the levers collectively work to ensure the transformation to the originate-to-share model, they are individually constrained by specific business prerequisites.** Systematic use of portfolio-based risk transfers is constrained by the balance sheet size in proportion to the minimum transaction sizes that are palatable to investors in the securitization and insurance markets.<sup>50</sup> An upstream and TC facility requires a minimum level of capacity to generate business scale, build track-record, and catalyze complementary funding from donors and clients. Successful equity business is conditioned by scale to achieve sufficient

<sup>50</sup> Typically, at least about US\$ 500 million to US\$ 1.0 billion with a sufficient level of portfolio diversification.

diversification across investee firms, industries, geographies, and time. The scale of investments in riskier assets (CCC-like) is constrained by the overall balance sheet size as riskier assets require enough counterbalancing exposure. The need in the region (and sub-regions within the countries) more than surpasses the minimum capacity. Deployment of the vision requires local currency capacity across the region. Significant equity-like capital is needed to take markets risk and reach all markets. Finally, mobilization underpins the successful transformation to the originate-to-share model. It requires a meaningful deployment of all other levers together.

- 3.18. **Accomplishing the above is further conditioned by IDB Invest's long-term financial sustainability.** Achieving the minimum entry capacity for the new business model requires investments in people, processes, and systems. The new business model must have at least a minimum income generating capacity to implement and operate the new business model efficiently to ensure long-term viability.

#### **Financial Sustainability in the New Business Model**

- 3.19. **Under its current business model, IDB Invest has largely focused on less capital-intensive financing through debt products and is currently reaching its full capacity at the long-term sustainable lending level.** The current focus on lending follows from the decision made by the Board of Governors in Busan, which prioritized deployment of development finance to the region through debt products with only marginal equity investments capacity built into the current business model.
- 3.20. **The new business model will require a substantial shift towards more capital-intensive activities and significant investments in people, processes, and systems, neither of which can be achieved without a meaningful addition of paid-in capital.** This shift, directed through the six levers, must preserve the financial sustainability of IDB Invest despite the higher risk ambition of the New Vision.
- 3.21. **This will require innovations in capital management beyond the current approach centered on lending, moderate complexity, and limited delivery of capital-intensive products.** The innovation in capital management is accompanied by innovations in knowledge management with an intentional approach to selectivity and by innovations in products with a new solutions catalogue. This will allow IDB Invest to meet the heterogenous needs of the region and become a climate and GDI smart institution by crowding in third-party investments at scale.

#### **Innovation in Capital Management**

- 3.22. **The much bolder risk ambition of the new business model, the financial results and a balance sheet that is subject to higher volatility require enhanced capital management.**

The key factors driving the change in the risk profile include: a significant increase<sup>51</sup> in development related assets (e.g. due to equity investments and other available-for-sale assets) that must be accounted at fair value; increased P&L volatility due to equity investments, riskier debt investments, and to holding of junior tranches for securitizations; additional market risk retained to support expansion of local currency capabilities; and management of internal capital generation to fund the upstream and TC facility. This entails a distinctly different scale of complexity and need for agile capital management compared to the current business model that is predominantly based on lending products that are held to maturity.

- 3.23. **The new model will require proactive and adaptive capital management to allow for recalibration of capital deployment based on financial results, market conditions and expectations.** Judicious allocation of available capital between the deployment levers and lending activities is needed based on the active management and monitoring of risks at the overall balance sheet level as opposed to managing capital across much-longer buy-and-hold cycles as is the case today. This will enable IDB Invest’s Management and the Board of Executive Directors to proactively take measures that protect income and capital in IDB Invest 2.0, safeguarding long-term financial sustainability despite an increased risk ambition.
- 3.24. **To protect IDB Invest’s financial stability and resilience in the face of market fluctuations, balance sheet management will also be further enhanced.** The growth in fair valued securities will naturally increase the volatility of IDB Invest’s financial results and capital stock. Managing this volatility effectively will require the continuation of ongoing investments in IDB Invest’s asset-liability management and risk framework and toolkits to accurately and timely measure, allocate, price, and trade such market risks, arising from the magnitude of more complex financial positions. Further enhancements to income management and profitability measures will also be needed to support appropriate culture for selectivity and risk-return, ultimately leading to increasingly efficient portfolio allocations.

#### **G20 CAF Recommendations and Efficiency in Capital Management**

- 3.25. **Efficient capital management is at the core of the G20 CAF recommendations, and it is fully aligned with IDB Invest’s New Vision.** Efficient capital management, however, is not a one-off exercise but an ongoing endeavor. This results in progressive improvements and innovation where every dollar of capital saved is also redeployed to generate additional development impact in the region.
- 3.26. **IDB Invest has implemented multiple G20 CAF recommendations to optimize its capital efficiency, significantly increasing its operational capacity to help overcome the limitations of its balance sheet size.** By enhancing risk governance, introducing new financial products, forming strategic agreements, and engaging with credit agencies, IDB Invest has achieved direct capital savings of US\$ 511 million as of December 2022.

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<sup>51</sup> As of June 2023, over 80% of debt operations are accounted for at amortized cost and less than 20% are subject to fair/market value. To implement the originate-to-share model, this ratio will shift substantially due to increase in available-for-sale, trading and equity assets.

Combined with the estimated indirect capital savings due to mobilization under the current business model, the overall capital savings would correspond to about US\$ 14 billion of operational capacity (own account and mobilized approvals) considering a 10-year period.

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- 3.27. **Building on its prior experience, Management believes that the implementation of the New Vision will open further opportunities to increase capital efficiency.** This includes scaling up mobilization that catalyzes third-party capital alongside IDB Invest’s efforts. In fact, the originate-to-share model itself is the most effective means of creating capital savings and managing capital efficiently. Under IDB Invest 2.0, increased risk transfers also yield additional capital savings. These are enabled in large part by a larger balance sheet size, increased origination volume, a more diversified portfolio, and an increased risk appetite to warehouse and credit-enhance development related assets for portfolio-based mobilization.<sup>53</sup>
- 3.28. **The potential of certain measures proposed in the G20 CAF report, specifically risk appetite, innovation, and risk transfer/mobilization, can truly be unlocked under the new business model.** These measures are fully incorporated in the capitalization proposal.

#### **Agency in Capital Management**

- 3.29. **Management and the Board of Executive Directors have a critical role in exercising agency by dynamically aligning capital resources with strategic objectives and adapting to changing market conditions.** This involves responding to emerging challenges that require the release or reallocation of capital among different activities. It requires appropriate monitoring tools, controls, agile decision-making processes, and as a pre-requisite, a sufficient capital base where the trade-offs made do not have to risk the delivery of the New Vision.<sup>54</sup>
- 3.30. **With continued agency, there will also be ongoing opportunities to re-calibrate the business model and adjust it to the development needs and opportunities of the region.** IDB Invest’s annual business planning process within its overall three-year planning cycle provides a robust venue for Management and the Board of Executive Directors to steer IDB Invest 2.0 towards the envisioned impact and development ambition.

#### **Financial Investments in People, Processes and Systems**

- 3.31. **IDB Invest implementation plan encompasses a vital aspect of investing in operational capacity to allow for the deployment of the New Vision.** The new business model requires significant investment in people, processes, and systems to reach the operating capacity required for a successful delivery of the New Vision as laid out in Chapter 5.
- 3.32. **The investments in people, processes and systems are estimated to be more intensive during the first four years.** Should the Board of Governors approve the capitalization

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<sup>52</sup> CII/GN-523-5 New Vision and Business Model for IDB Invest: Implementation Plan and Capitalization Proposal. Questions and Answers. Summary of the G20 Capital Adequacy Framework Recommendations and Implementation Roadmap

<sup>53</sup> For example, minimum requirements for transaction size, portfolio diversification and investors’ appetite for investment-grade risk currently restrain IDB Invest’s ability to systematically transfer risks on a portfolio basis.

proposal, the implementation is envisioned to commence in 2024, the pivot year, followed by a three-year implementation phase of 2025-2027 as articulated later in this document.

### **Capitalization Proposal**

- 3.33. After many months of discussion with the Board of Executive Directors and close to 20 different iterations of financial scenarios, **the Board of Executive Directors and Management jointly recommend a capital increase of US\$ 3.5 billion in paid-in capital.** This increase will enable the transition and successful delivery of the New Vision without compromising the financial sustainability of IDB Invest.
- 3.34. **Capital requirements for the new business model are driven by the capital consumption of the deployment levers and the desire to maintain financial sustainability despite the increased risk ambition.** The US\$ 3.5 billion capitalization proposal achieves a substantial allocation of capital to the deployment levers that serve as the financial drivers of the New Vision while ensuring sufficient business capacity to generate income. The proposal is consistent with the Financial Risk Framework of IDB Invest.
- 3.35. **To implement the New Vision, the US\$ 3.5 billion capitalization proposal represents a level of new paid-in capital that would double IDB Invest's current net worth.** It achieves substantial capital deployment to the financial levers and provides additional financial flexibility aimed at a more predictable deployment and agility to adapt to changing circumstances.

## **4. STRATEGY AND MONITORING FRAMEWORK**

- 4.1. **The New Vision will supersede the Renewed Vision as IDB Invest's strategic guidance.** Management will continue using a three-year business plan (with updates in intervening years) to coordinate medium-term strategy and planning as well as annual objectives, financial planning, risk parameters, and funding authority. Action plans will direct IDB Invest's strategic approach for specific priority areas, with new action plans established exclusively through the business plan. Management will conduct interim review of existing action plans after three years through an annex in the Business Plan and conduct an update with the Board on average every six years (e.g., the MSME Action Plan (CII/GN-364-1) is scheduled for an update in 2024). Consistent with the monitoring framework included in this document and the IDB Group's CRF, consideration of new targets or changes to existing targets will be consolidated in business plans and updates exclusively, to provide the Board with ample opportunity for consideration of the strategic, operational, and resource implications of new or adjusted objectives in the context of the complete operational program and resources available to execute the program.
- 4.2. **To enable Governors and the Board to monitor the implementation of the New Vision, Management developed a series of implementation milestones<sup>55</sup> and a comprehensive corporate scorecard (included below).** The Implementation Plan and Capitalization

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<sup>55</sup> A complete list of activities and milestones is included as Annex I to CII/GN-523-3, *New Vision and Business Model for IDB Invest: Implementation Plan and Capitalization Proposal*.

Proposal includes a detailed list of activities and milestones for rolling out the New Vision, with their timelines set following the periods covered by upcoming business plans (“pivot year” and “implementation”). The scorecard includes impact, operational and institutional indicators that reflect the overall level of ambition for the New Vision and will be used to report to Governors on the implementation of the New Vision annually. To characterize and track the impact potential of the New Vision, the scorecard includes a projection of expected outcomes that can serve as impact indicators.<sup>56</sup> These expected outcomes are informed by IDB Invest’s existing results but are calculated with scale, impact aspirations, and financial levers of the US\$3.5 billion capital increase detailed in Chapter 3.<sup>57</sup> The estimates are subject to market conditions as a wide variety of exogenous factors may affect IDB Invest’s contribution to outcome metrics.

- 4.3. **Business plans and business plan updates provide an opportunity for Management to provide a more granular report to the Board, and to prioritize and set the medium and short-term implementation agenda.** The business plan will serve as a tool for Management to engage in a deeper conversation with the Board on implementation planning and timing. In addition to in-depth discussions as part of the business plan, Management will report on corporate scorecard results and progress on the implementation activities and milestones through the consolidated quarterly reports to the Board, including a year-end summary as part of the fourth quarter report. The IDB Group Office of Evaluation and Oversight (OVE) will play an important role in informing the long-term implementation of the New Vision. Separate mid-term and comprehensive evaluations of the New Vision would provide an opportunity to incorporate lessons learned from the first period of implementation going forward and inform the next steps for the transformed organization. Should the Board choose to mandate OVE to perform such evaluations, their utility in informing future implementation will be crucially dependent on appropriate timing. Given the ramp-up time for the financial levels required to enable the New Vision—as reflected in the financial projections—a mid-term evaluation should begin in 2029 or later and a full evaluation in 2033 or later.

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<sup>56</sup> To ensure IDB Group consistency, following Board approval of the Corporate Results Framework, Management will revise the impact indicators as needed to align with any changes to the relevant definitions and, if a baseline is available, will re-estimate projections, applying the same methodology used in this document. Continuing with existing practice and consistent with the timeline on which outcomes are reported, outcome indicators will be reported on an annual basis only, first in the Development Effectiveness Overview and subsequently in the Business Plan or Update and other relevant annual reporting instances.

<sup>57</sup> Details on the calculations are provided in CII/GN-504-2.

**Figure 4. IDB Invest’s New Vision and Business Model Corporate Scorecard**

	Indicator <sup>58</sup>	Unit of Measure	Target 2023	Interim Targets	2.0 Ambition	Target Approval
Impact	Social Agenda Total	%	-		70	Target by 2025.
	MSME Commitments	%	30		30	Reviewed by the Board as part of review of MSME Action Plan and set annually in the Business Plan
	P&V	%	-		-	Reviewed as part of review of P&V Roadmap.
	GDI Analysis	%	-		100	Target by 2025
	GDI Projects	%	30	Established	60	Target by 2028
	DI Projects	%	-		25	Target by 2030
	GDI Disaggregated Data	%	-	in the	100	Target by 2030
	Green Finance <sup>59</sup>	%	-	business	60	Target by 2028
	Climate Finance	%	30		55	Target by 2028
	Climate Integration	%	40	plan as	60	Target by 2025
	Adapted Assets		-	appropriate	-	To be developed with MDB working group, then discussed with Board.
	C&D Portfolio	%	40		40	
	S&I Long-Term Commitments	%	10		10	
	S&I Short-Term Commitments	%	10		10	
	Median DELTA score (ex-ante)	value	8		8	Set annually in the business plan.
Strategic Selectivity Indicator		-		-	To be defined with input from Board.	
Active projects with satisfactory performance classification	%	≥ 70		≥ 70	Set in CRF	
Projects with positive development results at completion	%	≥ 65		≥ 65	Set in CRF	
Operational	<b>Plan of Operations Indicators</b>					
	Long-Term Commitments	\$ billion	2.2		5.8	Ambition set in 2.0 financial projections peak year and specific targets defined with the Board in business plan.
	Short-Term Average Outstanding	\$ billion	1.9		3	
	Long-Term Core Mobilization	\$ billion	2.5		10.0	
	<b>Financial Lever Envelopes</b>					
	Upstream and TC Facility	\$ million		Indicators reported in the business plan		Ambition set in 2.0 financial projections peak year and financial lever envelopes defined with the Board in business plan.
	Risk Transfers	\$ million				
Direct equity and quasi-equity investment (% of DRAs)	%					
Local Currency (% of Lending DRAs)	%					
CCC-like investments (% of Lending DRAs)	%					
Institutional Monitoring	Development Related Assets Exposure	\$ billion				Monitoring.
	Total Assets Under Management (AUM)	\$ billion				Monitoring
	Impaired Assets / Total Portfolio	%				Monitoring
	Cost to AUM	%				Set in CRF
	LCR	%				To be discussed as part of FRF
	CAR	%				To be discussed as part of FRF
	Mid and senior-level IDB Invest staff who are women (C and above)	%				Set in CRF
	Staff diversity					Set in CRF
Decentralization (mid and senior level in the region)					To be defined with input from Board.	



<sup>58</sup> This indicative set of KPIs will be adjusted as needed based on both the conversations with the Board of Executive Directors related to IDB Invest’s New Vision and the IDB Group’s Institutional Strategy and Corporate Results/Impact Framework. If needed, the Corporate Results/Impact Framework (or its equivalent) developed following the new IDB Group’s Institutional Strategy may include a revised version of this Figure. This will help harmonize indicators at the IDB Group level while not compromising the Group’s level of ambition. Detailed definitions of indicators are available in Annex IV.

<sup>59</sup> Green finance target complements climate finance reporting (long-term own account and mobilization) according to the Joint MDB Climate Finance Methodology. Climate integration target refers to CRF definition.

**Figure 4. IDB Invest’s New Vision and Business Model Corporate Scorecard (Continued)**

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	Indicator	Units	2.0 Ambition at peak	Alignment to New IDB Group Strategy Objectives
Outcomes	MSMEs	#	2.5 million MSMEs financed	Boster sustainable regional growth <ul style="list-style-type: none"> <li>Boost annual growth of real GDP per capita to levels on par with the rest of the world (SDG Indicator 8.1.1)</li> </ul>
	Jobs Supported	#	9.5 million jobs supported	
	Broadband access	#	5.1 million beneficiaries with new access to at least a 4G mobile network	
	Women direct beneficiaries	#	306 hundred thousand women direct beneficiaries	Reduce poverty and inequality <ul style="list-style-type: none"> <li>Eradicate extreme poverty in Latin America and the Caribbean (SDG Indicator 1.1.1)</li> <li>End hunger (SDG Indicator 2.1.1)</li> </ul>
	P&V	#	1.6 million poor and vulnerable population benefited	
	Farmers supported	#	44 thousand farmers with improved access to agricultural services and investments	Address climate change <ul style="list-style-type: none"> <li>Zero deforestation in the Amazon (SDG Indicator 15.1.1)</li> <li>Reduce greenhouse gas emissions consistent with reaching net zero emissions by 2050 (SDG Indicator 13.2.2)</li> <li>Strengthen resilience and adaptive capacity (SDG Indicator 13.1.1)</li> </ul>
Reduction of emissions	Tons	3.9 million tons CO2 emissions reductions		
Renewable power generation	MW	1.4 thousand MW installed power generation capacity from renewable sources		

## 5. IMPLEMENTATION PLAN

### 5.1. The New Vision involves a significant and complex change in IDB Invest’s business model.

The raised level of impact ambition, the deployment of a new catalogue of solutions, and the new way of working as an IDB Group are a natural evolution of IDB Invest’s existing trajectory. The first section of this Chapter presents an assessment of IDB Invest’s current state and summarizes the operational, institutional, financial, and resource implications of adopting the New Vision. Based on an analysis of these implications, as mandated by Governors, the remainder of the Chapter outlines an implementation plan for the changes in five areas: the new impact model, new operational model, new organizational model, new IDB Group synergies framework, and other institutional considerations.

#### Current State Assessment

### 5.2. IDB Invest began operation in 2016 as an organization built for development through the private sector in LAC.

Between 2016 and 2022 it rapidly increased its scale and impact, far exceeding the expectations established by its Governors in Busan.<sup>60</sup> Total activity<sup>61</sup> increased from US\$2.3 billion in commitments (42 long-term transactions) in 2016 to a maximum of US\$8.8 billion (93 long-term transactions) in 2021, for a total of US\$42 billion in commitments (500 long-term transactions across 25 countries) from 2016 to 2022. A significant and increasing portion of this volume is core mobilization, which totaled US\$13.8 billion over the same period, reaching US\$3.1 billion in 2022 alone. As of 2022, IDB Invest has reached a total of US\$18.6 billion in assets under management and has a portfolio of more than 500 clients. More importantly, it has increased the impact of its investments by: (i) enhancing its focus on impact priorities including projects that support climate mitigation and adaptation, gender equality, diversity, and inclusion, MSMEs, and poor and vulnerable beneficiaries; (ii) diversifying the countries it supports, increasing total own-account

<sup>60</sup> Refers to the projections reflected in the financial scenario corresponding to the capitalization proposal approved by Governors in Busan. CI/PP-149. April 22, 2015. Newco’s Capitalization Proposal approved by Governors in Busan. Final Scenario. Audiovisual presentation.

<sup>61</sup> Total activity includes own commitments and core mobilization, net of unfunded products.

commitments in Small and Island countries from US\$181 million (3 long-term commitments) in 2016 to US\$680 million (19 long-term commitments) in 2022; and (iii) expanding the sectors it serves, adding new priority sectors such as agribusiness; digital economy; and social infrastructure. Since 2016 these efforts have supported more than 600,000 jobs through companies financed by IDB Invest, financed more than 5 million MSMEs, reduced carbon emissions by more than 14 million tons, and empowered more than 1 million women. Perhaps the greatest test for IDB Invest’s capacity to serve the region was only four years after its creation with the Covid-19 pandemic. In response, it delivered a counter-cyclical increase in financing that was “one of the most significant across all the multilateral development banks.”<sup>62</sup>

- 5.3. **IDB Invest achieved these results by transforming the organization internally.** To start, it expanded origination capacity and moved closer to clients, increasing its field presence from 7% of employees in 8 countries before the merge-out to 36% in 23 countries in 2022, including 4 regional hubs. In addition, IDB Invest diversified its financial products, expanded local currency capabilities, and created new products to increase mobilization and expand impact. For example, as of 2022 IDB Invest had supported the structuring and issuance of more than 30 thematic bonds from clients. It also built the capabilities and expertise to strengthen its impact by providing non-financial additionality through advisory services, which has grown to benefit 77% of transactions. These accomplishments have been recognized by the market, which has awarded IDB Invest 71 times since 2016,<sup>63</sup> including best Multilateral Development Bank of the year three times.<sup>64</sup> For its efforts to ensure gender equality in the workplace, IDB Invest also received EDGE certification in 2016 and 2021.
- 5.4. **IDB Invest’s growth and agility since 2016, its capacity to deliver on ambitious commitments to new impact objectives, and its demonstrated origination capacity during the Covid-19 crisis show it is well-positioned to transform to the New Vision.** Moreover, the new business model is an evolution of the direction the organization is already heading. However, fully adopting the New Vision will require an intensive transformation of IDB Invest’s current way of doing business. Below, Figure 5 summarizes the pillars of the New Vision, the key differences with the existing business model, and the elements of the implementation plan through which these changes will be realized.
- 5.5. **While IDB Invest is well-positioned to pivot to the New Vision, implementation will nonetheless be a complex task requiring an overhaul of IDB Invest’s impact, operational, and organizational models, paired with institutional considerations to strengthen its governance.** In terms of the impact model, IDB Invest has developed a market-leading Impact Management Framework to maximize impact throughout the project cycle and has participated in developing IDB Group country strategies since the merge-out. However,

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<sup>62</sup> Fitch Ratings. February 2, 2021. “Fitch Revises IDB Invest’s Outlook to Negative; Affirms at ‘AAA’”.

<sup>63</sup> Awards from specialized industry publications.

<sup>64</sup> Awarded by Latin Finance in 2018, 2019, and 2021.

given IDB Invest's current size and lack of upstream capabilities, project origination—while driven by country strategies, client mapping exercises and the selectivity tool—remains largely focused on already bankable projects on a sector-by-sector basis. Likewise, support for the social agenda occurs as market opportunities arise, rather than being driven by a dialogue with countries and a proactive approach. While support for climate and gender and diversity has progressed, these key priorities are still not fully integrated into IDB Invest's operations. Finally, while the impact model covers the full project cycle, the strategic management of impact largely focuses on ensuring quality at entry. As far as IDB Invest's operational model, it has allowed the organization to grow rapidly since the merge-out, both in terms of own-account financing and core mobilization, while incorporating robust operational controls and effective financial and non-financial risk management. However, its workforce, systems, and processes are oriented towards the limited range of products it can support with its existing balance sheet. Financial products and systems for mobilization are largely managed project-by-project and lack scalability, and they are principally focused on *pari passu* products. The approach to managing financial and non-financial risks is safeguards-based, ensuring IDB Invest maintains financial sustainability, but limiting its capacity for re-risking. And its transaction process is largely one-size-fits-all, limiting the possibility of applying different processes to clients and countries with different needs. Finally, its organizational model has helped IDB Invest develop the deep sector expertise required to build its business in all regional developing member countries. However, it has limited capacity to systematically apply a country-level approach and does not have country-level expertise in many key areas.

- 5.6. **Since the merge-out IDB Group synergies have begun to improve.** This is thanks to measures such as the single IDB Group country strategy and country representative, IDB Group-level sector framework documents, and the PPP single window, as well as additional collaborations across a wide range of topics. However, challenges remain. Collaboration at the strategic and operational level is largely ad hoc, the overall concept of private sector development is insufficiently reflected in IDB Group documents, and IDB Invest rarely has the opportunity to support the IDB in its public sector reform efforts to enhance the enabling environment for investment. Finally, the institutional model has served IDB Invest as it grew following the merge-out, allowing the Board to effectively shepherd the institution through a complex period of change. The current institutional arrangements will now, however, present constraints as the Board faces managing a larger and more complex institution.

Figure 5. Summary of Key Differences and Implementation Plan for the New Vision

Impact Aspirations	Pillars	Current Model	New Vision	Implementation Plan Element
<ul style="list-style-type: none"> <li>Meeting the heterogenous needs of the region with an increased focus on the social agenda</li> <li>Becoming a climate and GDI-smart organization</li> <li>Developing an intentional approach to selectivity</li> <li>Deploying a solutions catalogue to meet country needs and client and investor demand</li> </ul>	Raising the Level of Impact and Ambition	Origination focused on already bankable projects, informed by the country strategies and selectivity framework.	Intentional focus on creating markets and opportunities aligned with countries needs based on closer dialogue.	<ul style="list-style-type: none"> <li>New impact model                             <ul style="list-style-type: none"> <li>New selectivity framework</li> <li>Upstream approach</li> <li>DELTA 2.0 and additionality framework</li> <li>Sustainable portfolio approach</li> <li>Strengthened social agenda</li> <li>Becoming a climate and GDI-smart organization</li> </ul> </li> <li>New Organizational Model</li> <li>New Synergies Framework</li> </ul>
		Support to key social agenda priorities when opportunities arise and without a country-level approach.	Dialogue with countries to identify priority needs and diversification due to bolder risk appetite, enhanced financial capacity, and new upstream capabilities.	
		Climate and gender are key targets and sources of business, but mainstreaming is limited due to resource constraints.	Shift to climate and GDI as a mindset. More ambitious targets, deepened mainstreaming efforts and measurement. Greater impact through more volume and ability to innovate.	
		Focus on quality at entry and on individual transactions. Portfolio approach considers dual mandate of impact and financial sustainability.	Enhanced focus on managing projects at the portfolio and sub-portfolio levels vs. project-level. Balance impact and financial sustainability mandates.	
<ul style="list-style-type: none"> <li>Implementing a bolder risk approach to push the development frontier</li> <li>Crowding-in private investors at scale</li> </ul>	Enhanced Suite of Development Solutions	A safeguards approach to risk – IDB Invest manages risk to ensure financial sustainability.	A bolder risk appetite approach along with financial and non-financial re-risking measures to expand our development impact and attract investors.	<ul style="list-style-type: none"> <li>New operational model                             <ul style="list-style-type: none"> <li>Bolder risk approach</li> <li>A new end-to-end transaction process</li> <li>A backbone that supports growth</li> <li>Deployment of an expanded catalogue of solutions</li> </ul> </li> <li>New Organizational Model</li> <li>New Synergies Framework</li> </ul>
		A solutions catalogue that serves as proof of concept – IDB Invest has been able to pilot solutions that meet diverse sector and country needs but is limited in its ability to expand these approaches.	A flexible and tailored solutions catalogue that meets the needs of countries and clients across the region. Financial Innovation to take risk, innovate, and unlock additional private investments towards the SDGs.	
		Advisory services focused on a limited set of issues relying heavily on donor resources.	Strategy-driven advisory services to multiply impact. Focus on areas where they can best support IDB Invest’s strategy and country priorities, including upstream work and issue-based expertise.	
		A project-by-project approach to mobilization.	A mobilization mindset from origination, to booking, supervision, and asset distribution. A new set of mobilization tools.	
	IDB Group Synergies	Limited private sector perspective in Group strategies. Fruitful collaboration driven by proactive individuals and existing networks.	Private sector perspective deeply integrated in Group strategies. Enhanced operational cooperation for the benefit of countries. Systematic collaboration on operations and knowledge.	<ul style="list-style-type: none"> <li>New Organizational Model</li> <li>New Synergies Framework</li> </ul>

## **New Impact Model**

- 5.7. **Under the New Vision, IDB Invest will strengthen its impact model and enhance its development effectiveness.** It will also transform how it identifies country needs through deeper dialogue with governments, build its upstream capabilities to create investment opportunities that might not be currently bankable, and strengthen its management of development effectiveness throughout the investment lifecycle with an improved Impact Management Framework.
- 5.8. **A new strategic selectivity framework will replace the existing selectivity tool to implement a more intentional approach to selectivity.** The new strategic selectivity framework will rely on an improved way to identify country development needs and priorities. IDB Invest has already begun the design of the new strategic selectivity framework. As part of the new Country Strategy process, the IDB Group is incorporating a deeper analysis of private sector needs and investment bottlenecks in the country development challenges document. This will be complemented by more regular private sector dialogue with country authorities, clients, partners, business associations, and civil society and will be conducted in parallel with the annual public sector programming process. The new selectivity framework will then pinpoint the link between the needs identified at the country level and IDB Invest’s comparative advantages and institutional priorities. This will help direct origination—for both upstream interventions and financing—towards the investments with the greatest opportunity for impact and those most aligned with the priorities of country authorities and IDB Invest shareholders.
- 5.9. **A new upstream framework will support the creation of opportunities for investment where they do not yet exist.** The approach will encompass interventions across the upstream continuum, including working together with the IDB on reforms that enhance the enabling environment for investment (or “public upstream”), as well as interventions at the market or client level, executed by IDB Invest, with an eye towards a potential future investment, building on IDB Lab’s work in emerging markets. For public upstream, reforms being implemented as part of the IDB Group Institutional Strategy<sup>65</sup> and Synergies Framework,<sup>66</sup> including enhancement to the country strategy and programming process, will strengthen the process for identifying and realizing public-private collaboration in this area. The new selectivity framework will inform the identification and prioritization of areas with significant development gaps where upstream work is needed to identify and mitigate risks and support the readiness of markets, projects, or clients to work with IDB Invest. Resources to support IDB Invest’s client and market-level upstream interventions will come from the proposed upstream and technical cooperation facility and through external funds. Implementing the new upstream approach will require a new governance mechanism and well-structured related processes, including a clear prioritization rationale for resource allocation so that resources are used according to clear development objectives (such as reaching new sectors or geographies with impact potential), and managing potential

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<sup>65</sup> CII/GN-521-4. October 20, 2023. *IDB Group Institutional Strategy: Transforming for Scale and Impact.*

<sup>66</sup> CII/GN-521-3. September 21, 2023. *IDB Group Synergies Framework.*

conflicts of interest. Leveraging lessons learned from other DFIs, IDB Invest will take a gradual approach—consistent with the growth rate of the upstream and TC facility—to building and scaling its upstream capacity and ensure it adopts a strategic approach to the deployment of resources.

- 5.10. **IDB Invest will implement a new sustainable portfolio approach to balance its dual mandate of impact and financial sustainability throughout the project cycle.** The new approach will enable a more strategic dialogue within IDB Invest and between the Board and Management about the overall composition of the portfolio and its performance over time, as well as the contribution of each transaction. The new approach is driven by four principles: 1) a focus on impact and financial results, which will support the continued improvement of impact during execution; 2) a sub-portfolio approach, to better connect portfolio-level impact objectives with the contributions of individual projects and enhance accountability; 3) integration across the transaction cycle, to boost IDB Invest’s ability to manage its portfolio; and 4) an efficient, cost-effective operational approach. The sustainable portfolio approach relies on system enhancements to better capture financial performance at the sub-portfolio level and will be implemented as the corresponding capabilities become available.
- 5.11. **An enhanced impact scoring system and an additionality framework will improve how IDB Invest assesses impact and aligns with the new business model.** The improvements to the current impact scoring system, the DELTA, are informed by Management’s own review of the Impact Management Framework, the recommendations of the OVE Evaluation of IDB Invest, and the IDB Group Institutional Strategy. The new impact model will introduce greater granularity to the tools as part of the originate-to-share approach. Improvements to the DELTA are based on four key principles: a clear structure, a rigorous methodological approach aligned with best practices, a focus on effectively delivering results, and an efficient, dynamic, and cost-effective operational approach. Management will also develop an additionality framework to formalize the institutional definition of additionality, ensuring a shared institutional understanding of additionality including how it is operationalized and the appropriate thresholds used to assess additionality. The development and implementation of the enhancements to the DELTA are underway and will be piloted and implemented in IDB Invest’s systems in 2024.
- 5.12. **IDB Invest will strengthen its capacity to support countries’ social agendas.** The social agenda belongs to the countries, representing IDB Invest’s ability to serve each country where it needs it most. The redesigned social agenda relies on the new strategic selectivity framework and a deeper dialogue with countries to identify areas where IDB Invest can make a difference. It also entails having the right tools in place to provide the necessary support and identifying KPIs to set targets and monitor progress. The new catalogue of solutions will provide the tools necessary to diversify IDB Invest’s clients base, expand support in these priority areas, and better attend the needs of all countries. The development of the social agenda will be further enriched in the context of revised action plans (i.e., MSME Action Plan (CII/GN-364-1) scheduled for 2024 and the Poverty and Vulnerability Roadmap (CII/GN-442-2) scheduled for revision in 2025 immediately after the development of the IDB Group’s new strategic document on Reducing Poverty and

Inequality) where IDB Invest will redefine its approach and raise the level of ambition of its support to MSMEs and Poor and Vulnerable populations, reaching priority areas such as access to basic infrastructure, digital and financial inclusion, or food security. IDB Invest will continue to monitor its capacity to deliver on the social agenda through KPIs that track contributions to corporate priorities at entry, such as MSME commitments, GDI projects, and projects that support poor and vulnerable beneficiaries. It will also continue to track outcome KPIs that can serve as impact indicators such as the number of MSMEs financed through its projects, jobs supported, direct women beneficiaries, poor and vulnerable people benefited, GHG emissions reduced, and installed renewable energy generation capacity, among others. New KPIs such as the strategic selectivity indicator, the upstream and TC facility indicator, and synergy metrics will also help drive IDB Invest towards each country's social agenda.

- 5.13. **To achieve the new level of ambition and support countries' efforts to mitigate and adapt to global climate change, IDB Invest must shift from seeing climate as only a portion of its business to applying a climate lens to everything it does.** It will need to reinforce its operational capacity for identifying and structuring an increased volume of projects contributing predominantly to climate financing with a strong focus on adaptation and resilience, ensure the organization is aligned and properly trained across all functions to maximize its contribution to this priority, build new systems to better manage climate opportunities and risk throughout the project cycle, track climate performance, strengthen partnerships, and reinforce synergies with the IDB Group. Staff incentives will need to align to climate objectives. Upstream work at the market and project levels will help identify new climate solutions, concessional or blended finance resources will help support pilot projects, and advisory services help clients develop new climate strategies. This will be particularly relevant as IDB Invest seeks to expand its work in climate adaptation where technologies and business models are less developed. As the breadth and complexity of climate analysis increases, IDB Invest will also need to embed climate in its systems, management and oversight. Finally, it will need to strengthen partnerships, both with the rest of the IDB Group and externally, to enable expertise through multistakeholder exchanges and sectoral coalitions and maximize Group synergies.
- 5.14. **To address the persistent gaps in social and economic outcomes across gender and diverse groups in LAC, IDB Invest will deploy a more ambitious GDI agenda while enhancing the value proposition for clients.** To this end, IDB Invest will mainstream GDI in all transactions. This will involve conducting gender analyses on all transactions to identify gaps and inclusion opportunities related to gender equality and/or diversity, as well as gender-differentiated risks. It will also entail categorizing clients by tiers based on their GDI contribution and monitoring and evaluating their GDI efforts. Secondly, IDB Invest will enhance its GDI-lens lending and investing practices with clients and investors, while also mitigating gender risks in its projects by deploying capital and working alongside partners and co-investors to intentionally achieve positive impacts for women and diverse groups. Additionally, IDB Invest will provide advisory support to clients, including employing innovative finance with the right GDI incentives, embedding GDI considerations within financial structures that can later be shared in the market through mobilization efforts,

collaborating with partners to align with the highest standards and criteria, developing knowledge products, and generating evidence on the impact and business case of GDI. Achieving these goals will require human and financial resources, capacity building, system enhancements, a revised internal incentive structure, and strengthened partnerships.

### **New Operational Model**

- 5.15. **The New Vision involves significant and complex changes with operational implications.** These include revamped financial and non-financial solutions, a new risk appetite, and increased financial effectiveness and efficiency. To achieve this, IDB Invest must overhaul its transaction cycle from beginning to end and reinforce its backbone by enhancing agility and bolstering the capacity to identify, structure, and manage complex solutions for clients. This transformation will empower IDB Invest to proactively respond to development challenges and deploy innovative approaches to achieve its development goals.
- 5.16. **Continuing to increase IDB Invest’s mobilization ratio and impact ambition will require greater risk absorption capacity, underpinned by a capital increase and a bolder risk approach.** This bolder risk approach, aligned with G20 CAF recommendations, will draw on the experience gained in the last eight years, aiming to maximize development impact while maintaining financial sustainability. Operational and risk-related policies will be updated to reflect the risk approach required to implement the originate-to-share model, including maximizing mobilization, undertaking equity investments and risk transfers, increasing local currency solutions, and booking riskier assets to support highly developmental opportunities to move the needle in all countries in the region. The bolder risk approach will go hand in hand with strengthened oversight functions and a strengthened capacity to manage risks. To balance impact with financial sustainability, IDB Invest will institute a risk-reward framework with financial incentives for clients to reduce risks and prioritize achieving impact outcomes. Deploying re-risking tools will also incentivize clients to mitigate and manage financial and non-financial risks before they escalate, facilitating project viability and attracting a broader pool of investors. To better assess risk and encourage greater private sector investment, IDB Invest will incorporate ESG and climate risk factors into credit scorecards. It will also recalibrate its risk models to include more extended historical performance, leveraging default and recovery data from DFIs from the Global Emerging Markets Risk Database Consortium (GEMs).<sup>67</sup>
- 5.17. **IDB Invest will overhaul its transaction process to enable the deployment of the elements and products of the new model, increase its impact focus throughout the project cycle, improve controls, and gain the efficiencies required to manage a larger number of more complex transactions.** The New Vision will require a comprehensive redesign of the end-to-end transaction cycle, from origination to impact. The new transaction cycle will ensure integration between upstream efforts, the originate-to-share mindset, and supervision and risk management endeavors to achieve the desired impact. Improving and integrating systems and automation are imperative to scale operations effectively. IDB Invest will also

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<sup>67</sup> The Global Emerging Markets Risk Database Consortium is one of the world’s largest credit risk databases for the emerging markets operations of its MDB and DFI member institutions. It pools data on credit defaults on the loans extended by consortium members, the migrations of their clients’ credit ratings, and the recoveries on defaulted projects.

boost operational efficiency by implementing differentiated processes that match specific risk profiles, clients, products, geographies, topics, or industry criteria. Leveraging lessons learned from the successful implementation of a dedicated team for S&I countries, Management will pilot the implementation of delivery units to streamline decision-making, while also ensuring accountability for delivering impactful results and proper oversight. A bolder risk appetite also requires managing risk throughout the project cycle from a credit and non-financial risk management perspective.

- 5.18. **The new scale and broader range of products associated with the new business model will require reinforcing IDB Invest’s backbone functions and systems to ensure that the institution can meet the diverse needs of its clients, maintain financial sustainability, and achieve the desired impact.** A robust backbone,<sup>68</sup> including the “engine room” for the institution's daily operations, comprising transaction processing and execution, portfolio supervision, risk management, and compliance with regulations, is a critical element in the success of IDB Invest's new model. Strengthening the backbone will be critical for scaling operations, broadening product and service offerings, adapting to evolving market demands, and supporting the achievement of desired impact objectives. Management is in the process of conducting thorough needs assessments of risk management roles across the organization, middle and back-office processes, resources and capabilities, and the IT systems required to enhance operational efficiency and reliability. Technology solutions to enhance efficiency and mitigate operational risks will be implemented hand-in-hand with the more extensive digital transformation initiative underway across the IDB Group. Management will also create specialized teams to support the development of innovative financial solutions and ensure their scalability.
- 5.19. **To deliver the New Vision, IDB Invest will strengthen its products and delivery capacity in four specific areas: mobilization, equity, local currency, and advisory services.** Management will deploy a comprehensive suite of mobilization and re-risking products, accompanied by enhanced asset management capabilities aimed at expanding and diversifying the universe of investors. Additionally, the institution aims to expand its equity offerings including both equity and quasi-equity investments; fortify its local currency options; and develop its capacity to work upstream with increased advisory services capabilities and other tools to support the identification and development of upstream efforts. These measures will drive greater intentionality, mobilize private investment with new types of investors, increase IDB Invest’s competitiveness in the market, improve its value proposition for a broader range of clients and investors, and amplify its development impact and risk management capacity.
- 5.20. **To continue increasing its mobilization ratio, IDB Invest will revise incentives, strengthen systems, and continue developing new financial products.** A mobilization strategy will be developed, ensuring early integration of mobilization considerations in projects with

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<sup>68</sup> The backbone of an institution encompasses both the middle and back office. The middle office acts as a bridge between the front office and back office, providing vital support functions such as ensuring compliance with policies and procedures, valuations and facilitating efficient trade execution. The back office is responsible for the operational and administrative functions that support the institution’s day-to-day activities. The back office plays a vital role in maintaining accurate records, processing transactions, managing infrastructure, and supporting IDB Invest’s internal functions.

mobilization potential, and resources and capacity will be strengthened to mobilize more funds faster. Management will also analyze the creation of a dedicated team to manage mobilized resources and partners while they have an active exposure in projects under supervision. Underwriting capacity will be created for certain transactions with mobilization potential. To ensure a focus on impact and effective resource mobilization for projects in all countries, IDB Invest will re-risk higher-impact, riskier projects through financial and non-financial tools like blended finance. Furthermore, IDB Invest will continue leveraging synergies with IDB and IDB Lab to enhance mobilization efforts, including by supporting an adequate legal and regulatory environment to crowd in more private investors, and working with IDB Lab so it can add a share of high-risk assets to attract new mobilization partners.

- 5.21. **Investing greater amounts of equity will require comprehensively adopting equity processes and systems through a new equity approach.** IDB Invest's equity and quasi-equity offerings play a crucial role in realizing the ambitious goals of the New Vision, and greatly complement IDB Lab's portfolio of investments and experience in the field. Management will develop and present for Board approval a risk capital action plan, with a strong focus on fostering innovation, forging partnerships with fellow investors to mobilize resources for impactful ventures, advancing good corporate governance and environmental and social sustainability, and including a discussion of an approach to exit strategy. IDB Invest will also establish a dedicated equity process, reinforce its structuring and supervision capabilities, and update its systems to better manage its equity portfolio. A new dedicated valuation unit will support the increased volume and complexity of investments.
- 5.22. **Local currency financing solutions play a crucial role in the expansion of IDB Invest's impact and relevance in the region.** The New Vision aims to approximately double the share of local currency business across the region, offering diverse solutions that cater to the specific needs of each market and adapt to evolving requirements. To achieve this ambition, in addition to greater risk-taking capacity through fresh capital, IDB Invest will need to enhance its processes and systems for local currency financing and strengthen its dedicated workforce. Seasoned professionals, scalable systems, and revised end-to-end processes are required to handle the volume and complexity associated with growing local currency demand. IDB Invest will also strengthen efforts to work with the rest of the IDB Group on enhancing the enabling environment to support greater local currency lending.
- 5.23. **As IDB Invest expands the use of advisory services to enhance its impact and deploy upstream efforts, it will strengthen its non-financial products and their governance through a new advisory framework.** The value proposition of upstream efforts and advisory services is to strengthen the capacity for developing projects that maximize the potential of delivering impactful results. IDB Invest's advisory services will expand to cover earlier stages of the project cycle, including upstream market, client, and project readiness activities. This will complement and build on IDB Lab's work with nascent business segments and new technologies ("extreme upstream"), which can help IDB Invest gain a first mover advantage to scale them up. Additionally, advisory services will be better integrated into the supervision phase, helping clients manage risks and achieve their

expected impact. In line with OVE's recommendation, a comprehensive strategy and governance framework for advisory services will be developed to support the origination and implementation of high-impact projects. The governance of upstream efforts and advisory services must incorporate a strategic component that involves prioritizing initiatives to address country needs, market trends, and institutional priorities, as well as portfolio issues.

### **New Organizational Model**

- 5.24. **IDB Invest will need to revise its organizational model and adapt it to the New Vision.** As IDB Invest grows and seeks to deepen its understanding and support for countries' heterogenous development needs, it will need to evolve from its current industry-focused organizational structure towards a structure that balances industry and country perspectives. Enhancing field presence while increasing delegation of decision-making authority to the region and attracting a diverse pool of talent will be crucial to develop deeper engagement with countries and clients and identify projects that meet the most pressing development needs of the region. Successfully implementing the New Vision will also require updating IDB Invest's human capital and talent model to reflect changing needs and aligning its organizational culture and incentives with the greater ambition for impact and focus on mobilization.
- 5.25. **As part of IDB Invest's New Vision and as the organization grows, Management will assess the organizational structure and propose revisions in line with its evolving objectives and role.** Management will review the current organizational structure to ensure that the new capabilities required to implement the new business model are effectively integrated. Management will discuss changes with the Board and follow the governance mechanisms in place to implement them. The organizational structure will emphasize regionalization as a key element to complement the current sectoral specialization. This approach brings decision-making closer to the field, fostering a deeper understanding of both sector and country priorities and regional knowledge, resulting in more effective stakeholder dialogue and enhanced client proximity. Scalability is also fundamental, as IDB Invest will need to effectively handle the expansion of services such as equity, advisory, local currency solutions and mobilization, alongside growing business volume and complexity and the management of financial and non-financial risks. Additionally, the organization seeks to harness synergies with IDB and IDB Lab, leveraging their expertise and resources to improve its value proposition, mitigate risks when possible, and maximize the positive impact and sustainability of its operations.
- 5.26. **As part of the revision of the organizational structure, Management will reassess its approach to field presence, with a focus on continuing to decentralize people and beginning to decentralize decision-making while strengthening oversight.** Hiring local staff with a deep understanding of local needs has been a critical part of IDB Invest's success to date, and the local knowledge required to implement the New Vision will require continued growth in country offices. In addition to decentralizing people, a more decentralized decision-making approach—with corresponding controls to ensure continued alignment with institutional objectives—is a crucial step to enhance IDB Invest's effectiveness and

efficiency. It is also a natural evolution for a growing organization. This model will capitalize on the key function of country representatives, facilitating connections between IDB Invest and country dialogues and promoting synergies with the IDB Group. Country representatives play a critical role in driving IDB Invest's impact at the country level. It is therefore critical to ensure that representatives have a suitable profile that equips them to grasp the nuances of private sector needs and adeptly navigate interactions with crucial private sector stakeholders.

- 5.27. **The new operational scale will require substantial workforce growth, which will be carefully guided by a comprehensive workforce assessment and a focus on ensuring that IDB Invest's staff represent the diverse populations it seeks to support.** IDB Invest will need to build a substantially larger workforce with the necessary skills, knowledge, and experience to support the organization's new business model. Management will carry out a comprehensive workforce analysis to optimize talent utilization and ensure continued efficiency. At the same time, Management will explore options to enhance learning opportunities for existing staff to reskill for critical new competencies required for the New Vision. The scale of growth over the implementation phase of the New Vision will reshape IDB Invest's workforce, making it a critical period for ensuring the organization's staff reflects its commitments to gender equality, diversity, and inclusion.
- 5.28. **As it looks forward, IDB Invest will also rethink its human capital and talent model to align incentives and culture to the new business model, while maintaining staff engagement during a period of significant change.** Improving the capacity to attract, engage, and retain talent is a key focus for IDB Invest as it aims to implement its updated human capital and talent model. Management will revise its approach to culture, career growth, and incentives to align with the New Vision including an enhanced development effectiveness mindset throughout the project lifecycle, a focus on mobilization, and an IDB Group approach to synergies. Effective change management will be critical to ensuring a smooth transition, maintaining workforce engagement, and retaining talent. A dedicated change management effort will ensure that all stakeholders understand the significance of the transformation, fostering buy-in and cooperation throughout the organization.

#### **New IDB Group Synergies Framework**

- 5.29. **A framework to identify, incentivize, and prioritize public-private synergies among IDB, IDB Invest, and IDB Lab has been developed and presented to the IDB and IDB Invest Boards as part of the process for the Institutional Strategy for the IDB Group.**<sup>69</sup> The framework includes a taxonomy organized into three pillars: strategic, operational, and organizational synergies designed to achieve the framework's main goal of increasing the impact of the IDB Group. It also includes an implementation roadmap which is integrated into the Institutional Strategy Roadmap for Reforms. Strengthening the role of Country Representatives in IDB Invest will be fundamental to implement this framework, including reviewing responsibilities, incentives, and training, among other efforts. To track the overall

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<sup>69</sup> CII/GN-521-3. *IDB Group Synergies Framework*.

adoption of Group synergies, the framework proposes assessing potential KPIs that are included in the monitoring framework for the New Vision.

### **New Governance Model**

- 5.30. **The growth of IDB Invest since the merge-out of IDB Group private sector activities in 2015, and the expected increase in activities resulting from the implementation of the New Business Model, respectively, have had and will have resource and organizational implications for the Board of Directors.** In recent years, strategic engagement with the Board of Directors has increased for a number of reasons, including an increase in the number and complexity of operations, the significant revamping of IDB Invest’s policy framework, more systematic interaction with the IDB Group’s oversight functions, and the creation of a new Audit Committee of the Board of Directors with expanded functions to include risk oversight.<sup>70</sup>
- 5.31. **Looking ahead, as described in the preceding sections, a greater volume and complexity of operations, a bolder risk appetite, decentralization of the institution, and more streamlined approval processes are expected to support the New Business Model.** Accordingly, measures will be necessary to support the IDB Invest Board of Directors with its workload, organization, and strategic oversight as the institution moves into its next phase, while enhancing synergies and symmetries with the IDB Board of Directors. The recommended measures will be implemented at different times during the capitalization process and are described in detail in Chapter 6.B.

### **Implementation Risks**

- 5.32. **The implementation plan and capitalization proposal aim to identify and address implementation risks that will be monitored and managed through the monitoring framework for implementation.** Some of the salient risks and corresponding mitigating measures identified include:
- **Macroeconomic risks.** Changes in the macroeconomic context may affect many of the underlying assumptions of the impact, operational, organizational, and financial models proposed. The proposed gradual implementation and the stronger capitalization levels with increasing resilience and financial flexibility should help IDB Invest mitigate this risk by adapting its business model to the evolving context.
  - **Regional context.** Changes in the regional context may result in greater implementation risks related to country and project risks, which in turn could affect the ability of IDB Invest to re-risk and mobilize at the scale proposed. The proposed gradual implementation and the capitalization tranches with increasing levels of

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<sup>70</sup> By way of illustration, IDB Invest transactions have increased in complexity since the Merge-Out. Projects with just a senior loan component accounted for 89% of the total transactions approved in 2016, whereas in 2022, they constituted 59% as IDB Invest has progressively increased the use of other financial instruments to improve its value proposition to clients. In terms of sectors, the number of infrastructure projects increased from 12 in 2016 to 24 in 2022, and the percentage of projects with Financial Intermediaries decreased from around 60% prior to the Merge-Out to 27% in 2022. Between 2016 and 2022, IDB Invest more than doubled the number of projects in local currency. Finally, high ESG risk projects increased from 7% of total transactions in 2016 to 12% in 2022, and in some years even reaching 15% (2019).

resilience and flexibility should help IDB Invest react to changes in the regional context.

- **Ability to achieve impact aspirations and reach all impact KPIs.** The proposed impact KPIs associated with the new business model are more ambitious than IDB Invest’s current impact aspirations. The new impact model will require a significant increase in resources to develop a more impact-intensive line of work. The reinforced Impact Management Framework, including the strengthened DELTA tool and the sustainable portfolio approach, should help IDB Invest better identify and manage impact risks. The use of long-term impact targets beyond annual targets will also allow IDB Invest to make sure it achieves its impact aspirations on an aggregate level, and that, through the annual business plan updates, it takes the necessary corrective measures. The proposed financial scenarios should help the Board calibrate the impact risk associated with volumes of new capital.
- **Changes in operational, risk, and impact culture take time to materialize.** The new business model represents an important cultural change for IDB Invest. A dedicated change management effort and a project management office will allow IDB Invest to make sure its staff can develop and transition to the new way of working.
- **Attracting talent in the region.** The new business model will require a significant growth of the organization in the field. This is consistent with IDB Invest’s historic track record of significantly growing its workforce in the field but will also require addressing some of the challenges identified throughout the process. The new approach to field presence and the implementation of the people strategy will take these elements into consideration to ensure a smooth implementation.
- **Implementing new service lines will imply a learning curve.** New approaches proposed in the new business model, such as the provision of upstream work, and a greater focus on re-risking will require testing and learning before they become an integral part of the new value proposition. The gradual approach proposed, and the monitoring framework will allow Management and the Board to take stock and calibrate the deployment of these new approaches.
- **Materialization of IDB Group synergies.** The New Vision relies on IDB Invest improving the way it works with the IDB and IDB Lab so it can better leverage and complement their work to achieve greater collective impact. This will not only require a cultural change within IDB Invest, but also a greater understanding and support for development through the private sector across the IDB Group. The proposed synergies framework includes the necessary elements to ensure alignment throughout the Group and a series of enablers that should help manage this risk.

## 6. MECHANICS OF THE CAPITAL INCREASE AND INSTITUTIONAL CONSIDERATIONS

- 6.1. **This section describes the mechanics for the implementation of a third general capital increase of IDB Invest (“GCI-III”) to support the institution’s New Vision and Business Model, and related institutional considerations.** Section A describes the key elements of a

capital increase process and sets out recommended parameters for a GCI-III based on prior capital increases. Section B describes certain institutional considerations to be addressed as part of a GCI-III and in the implementation of the New Vision and Business Model. Annex II sets out a proposed resolution of the Board of Governors to implement GCI-III as described below.

#### **A. The Mechanics of the IDB Invest 2.0 Capital Increase**

- 6.2. A capital increase process consists of five main elements: (i) authorization to increase capital, (ii) allocation of shares, (iii) subscription of shares, (iv) payment of shares, and (v) mechanisms to address non-subscription and non-payment of shares. The following paragraphs describe each of the five elements and recommendations on how they may be structured in the context of a GCI-III.
- 6.3. **Authorization to Increase Capital.** Pursuant to the Agreement Establishing the Inter-American Investment Corporation (the “IDB Invest Charter”), the Board of Governors may increase the authorized capital stock of the institution by a majority representing at least three-fourths of the votes of the members, which shall include two-thirds of the Governors (32 Governors).<sup>71</sup> The quorum required to carry out such a vote is a majority of the Governors (25 Governors) representing at least two-thirds of the votes of the members.<sup>72</sup>
- 6.4. Management recommends that the Board of Governors authorize a capital increase in the amount of US\$3.5 billion per the capitalization proposal described in the preceding section. The proposed resolution attached as Annex II hereto reflects such authorization and includes other implementing terms and conditions for GCI-III as further described below.
- 6.5. **Allocation of Shares.** In the event of a capital increase, pursuant to the IDB Invest Charter, each member country is entitled to a percentage of the increased shares equivalent to the proportion which its subscribed shares bear to the total capital of IDB Invest.<sup>73</sup> This right is referred to as a preferential subscription right (“PSR”). No member is obligated to subscribe to any part of the increased capital.<sup>74</sup>
- 6.6. For GCI-III, in accordance with the IDB Invest Charter, the allocation of shares to members will be based on the proportion which the subscribed capital of each member bears to the total capital of IDB Invest, unless a different allocation is established by the Board of Governors and the corresponding PSRs are waived. The proposed resolution attached as Annex II hereto specifies the percentage of each member’s subscribed capital in relation to the total capital of the institution. Box 1 describes how shares were allocated in prior general capital increases.

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<sup>71</sup> IDB Invest Charter, Article II, Section 2(c).

<sup>72</sup> IDB Invest Charter, Article IV, Section 2(e).

<sup>73</sup> IDB Invest Charter, Article II, Section 5.

<sup>74</sup> Idem.

**BOX 1: Overview of the allocation of shares in the First General Capital Increase (GCI-I) and the Second General Capital Increase (GCI-II) of IDB Invest**

GCI-I

The Board of Governors approved a \$500M GCI-I in 1999 with a share allocation aligned with the members' subscribed capital at the time.<sup>1</sup> In 2001, the Board of Governors approved an amendment to the GCI-I authorization to modify the share allocation by reducing the shareholding of certain countries and increasing that of others.<sup>2</sup> The amendment provided for (i) the release of shares by existing members to allow for the admission of five new members (Belgium, Finland, Norway, Portugal, and Sweden) and an increase in the participation of Japan and Spain in the capital stock of the institution; and (ii) the reduction in the allocation of shares to Chile and Colombia to provide additional shares for Peru. The member countries that reduced their shareholding and waived their PSRs to implement the 2001 amendment were the group of Latin American and Caribbean members (except Venezuela), Germany and the United States.

GCI-II

The Board of Governors approved GCI-II pursuant to the Busan Resolution,<sup>3</sup> which contemplated that the capital increase would consist of two capitalization tranches: (i) US\$1.3 billion payable by the members of IDB Invest that subscribed shares in GCI-II (the "Direct Capitalization Tranche"), and (ii) US\$725 million in capital transfers paid to IDB Invest by the Inter-American Development Bank ("IDB") on behalf of IDB members (the "IDB Transfers").

The shares corresponding to the Direct Capitalization Tranche were allocated to IDB Invest members pro rata based on their subscribed shareholding in IDB Invest subject to an adjustment to allow for the allocation of shares to three potential new members. Ultimately, the three potential new members did not subscribe capital under the Direct Capitalization Tranche so no PSRs had to be addressed with respect to that Tranche.

The shares corresponding to the IDB Transfers were allocated to IDB Invest members pro rata based on their IDB shareholding. IDB and IDB Invest member countries hold different ownership interests in each institution, which meant that IDB Invest members that held a smaller ownership interest in IDB than in IDB Invest would be diluted as a result of the IDB Transfers and, therefore, that PSRs had to be addressed for those members.

<sup>1</sup> Governors' Resolution CII/AG-5/99.

<sup>2</sup> Governors' Resolution CII/AG-2/01.

<sup>3</sup> Governors' Resolution AG-9/15 and CII/AG-2/15 (the "Busan Resolution").

- 6.7. **Subscription of Shares.** Shares may be offered for subscription upon authorization of a capital increase. The conditions of the capital increase typically prescribe the deadline for members to subscribe shares. In GCI-II, the Board of Governors established a share subscription period of 180 days from the authorization of the capital increase and delegated to the Board of Directors the authority to extend such period. For subsequent subscriptions of shares in the context of the GCI-II reallocation exercises, the Board of Directors established a subscription period of 90 days from the date of the corresponding offer letters.
- 6.8. During the subscription period, interested members submit a subscription letter, indicating the number of shares subscribed and the commitment to pay the corresponding price. IDB Invest (like other multilaterals) has accepted contingent subscription instruments to accommodate member countries' internal processes, such as legislative approvals and country budget planning cycles. Such contingencies have not modified the conditions, including payment due dates, of the shares issued by the institution.

6.9. For GCI-III, considering the need to accommodate member countries' internal approval processes, Management recommends that the Board of Governors specify a subscription period of two years following the authorization of the capital increase and authorize the Board of Directors to extend such period. In addition, consistent with precedent, the subscription instrument may be contingent on budget appropriations and other approvals. Shortly after the capital increase authorization, Management would send offer letters to all member countries, which would include model subscription instruments with contingency provisions, and other payment details.

6.10. **Payment of Shares.** Set out below is a summary of the payment terms established by the Board of Governors for prior capital increases and recommended payment terms for GCI-III.

**a) Price of Shares.**

GCI-I and GCI-II: The IDB Invest Charter established a par value of \$10,000 per share in relation to the initial paid-in capital of the institution.<sup>75</sup> No specific subscription price is mandated by the Charter for subsequent paid-in capital. In GCI-I, the Governors set the price of the shares at US\$10,000. In GCI-II, the Governors set the base price of the shares at US\$16,178.60 reflecting a premium above par value intended to account for IDB Invest's retained earnings and cumulative inflation.<sup>76</sup>

GCI-III: For GCI-III, and consistent with GCI-II, the recommended base price per share is [US\$21,000], which is equal to par value plus a premium to reflect retained earnings, cumulative inflation, and other considerations since the last capital increase (GCI-II).

- Retained earnings coefficient = 0.26601
- Inflation Coefficient = 1.82881
- Coefficient = 0.26601 + 1.82881 = 2.09482
- Premium = 1.09482 \* \$10,000 = \$10,948
- Price value of additional shares = Par Value + Premium
- \$20,948<sup>77</sup> = \$10,000 + \$10,948

The price of additional shares determines the number of shares to be issued. The US\$ 3.5 billion capitalization proposal would result in 166,666 additional shares being issued.<sup>78</sup>

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<sup>75</sup> IDB Invest Charter, Article II, Section 2(b).

<sup>76</sup> Busan Resolution, Article 12 and Document CA-556 and CII/CA-165, "Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out", paragraph 4.46.

<sup>77</sup> Share price calculation is based on data from September 30, 2023, and the resulting share price has been rounded to \$21,000.

<sup>78</sup> Considering the 196,039 shares, projected to be subscribed by the end of the GCI-II, the total number of shares would be 386,515.

- $\$3,500,000,000 / \$21,000 = 166,666$  shares

**b) *Payment Schedule and Other Terms.***

*GCI-I and GCI-II:* In GCI-I, the Board of Governors established that the new shares would be payable in U.S. dollars and in eight equal consecutive annual installments due on October 31 of each of the eight years.<sup>79</sup> In GCI-II, the Board of Governors established that the new shares payable with fresh capital would be payable in seven consecutive annual installments due on October 31 of each of the seven years.<sup>80</sup> The GCI-II installments were sized in varying amounts to align the flow of capital with deployment capacity. The fresh capital installments were complemented by eight annual consecutive transfers from IDB that started in 2018.<sup>81</sup> In both GCI-I and GCI-II, the Board of Governors delegated to the Board of Directors the authority to extend the payment dates. Finally, IDB Invest accepted both cash and promissory notes for payment of the GCI-I shares.<sup>82</sup> However, the notes had to be encashed per the eight-year payment schedule for the corresponding voting power to be recognized. Payments for GCI-II shares were made in cash in U.S. Dollars.

*GCI-III:* Consistent with prior capital increases, Management recommends that payment for new shares in a GCI-III be made in seven consecutive and equal installments from 2025 through 2031. To adapt the payment schedule to the proposed subscription period expected to end on March 10, 2026, payment of the first installment would be due by each member country on November 30, 2025, or within thirty calendar days after it presents its subscription instrument, whichever is later. The remaining installments would be due on November 30 of each year from 2026 to 2031. Payments would be made in cash in U.S. Dollars. While promissory notes may be presented to IDB Invest for payment of the shares, the notes would have to be available to be encashed in U.S. Dollars and per the payment schedule for the corresponding voting power to be recognized. Finally, Management recommends that the Board of Governors delegate to the Board of Directors the authority to extend the payment deadlines.

**c) *Issuance of Voting Power.***

*GCI-I and GCI-II:* The Charter provides that each member country shall have one vote for each fully paid share held by it.<sup>83</sup> In both GCI-I and GCI-II, to avoid fluctuations in the countries' voting power during the course of the annual payment periods, the Board of

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<sup>79</sup> Governors' Resolution CII/AG-5/99, as amended.

<sup>80</sup> Busan Resolution, Annex A.

<sup>81</sup> Busan Resolution, Annex B.

<sup>82</sup> Governors' Resolution CII/AG-5/99, as amended.

<sup>83</sup> IDB Invest Charter, Article IV, Section 3(a).

Governors expressly provided that paid-in shares and their accompanying voting power would be issued at the end of each corresponding payment period or, in the case of arrears, at the end of the payment period in which payment for the shares was received.<sup>84</sup> Further, in GCI-II, the voting power was issued in accordance with the approved contribution schedule, regardless of advance payments made.

GCI-III: Consistent with prior capital increases and to avoid voting power fluctuations during payment periods, Management recommends that the Board of Governors establish that the shares and their accompanying voting power be issued at the end of each corresponding payment period in accordance with the approved contribution schedule. In the case of arrears, the voting power would be issued at the end of the installment period in which payment for the shares is received. The recognition of the voting power for the shares corresponding to the first installment, for which there are two potential payment due dates, would be as detailed in the proposed resolution in Annex II.

- 6.11. **Mechanisms to Address Non-Subscription and Non-Payment of Shares.** IDB Invest has experienced two capital increases to date – GCI-I and GCI-II. GCI-II was markedly more successful than GCI-I in that all but one member country paid for the new shares with few delays. Also, new shares that were not subscribed or paid for by member countries on a timely basis were promptly reallocated among other member countries, thereby mitigating the risk that the capitalization would not be completed. GCI-I was less successful in that the payment of shares and the reallocation of unsubscribed shares were significantly delayed. In fact, while GCI-I was approved in 1999, payments from member countries were still pending as of 2016.
- 6.12. The key difference in the design of the two capital increases was that Governors incorporated two subscription and payment incentive mechanisms as part of the terms and conditions of GCI-II that had not formed part of the GCI-I framework. These incentive mechanisms, which are described below, proved to be critical to the success of GCI-II.
- a) Price Increase.** One of the payment incentive mechanisms was the establishment of a price increase for shares that were not paid on a timely basis. Pursuant to the Busan Resolution, the price of GCI-II shares not paid within the respective annual payment period had to be adjusted to reflect a 5% increase for each year of arrears.<sup>85</sup> The shares corresponding to the first installment that were fully paid by the end of the second installment were not subject to the price adjustment so as to allow countries sufficient time to obtain the necessary budget appropriations for the payment of the shares. This

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<sup>84</sup> Resolution CII/AG-5/99, as amended, and the Busan Resolution.

<sup>85</sup> Busan Resolution, Annex A.

mechanism proved effective in incentivizing timely payments as only 0.61% of the total GCI-II paid-in capital contributions correspond to the share price increase.

**b) Share Reallocation.** The other subscription and payment incentive mechanism was the establishment of a share reallocation framework, which was used to promptly reallocate 25,900 shares that were unsubscribed or released at the beginning of the GCI-II capitalization process and 6,137 shares that became available automatically due to non-payment on the final payment date of the Direct Capitalization Tranche. Box 2 below provides further details regarding the GCI-II share reallocation terms and conditions.

#### **BOX 2 Terms and Conditions for the Reallocation of GCI-II Shares**

##### **Reallocation Parameters Established by the Board of Governors**

At the time of approval of GCI-II, the Board of Governors mandated the establishment of a share reallocation process as part of the capitalization terms and conditions and set out the following key parameters in the Busan Resolution to guide the Board of Directors in the design of the process:

1. New shares not subscribed or paid for in accordance with the GCI-II terms, and any new shares for which a subscription is canceled, shall be promptly reallocated among members with the goal of ensuring timely and complete capitalization of IDB Invest.
2. The details of the share reallocation mechanism shall be defined by the Board of Directors within 150 days after the GCI-II capital increase approval.
3. In carrying out any reallocations, the Board of Directors:
  - a) Shall ensure that no change in the distribution of GCI-II shares will cause, at the end of the Capitalization Period, the voting power of the regional developing member countries as a group to fall below 54%.
  - b) Are authorized to allow Peru, Colombia, and Chile to reallocate their respective share allocations among them to maintain their relative parity of voting power in IDB Invest.
  - c) Shall ensure that GCI-II shares are reallocated only to members that are in good standing with respect to their obligations with IDB Invest.
  - d) Shall develop an expedited mechanism to reassign shares that remain unsubscribed at the end of the subscription period, or that are released during the capitalization, whenever such shares in the aggregate exceed 20% of the total new authorized shares.

##### **Reallocation Terms and Conditions Established by the Board of Directors per Delegation from the Board of Governors**

Based on the above parameters established by the Board of Governors, the Board of Directors determined in Document CII/GN-305-2, "Second General Capital Increase: Proposals for Reallocation of Shares", the detailed terms and conditions to reallocate unsubscribed, released or unpaid GCI-II shares, which are summarized below:

1. *Initial GCI-II share reallocation:* The Board of Directors determined that the 25,900 shares that remained unsubscribed at the end of the initial subscription period would be reallocated as follows:
  - a) Shares would be allocated first to members that did not waive their PSRs in relation to the Annex B shares (IDB Transfers) and the admission of three new members.

- b) The remaining shares would be allocated to eligible members based on expressed interest while giving consideration to newly admitted members, active contributors to IDB Group NSG operations and no single member taking the remaining shares, among other criteria.

2. *Subsequent GCI-II share reallocations:* The Board of Directors determined that any GCI-II shares that were released or remained unpaid in the following circumstances would be offered to interested eligible members based on each member's subscribed capital relative to the subscribed capital of all other interested eligible members:

- a) at the end of the payment period for the Direct Capitalization Tranche (Annex A shares), or
- b) whenever available shares exceed 20% of the shares issued under the Busan Resolution, or
- c) whenever the Secretary so proposes, and the Board of Directors deems it necessary in furtherance of the goal of ensuring the timely and complete capitalization of IDB Invest.

6.13. In line with the successful precedent established by GCI-II, the following incentive mechanisms are recommended for GCI-III:

**a) Price Increase.** The price of GCI-III shares not paid within the respective annual payment period should be adjusted to reflect a 5% increase for each year of arrears, subject to a grace period. To allow countries sufficient time to process internal authorizations related to appropriations for the acquisition of shares, the shares corresponding to the first and second installments that are fully paid by the end of the third installment would not be subject to the price adjustment. In addition, no price increase would apply to any New Shares subscribed by a member country if the member country pays the total outstanding amount for all its subscribed New Shares by the fourth installment due date.

**b) Share Reallocation.** Any GCI-III shares that are not subscribed or paid for in accordance with the applicable terms, and any shares for which a subscription is canceled, should be promptly reallocated by the Board of Directors among IDB Invest shareholders with the goal of ensuring timely and complete capitalization of IDB Invest. Management recommends that the Board of Governors consider the following reallocation terms and conditions, and delegate to the Board of Directors the authority to define any other reallocation terms and conditions:

- No change in the distribution of GCI-III shares would cause, at the end of the capitalization period, the voting power of the regional developing member countries as a group to fall below 54%.<sup>86</sup>

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<sup>86</sup> The IDB and IDB Invest are unique among multilateral development banks in that, since their establishment, a majority of the voting power has been held by the regional developing member countries. In GCI-I, the IDB Invest Governors expressed an interest in preserving at least an absolute majority shareholding for the regional developing member countries (Document CII/CA-65-1, "Understanding for the Admission of New Member Countries to the Inter-American

- The Board of Directors may allow Peru, Colombia and Chile to reallocate their respective share allocations among themselves so as to maintain their relative parity of voting power in IDB Invest.<sup>87</sup>
- GCI-III shares would be reallocated only to countries that are in good standing with respect to their obligations with IDB Invest.
- Share reallocation would be based on subscribed shareholding except for the first reallocation round that may take place following the end of the subscription period during which the Board of Directors shall give a preference to IDB Invest members admitted after the approval of GCI-II on March 30, 2015. The Board of Governors and the Board of Directors may establish other share reallocation criteria.

### ***B. Institutional Considerations: Organization, Functioning and Resources of the Board of Directors***

6.14. This section describes certain institutional recommendations relating to the organization, functioning and resources of the Board of Directors that are intended to achieve greater synergies and symmetries with the IDB Board of Directors and support the Board in the implementation of the New Vision and Business Model.

#### **Creation of a New Chair on the IDB Invest Board of Directors**

6.15. Since GCI-I, the non-regional member countries of IDB Invest and Canada have increased from 10 to 21 members and from 20.71% to a projected 30.95% aggregate voting power at the end of GCI-II. In recognition of such growth and to promote greater symmetries with the IDB Board of Directors, the IDB Invest Charter should be amended to create an additional Chair on the IDB Invest Board of Directors to represent non-regional member countries and Canada. The chairs on the IDB Invest Board of Directors would total 14 as is the case with the IDB Board of Directors.

6.16. To provide historical context for the creation of an additional Board Chair, in the discussions leading up to IDB Invest's GCI-I,<sup>88</sup> given expected increases in the membership and voting

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Investment Corporation"). In GCI-II, the Board of Governors mandated that in carrying out any reallocations, the Board of Directors must ensure that no change in the share distribution will cause, at the end of the capitalization period, the voting power of the regional developing member countries as a group to fall below 54%. Such mandate expires at the end of the GCI-II capitalization period in 2025. The percentage corresponding to GCI-III may need to be updated depending on the subscription of the GCI-II shares pending reallocation.

<sup>87</sup> This reallocation constitutes a transfer of shares among members. Pursuant to Article II, Section 4 of the IDB Invest Charter, the Board of Governors may approve transfers of shares among members by a majority of the Governors representing four-fifths of the votes of the members.

<sup>88</sup> Document CII/CA-65-1, "Understanding for the Admission of New Member Countries to the Inter-American Investment Corporation" ("1999 Paris Agreement"), points 2, 9 and 12.

power of non-regional members, the IDB Invest Committee of the Board of Governors contemplated the possibility of amending the IDB Invest Charter to increase the number of Chairs on the Board of Directors from 13 to 14 to represent non-regional members. There was an expectation that seven non-regional countries<sup>89</sup> would join IDB Invest and that approximately 6% voting power would be allocated among them. The Board of Governors reached an understanding<sup>90</sup> that if such countries joined IDB Invest and subscribed no less than 6% of the voting power in GCI-I, a targeted Charter amendment would be pursued to create an additional Chair on the Board of Directors. The 6% threshold was not met; hence the new Chair was not added to the Board of Directors.<sup>91</sup>

- 6.17. It is worth noting that in the context of IDB's GCI-8, the IDB Board of Governors approved a targeted amendment of the IDB Charter to add two Chairs on the Board of Directors, one to represent regional members and the other non-regional members.<sup>92</sup> The changes to representation on the IDB Board of Directors were made in conjunction with changes in voting power made to accommodate an increase in the aggregate voting power of non-regional members from approximately 7% to almost 16%.
- 6.18. An amendment to the IDB Invest Charter requires approval by a qualified majority representing at least four-fifths of the votes of the member countries, including two-thirds (32) of the Governors.<sup>93</sup> The quorum required for such vote is a majority of the Governors (25) representing at least two-thirds of the votes of the members.<sup>94</sup> Countries would need to obtain internal approvals to vote on the Charter amendment, including in some cases parliamentary approvals.<sup>95</sup> Both the Charter amendment approval process and the share subscription process would be launched following the approval of GCI-III by the Board of Governors at the 2024 Annual Meeting. The Board of Governors would delegate to the Board of Directors the authority to extend the GCI-III share subscription and/or the Charter amendment periods as may be needed. In addition to the Charter amendment, a corresponding amendment would be required to the Regulations for the Election of the Executive Directors (the "Election Regulations").<sup>96</sup>

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<sup>89</sup> Belgium, Canada, Finland, Norway, Portugal, Sweden and United Kingdom.

<sup>90</sup> 1999 Paris Agreement, points 2, 9 and 12.

<sup>91</sup> Document CII/AB-730, "Interim agreement for the admission of new member countries into the Inter-American Investment Corporation".

<sup>92</sup> IDB Governors' Resolution AG-12/95.

<sup>93</sup> IDB Invest Charter, Article VIII, Sec. 1.

<sup>94</sup> IDB Invest Charter, Article IV, Sec. 2(e).

<sup>95</sup> The IDB Invest Charter specifies that, once a Charter amendment is adopted by the Board of Governors, it shall enter into force for all members three months after the date of the official communication from IDB Invest to its members of the adoption, unless the Board of Governors specifies a different period. (Article VIII, Sec. 3)

<sup>96</sup> A corresponding amendment to the Regulations for the Election of Executive Directors requires approval by a qualified majority representing at least two-thirds of the total voting power of the member countries including a two-thirds majority of the number of Governors for the regional developing members and a two-thirds majority of the number of Governors for the other member countries.

- 6.19. Finally, it would be important for non-regional member countries and Canada to begin negotiating new constituency arrangements to change from three to four non-regional Chairs so that their representation on the IDB Invest Board of Directors may be defined by the time the Charter amendment becomes effective. In redefining constituency arrangements, member countries should seek to mirror IDB Invest Board constituency arrangements with those of the IDB Board so as to strengthen synergies and efficiencies between IDB and IDB Invest, while recognizing that differences in voting power among members of IDB and IDB Invest limit the possibility of achieving full alignment.
- 6.20. The Election Regulations establish how Executive Directors are elected to represent specific member countries. In the case of the non-regional members and Canada, the Election Regulations provide that “the three candidates receiving the largest number of votes shall be Executive Directors, provided that no person shall be deemed elected unless the person has received the votes of two or more Governors”.<sup>97</sup> Pursuant to the IDB Invest Charter, Executive Directors are entitled to cast the votes of the member countries whose votes counted towards their election.<sup>98</sup> Therefore, constituencies are formed to represent groups of member countries through the Executive Director who is entitled to cast their votes, with each constituency for the non-regional members and Canada holding the voting power of at least two Governors. In addition, negotiated agreements exist among groups of member countries to reflect rotation and other arrangements.
- 6.21. The creation of a new chair provides an opportunity to promote symmetries and synergies between the IDB and IDB Invest Boards of Directors while recognizing differences in member countries’ voting power between the two institutions and the need for members to have flexibility to negotiate constituency arrangements. In support of a balanced distribution of voting power and member representation among the four chairs, the Election Regulations could be amended as reflected in the proposed resolution in Annex II to establish that the election of Executive Directors by non-regional members and Canada requires the vote of no less than three (instead of two) Governors. The amendments to the Election Regulations would take effect at the same time as the amendment to the IDB Invest Charter.

**Additional resources, organization, and oversight functions.**

- 6.22. Additional resources for the Board of Directors, changes to the Board’s committee structure and further strengthening of the oversight functions will be reviewed in parallel with the implementation of the New Business Model, which is expected to occur gradually over the coming years, while considering comparator practices in the context of IDB Invest’s nature, scale and mandate.

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<sup>97</sup> Document CII/AB-8-1, Part I, Sec. 3(c)(ii).

<sup>98</sup> IDB Invest Charter, Article IV, Sec. 4(f).

## **ANNEX I – DEFINITIONS OF CORPORATE SCORECARD INDICATORS**

Current definitions of the indicators included on the corporate scorecard are included below. In the case of some indicators which are proposed to be developed as part of the implementation plan, but which do not yet exist, there is a reference to the implementation plan milestone that is expected to include the development of the corresponding definition. The indicators are from a wide range of sources including the corporate results/impact framework, the financial risk framework, and the business plan and may be revised in consultation with the Board as part of a revision of the corresponding sources. This indicative set of KPIs will be adjusted as needed based on both the conversations with the Board of Executive Directors related to IDB Invest's New Vision and the IDB Group's Institutional Strategy and Corporate Results/Impact Framework<sup>99</sup>. This will help harmonize indicators at the IDB Group level while not compromising the Group's level of ambition.

### **IMPACT INDICATORS**

Social Agenda Total: *The percentage of the number of long-term commitments supporting MSMEs, GDI projects, or Poverty and Vulnerability.*

MSME Commitments: *The percentage of the US\$ (or US\$ equivalent) volume of total commitments (ST and LT) supporting MSMEs.*

P&V: *The percentage of the number of long-term commitments that directly benefit poor and vulnerable populations as identified by the DELTA.*

GDI Analysis: *Gender analysis is a necessary condition for Mainstreaming. This indicator entails a gender analysis for all operations by identifying the key gaps and issues affecting women/girls and men/boys, and diverse population groups. The indicator tracks the percentage of the number of long-term commitments that undergo a gender screening process to identify gaps and implement inclusion opportunities related to gender equality. IDB Invest will calibrate transactions in a tier system based on the depth of gender equality elements with a view to transition to tracking depth of mainstreaming.*

GDI Projects: *The percentage of the number of long-term commitments supporting gender and/or diversity that meet the conditions for alignment as defined in the corporate results/impact framework.*

DI Projects: *The percentage of the number of long-term commitments supporting diversity that meet the conditions for alignment as defined in the corporate results/impact framework.*

GDI Disaggregated Data: *The percentage of the number of long-term commitments that collect information disaggregated by sex and/or ethnicity/race.*

Green Finance: *The percentage of long-term commitments and third-party funds (in US\$ or US\$ equivalent, including core mobilization and blended finance) that qualify as green finance as per the Green Finance Tracking Methodology at the IDB Group (CII/GN-490). Effectively, this includes everything that qualifies as climate finance, plus environmental sustainability objectives as identified in CII/GN-490.*

Climate Finance: *The percentage of long-term commitments and third-party funds (in US\$ or US\$ equivalent, including mobilization and blended finance) that qualify as climate finance according to the Joint MDB Approach to Climate Finance Tracking.*

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<sup>99</sup> If needed, the Corporate Results/Impact Framework (or its equivalent) developed following the new IDB Group's Institutional Strategy may include a revised version of this Annex IV.

Climate Integration: *The percentage of the number of long-term commitments that support green finance. A project is considered to support green finance when its use of proceeds includes the joint methodology and/or accompanying the client to develop a long-term climate or biodiversity strategy as a roadmap to align with the Paris Agreement goals.*

Adapted Assets: *The definition of this indicator is under discussion by an MDB working group. The objective is to capture the value of physical assets secured by investments in climate adaptation.*

C&D Portfolio: *The percentage of US\$ (or US\$ equivalent) of IDB Invest outstanding in small and vulnerable economies.*

S&I Long-Term Commitments: *The percentage of US\$ (or US\$ equivalent) long-term commitments dedicated to S&I countries. Regional projects are divided equally between eligible countries.*

S&I Short-Term Commitments: *The percentage of US\$ (or US\$ equivalent) short-term commitments dedicated to S&I countries. Regional projects are divided equally between eligible countries.*

Median DELTA score (ex-ante): *Median DELTA Score of long-term commitments.*

Strategic Selectivity Indicator: *New Indicator to be created as part of the milestones for implementing the Strategic Selectivity framework.*

Active projects with satisfactory performance classification: *Percent of projects in the active (outstanding) portfolio that have a satisfactory performance in a given year as rated by the DELTA tool.*

Projects with positive development results at completion: *Percent of number of projects that reached Early Operating Maturity (EOM) during the year and received a “Mostly Successful”, “Successful,” or “Highly Successful” rating by OVE in the six-point overall project outcome classification range in the Expanded Supervision Report (XSR).*

## Baseline and ambition for impact indicators

Indicator	Unit of Measure	2016	2017	2018	2019	2020	2021	2022	Target 2023	2.0 Ambition
Social Agenda Total	%			65%	63%	74%	75%	60%	-	70%
MSME Commitments	%			32%	41%	38%	37%	33%	30%	30%
P&V	%	10%	25%	27%	30%	36%	27%	31%	-	-
GDI Analysis	%								-	100%
GDI Projects	%	10%	18%	23%	26%	32%	50%	37%	30%	60%
DI Projects	%							2.8%	-	25%
GDI Disaggregated Data	%								-	100%
Green Finance	%								-	60%
Climate Finance	%				53%	47%	33%	49%	<sup>100</sup>	55%
Climate Integration	%		35%	51%	45%	48%	53%	61%	40%	60%
Adapted Assets	-								-	-
C&D Portfolio	%	48%	46%	45%	45%	43%	42%	42%	40%	40%
S&I Long-Term Commitments	%	13%	1%	4%	6%	4%	7%	10%	10%	10%
S&I Short-Term Commitments	%	11%	0%	6%	10%	14%	5%	10%	10%	10%
Median DELTA score ex-ante	value	7.7	8	8.2	8.5	8.7	8.6	8.4	8	8
Strategic Selectivity Indicator	-								-	TBD
Active projects with satisfactory performance classification	%				69%	61%	57%	65%	≥ 70	≥ 70
Projects with positive development results at completion	%	43%	58%	41%	58%	61%	62%	51%	≥ 65	≥ 65

## OPERATIONAL INDICATORS

### Plan of Operations Indicators

Long-Term Commitments: IDB Invest's own account long-term commitments in US\$ (or US\$ equivalent).

Short-Term Average Outstanding: The arithmetic mean of IDB Invest's own account outstanding short-term lending.

Long-Term Core Mobilization: The sum of public and private third-party financing or risk transfers, inclusive of resources under management from donors (on a market basis), committed to IDB Invest long-term operations due to the active and direct involvement of IDB Invest in securing the financing commitment. For the financial scenarios, the Long-Term Core Mobilization is broken down to two components: Long-Term Primary Mobilization<sup>101</sup> and Risk Transfers.

### Financial Lever Envelopes

Upstream and TC Facility: Estimated annual retained earnings in US\$ allocated to upstream, technical cooperation and advisory activities.

Risk Transfers: A component of Long-Term Core Mobilization attributable to risk transfers or secondary sales to public and private third-party financiers that increases IDB Invest's capacity to mobilize.

<sup>100</sup> IDB Invest has a climate finance target of 30% for 2023, however this target differs from the proposed target because it includes short term climate financing and does not include climate mobilization.

<sup>101</sup> Long-term Primary Mobilization: A component of Long-Term Core Mobilization attributable to new financing that is mobilized on a funded basis for the Region. Please also refer to the definitions of Long-Term Core Mobilization and Risk Transfers.

Equity investment (% of DRAs): *Proportion of development related assets invested in equity, quasi-equity, and mezzanine products recognized as equity or equity-like from an economic capital perspective. This includes both direct and indirect investments through funds.*

Local Currency (% of LT lending DRAs): *Proportion of long-term development related assets, excluding Equity Investments, where the client's effective exposure is to one of the currencies of IDB Invest's 26 regional developing member countries.*

CCC-like projects (% of lending DRAs): *Proportion of development related assets invested in riskier companies, geographies, sectors, etc. recognized as CCC-like debt investments from an economic capital perspective.*

## **INSTITUTIONAL MONITORING INDICATORS**

Development Related Assets (DRA) Exposure: *Book value of the investments carried by IDB Invest with the primary purpose of promoting the economic development of IDB Invest's Regional Developing Member Countries by encouraging the establishment, expansion, and modernization of private enterprises.*

Total Assets Under Management (AUM): *Book value of the investments that IDB Invest manages for its own account and on behalf of others inclusive of B Loans, third-party funds and cross-booked transactions among others.*

Impaired Assets / Total Portfolio: *Proportion of Development Related Assets marked as impaired, also known as non-performing loan (NPL) ratio.*

Cost to AUM: *The ratio of operating expenses to the Total Assets under Management (AUM).*

Liquidity Coverage Ratio (LCR): *Policy-based liquidity coverage ratio as defined in CII/FN-61-5.*

Capital Adequacy Ratio (CAR): *Policy-based capital adequacy ratio as defined in CII/FN-60-12.*

Mid and senior-level IDB Invest staff who are women (C and above): *The ratio of the number of mid and senior-level staff members at IDB Group who are women over the total number of mid and senior-level staff members at IDB Group. Mid and senior-level staff members include all those at grade 4 and above grade C and above at IDB Invest.*

Staff diversity: *Indicator to be developed as part of the IDB Group CRF.*

Decentralization (mid and senior level in the region): *New indicator to be developed as part of the implementation milestones.*

## **PROJECTED OUTCOME INDICATORS**

MSMEs: *Number of formal and informal MSMEs that receive loans or equity from IDB Invest. The determination of what is considered a Micro, Small or Medium enterprise (MSMEs) is based on the common reporting definition of SME and/or the definition used by the financial intermediaries supported, to categorize its loan portfolio according to the size of sub-borrowers. Financial intermediaries usually adopt the country's classification defined by the Financial Institutions Regulator. In the case of micro-enterprises, a single entrepreneur may be counted as one if working independently, but any productive entity consisting of more than one individual should only be counted once.*

Jobs supported: *the number of full-time equivalent (FTE) employees working for the investment project, client company in the real sector, investee firms of funds, or MSMEs reached through financial intermediaries.*

Broadband access: *Number of individuals provided with new 4G/LTE mobile network coverage as a result of IDB Group supported operations.*

Women direct beneficiaries: *Number of women who receive support from IDB Group initiatives aimed at economic empowerment, which mainly focus on improving labor market outcomes, improving workplace conditions/benefits, and expanding opportunities for entrepreneurship.*

P&V: *Number of poor and vulnerable beneficiaries of IDB Invest's projects are defined as the number of individuals living below the national poverty line or another nationally recognized poverty measure (poor population), with an income of \$5.5 to \$13 dollars a day per capita at Purchasing Power Parity 2011*

*(vulnerable population) or living above the poverty line but below the national median income (low-income population).*

Farmers supported: *The number of farmers with improved access to agricultural services and investments from IDB Invest.*

Reduction of emissions: *This indicator measures the annual tons (in millions) of CO2 equivalent emission reductions, or sequestration, expected to be produced by climate change mitigation projects supported by IDB Group financing. This is calculated based on the principles agreed in the international financial institution Framework for a Harmonized Approach to Greenhouse Gas Accounting as well as the harmonized IFI methodologies for specific sectors, where these exist.*

Renewable power generation: *Total new installed capacity from renewable energy sources expressed in megawatts. Renewable sources include all hydroelectric, geothermal, biofuels, bioenergy, waste to energy, solar, wind and marine energy, as well as installed capacity financed through financial mechanisms for renewable energy.*

**ANNEX II – RESOLUTION**

## RESOLUTION CII/AG-5/24

### New Vision and Business Model for the Inter-American Investment Corporation: Capitalization Proposal and Implementation Plan

WHEREAS,

At the 2022 Annual Meeting, the Boards of Governors of the Inter-American Development Bank (the “IDB”) and the Inter-American Investment Corporation (“IDB Invest”) adopted Resolution AG-7/22 and CII-AG-3/22, pursuant to which the IDB Invest Board of Governors mandated the IDB Invest Board of Executive Directors “to direct IDB Invest Management to present a proposal for a new vision and business model for IDB Invest, including an adequate identification of sectoral needs related to the heterogeneity of Latin America and the Caribbean, and the financial, resource, operational and institutional implications”;

At the 2023 Annual Meeting, the IDB Invest Board of Governors adopted Resolution CII/AG-3/23 (the “Panama Resolution”) pursuant to which it welcomed the progress made on the development of the new vision and business model for IDB Invest as summarized for the Board of Governors in Document CII/CA-214, entitled “Proposal for a new vision and business model for IDB Invest: Summary and recommendations for Governors”, based on a detailed proposal to the Board of Executive Directors set out in Document CII/GN-504-7, entitled “Proposal for a New Vision and Business Model for IDB Invest. Revised Version” (the “New Vision and Business Model for IDB Invest”). The Board of Governors further mandated the IDB Invest Board of Executive Directors to “direct IDB Invest Management to develop a capitalization proposal and an implementation plan for the New Vision and Business Model for IDB Invest (collectively, the “IDB Invest Proposal”). The IDB Invest Proposal shall take into consideration the financial, resource, operational, and institutional implications for the New Vision and Business Model for IDB Invest, including (a) a continued ambition on strategic priorities such as the social agenda and formal employment creation, cross-cutting issues, and the impact of IDB Invest projects in all regional developing member countries, (b) alternative financial scenarios, (c) the strengthening of governance and synergies with the IDB Group, and (d) the independent review of multilateral development banks’ capital adequacy frameworks commissioned by the G20 countries in 2021 as may be applicable. The IDB Invest Proposal will also incorporate measures to implement the recommendations that may be approved by the Board of Executive Directors from the evaluation of IDB Invest presented by the IDB Office of Evaluation and Oversight in 2023”;

The Panama Resolution further mandated that the proposal referenced above shall be delivered to the IDB Invest Board of Executive Directors for consideration no later than September 30, 2023, and that the IDB Invest Board of Executive Directors may decide to elevate the proposal to the IDB Invest Committee of the Board of Governors, aiming for a decision by the IDB Invest Board of Governors by no later than the 2024 Annual Meeting;

On February 21, 2024, Document CII/CA-221 entitled “New Vision and Business Model for IDB Invest: Capitalization Proposal and Implementation Plan. Summary,

Recommendations for Governors, and Proposed Resolution” (the “Proposal”) was endorsed by the IDB Invest Board of Executive Directors for further consideration by the IDB Invest Committee of the Board of Governors;

The Panama Resolution also required that the IDB Invest Board of Executive Directors and Management work jointly with the IDB Board of Executive Directors and Management to develop a proposal for a new IDB Group Institutional Strategy; and

Document CA-631 and CII/CA-219, entitled “IDB Group Institutional Strategy: Transforming for Scale and Impact”, was endorsed by the IDB and IDB Invest Boards of Executive Directors for further consideration by the IDB and IDB Invest Committees of the Boards of Governors.

THEREFORE,

The Board of Governors of IDB Invest, in accordance with the Agreement Establishing the Inter-American Investment Corporation (the “Agreement”),

RESOLVES:

1. That IDB Invest shall implement the New Vision and Business Model for IDB Invest to carry out its developmental purpose and functions under the Agreement. To that end, the Board of Executive Directors shall direct Management in, and shall monitor, the implementation of the New Vision and Business Model for IDB Invest through the design of multi-year business plans, which shall be consistent with (a) the strategy and monitoring framework and the implementation plan described in Chapters 4 and 5 (including the Corporate Scorecard in Figure 14) of the Proposal (collectively, the “implementation and monitoring parameters”) and (b) the IDB Group Institutional Strategy in effect. The Board of Executive Directors is authorized to modify the implementation and monitoring parameters as it deems appropriate.

2. That IDB Invest shall strive to maintain a long-term foreign-currency credit rating of at least AA+ (or equivalent) per its current rating level with at least two major credit rating agencies.

3. To endorse the capitalization proposal described in this Resolution and instruct the Board of Executive Directors and Management to take all steps necessary to complete such capitalization as further detailed herein.

4. To increase the capital stock of IDB Invest by US\$3.5 billion divided into 166,666 shares, with a par value of US\$10,000 and a base price of US\$21,000 each (the “New Shares”), for the purposes set forth in this Resolution.

5. That the New Shares will be allocated for subscription and issued to IDB Invest member countries in accordance with, and will be subject to, the terms and conditions established in Annex A of this Resolution. As established in the Agreement, no member shall be obligated to participate in any part of the increased capital. At any time, if a member wishes to release New Shares subscribed per Annex A, it is encouraged to promptly inform IDB Invest to facilitate their reallocation.

6. That any New Shares that are not subscribed or paid for in accordance with the terms of this Resolution, and any New Shares for which a subscription is relinquished, shall be promptly reallocated among IDB Invest member countries pursuant to Annex A hereto and such other terms and conditions determined by the Board of Executive Directors, with the goal of ensuring timely and complete capitalization of IDB Invest in accordance with this Resolution.

7. To support the implementation of the New Vision and Business Model for IDB Invest by strengthening the institution's governance through enhanced symmetry and synergies between the Boards of Executive Directors of the IDB and IDB Invest. To that end, upon approval of this Resolution, the proposed resolution attached as Annex B hereto, which contemplates amendments to the Agreement and the Regulations for the Election of Executive Directors for the purpose of implementing certain modifications to the organization and functioning of the Board of Executive Directors (the "Amendment Resolution"), shall be submitted to the Board of Governors for consideration by the procedure of taking a vote without calling a meeting. The voting period for the Amendment Resolution shall remain open until September 1, 2024 and may be extended by the Board of Executive Directors. The Board of Executive Directors shall report to the Board of Governors on the status of the Amendment Resolution by no later than the 2025 Annual Meeting.

8. That the Board of Executive Directors shall direct Management to elaborate and submit to the Board of Executive Directors a proposal on the scope of responsibilities and functioning of the committees of the Board of Executive Directors in line with the implementation of the New Vision and Business Model for IDB Invest, and in consideration of a future, larger institution. The proposal shall be consistent with best governance practices, facilitate decision-making based on a broad consensus among member countries whenever possible, and follow the principle of allocating decision-making power based on the voting power of member countries. Management shall present the proposal referenced in this paragraph to the Board of Executive Directors by no later than September 30, 2024. The Board of Executive Directors may decide to elevate recommendations to the Board of Governors for consideration.

9. That, starting with 2024 and until the end of the capitalization period in 2031 (and any extension thereof), the Board of Executive Directors shall report to the Board of Governors on the conclusion of the Second General Capital Increase and on the progress of the implementation of the New Vision and Business Model for IDB Invest.

(Adopted on 10 March 2024)

Annex A

Terms and Conditions Applicable to the New Shares

1. Allocation and Subscription of New Shares

- a. 166,666 New Shares have been allocated for subscription pursuant to this Annex A. Each member country will have until March 10, 2026 to subscribe a number of New Shares equal to the number that results from multiplying 166,666 by such member's percentage of subscribed capital. The Board of Executive Directors is authorized to extend the subscription period.

Member Country	Subscribed Capital
Argentina	12.48%
Bahamas	0.20%
Barbados	0.14%
Belize	0.08%
Bolivia	0.92%
Brazil	12.48%
Chile	3.25%
Colombia	3.30%
Costa Rica	0.45%
Dominican Republic	0.67%
Ecuador	0.62%
El Salvador	0.45%
Guatemala	0.59%
Guyana	0.17%
Haiti	0.45%
Honduras	0.45%
Jamaica	0.38%
Mexico	7.34%
Nicaragua	0.45%
Panama	0.60%
Paraguay	0.51%
Peru	3.31%
Suriname	0.07%
Trinidad & Tobago	0.44%
Uruguay	1.22%
Venezuela	2.98%

Member Country	Subscribed Capital
Austria	0.49%
Belgium	0.16%
Canada	3.00%
China	4.77%
Denmark	0.59%
Finland	0.56%
France	1.90%
Germany	1.11%
Israel	0.24%
Italy	2.81%
Japan	3.67%
Korea	4.23%
Netherlands	0.59%
Norway	0.56%
Portugal	0.21%
Spain	4.01%
Sweden	0.56%
Switzerland	1.27%
United States	15.05%
Croatia	0.01%
Slovenia	0.01%
United Kingdom	0.22%

*\*This table is for reference only. It reflects the expected subscribed capital of each member country prior to GCI-III, assuming that (i) all GCI-II transfers are completed by the 2024 Annual Meeting, and (ii) all GCI-II shares are subscribed as allocated.*

- b. In the corresponding subscription instrument, each member country shall represent to IDB Invest that it has taken all necessary action to authorize its

subscription. Subscription instruments may be subject to budget appropriations or other conditions.

2. Payment for New Shares

- a. Each New Share will have a par value of US\$10,000 and a base price of US\$21,000.
- b. Member countries shall pay for their subscribed New Shares at the base price, in United States Dollars and in seven consecutive and equal installments, in accordance with a payment plan to be determined and communicated by Management to each subscribing member country. Payment of the first installment shall be due by each member country on November 30, 2025 (the "first due date") or thirty (30) calendar days after the respective member country presents its subscription instrument (the "second due date") (whichever is later). The remaining installments shall be due on November 30 of each year from 2026 to 2031. The Board of Executive Directors is authorized to extend payment deadlines.
- c. Member countries may pay for their subscribed New Shares either in cash or in promissory notes issued by the government of the member country. In the case of promissory notes, they shall be available for encashment in United States Dollars by IDB Invest in seven consecutive and equal annual installments by no later than the corresponding payment deadlines.

3. Issuance of New Shares and Voting Power

- a. New Shares that are paid for in accordance with this Resolution will be issued, and the corresponding voting power will be recognized, at the end of each corresponding installment period per the payment plan regardless of whether the New Shares are paid in advance.
- b. New Shares that are paid in arrears will be issued at the end of the installment period in which payment is received.
- c. Notwithstanding the above, New Shares corresponding to the first installment will be issued, and their corresponding voting power will be recognized, on the following dates:
  - (i) On the day after the first due date, if the New Shares are paid for on or prior to the first due date;
  - (ii) On the day after receipt of payment, if the New Shares are paid for after the first due date and on or prior to the second due date; or
  - (iii) At the end of the next installment period in which payment is received, if the New Shares are not paid for by the date that occurs 30 days after the end of the subscription period.

4. Reallocation of New Shares

- a. By no later than October 31, 2025, and subject to the provisions below, the Board of Executive Directors shall determine basic terms and conditions to reallocate (i) New

Shares that are not subscribed within the subscription period set forth in this Annex A (and any extension thereof), (ii) New Shares that are relinquished during the capitalization period, which extends from 2025 until the final payment deadline in 2031 (and any extension thereof) (the "Capitalization Period"), and (iii) New Shares that remain unpaid at the end of the Capitalization Period.

- b. In carrying out any reallocations, the Board of Executive Directors:
  - (i) shall ensure that no change in the allocation of the New Shares will cause, at the end of the Capitalization Period, the voting power of the regional developing member countries as a group to fall below 54%;
  - (ii) is hereby authorized to allow Peru, Colombia and Chile to reallocate their respective share allocations among themselves so as to maintain their relative parity of voting power in IDB Invest; and
  - (iii) shall further ensure that New Shares are reallocated only to member countries that are in good standing with respect to their obligations with IDB Invest
- c. In addition, in carrying out the first reallocation round of New Shares that may be available following the end of the subscription period, the Board of Executive Directors shall give a preference to interested members admitted to IDB Invest after March 30, 2015.
- d. The Board of Executive Directors shall reallocate any remaining New Shares based on the subscribed capital of an interested member vis-à-vis the subscribed capital of all other interested members. Subject to the rules established in paragraphs 4(b) and 4(c) above, the Board of Executive Directors may establish other share reallocation criteria it considers appropriate.

Annex B

Proposed Amendments to  
the Agreement Establishing the Inter-American Investment Corporation and  
the Regulations for the Election of Executive Directors of  
the Inter-American Investment Corporation

DOCUMENT OF THE INTER-AMERICAN INVESTMENT CORPORATION

PROPOSED RESOLUTION CII/AG- /

Amendment of the Agreement Establishing the Inter-American Investment Corporation  
and the Regulations for the Election of Executive Directors of the Inter-American  
Investment Corporation

WHEREAS,

At the 2024 Annual Meeting, the Board of Governors of the Inter-American Investment Corporation (“IDB Invest”) adopted Resolution CII/AG-\_/24 (the “GCI-III Resolution”) pursuant to which it mandated the implementation of the New Vision and Business Model for IDB Invest and authorized an increase in the capital stock of IDB Invest of US\$3.5 billion;

The GCI-III Resolution further mandated that a resolution to implement certain modifications to the organization and functioning of the Board of Executive Directors be submitted to the Board of Governors for consideration by the procedure of taking a vote without calling a meeting. The implementation of such modifications requires amendments to the Agreement Establishing the Inter-American Investment Corporation (the “Agreement”) and to the Regulations for the Election of Executive Directors of the Inter-American Investment Corporation (Document CII/AB-8-2, the “Election Regulations”);

Article VIII, Section 1 (a) of the Agreement provides for the amendment of the Agreement by a majority representing at least four-fifths of the votes of the members, which shall include two-thirds of the Governors; and

Section 15 of Part IV of the Election Regulations provides for the amendment of the Election Regulations by a majority representing at least two-thirds of the votes of the members, including two-thirds of the Governors for the regional developing members and two-thirds of the Governors for the members referred to in Article IV, Section 4(c)(iii) of the Agreement;

THEREFORE,

The Board of Governors of IDB Invest, in accordance with the Agreement,

RESOLVES:

1. To amend Section 4(c) of Article IV of the Agreement so that it reads as follows:

“(c) The Board of Executive Directors of the Corporation shall be composed as follows:

- (i) one Executive Director shall be appointed by the member country having the largest number of shares in the Corporation;
- (ii) nine Executive Directors shall be elected by the Governors for the regional developing member countries;
- (iii) four Executive Directors shall be elected by the Governors for the remaining member countries.

The procedure for the election of Executive Directors shall be set forth in the Regulations to be adopted by the Board of Governors by a majority of at least two-thirds of the votes of the members.

Each Executive Director may designate an Alternate Director who shall have full power to act for him when he is not present.”

2. To amend Section 1 of Part I of the Election Regulations so that it reads as follows:

“The Governors for the countries referred to in Article IV, Section 4(c) of the Agreement Establishing the Corporation, except for the Governor for the country referred to in Article IV, Section 4(c)(i), shall be eligible to vote and shall elect not more than thirteen Executive Directors.”

3. To amend the first paragraph of Section 2 of Part I of the Election Regulations so that it reads as follows:

“The Governors for the regional developing member countries shall, in accordance with the following provisions, elect nine Executive Directors:”

4. To delete Section 2(e) of Part I of the Election Regulations and to renumber Section 2(f) of Part I of the Election Regulations as the new Section 2(e).

5. To amend Section 3 of Part I of the Election Regulations so that it reads as follows:

“The Governors for the members referred to in Article IV, Section 4(c)(iii) of the Agreement Establishing the Corporation shall elect four Executive Directors. The election shall be held in accordance with the following provisions:

- (a) This Section shall apply exclusively to the members referred to in Article IV,

Section 4(c)(iii) of the Agreement and the total voting power of those countries shall be counted as 100 per cent for the purposes hereof.

- (b) Each Governor eligible to vote under this Section shall cast in favor of a single person all the votes to which the member country he represents is entitled under Article IV, Section 3(a) of the Agreement Establishing the Corporation.
- (c) The four candidates receiving the largest number of votes shall be Executive Directors, provided that no person shall be deemed elected unless the person has received the votes of three or more Governors.
- (d) As many ballots as are necessary shall be taken until four candidates have been elected.
- (e) After the balloting has been completed, each Governor who did not vote for one of the candidates elected may assign his votes to one of them. The number of votes appertaining under Article IV, Section 3(a) of the Agreement Establishing the Corporation to each Governor who has voted for or assigned his votes to a candidate elected under these Regulations shall be deemed for the purposes of Article IV, Section 4(f) of the Agreement to have counted toward the election of such candidate.”

6. To amend Section 8 of Part II of the Election Regulations so that it reads as follows:

- “(a) The election shall consist of four separate stages. The two Executive Directors referred to in Section 2(c)(i) above shall be elected in the first stage. The other four Executive Directors referred to in Section 2(c) shall be elected in the second stage; the three Executive directors mentioned in Section 2(d) above shall be elected in third stage; and the four Executive Directors mentioned in Section 3, in the fourth stage.
- (b) Each Governor may participate in only one stage of voting.
- (c) At the beginning of each stage of the voting, the Secretary of the Board of Governors shall announce the names of the official candidates and of the countries eligible to vote.”

7. To amend Section 16 of Part V of the Election Regulations so that it reads as follows:

“Section 16. Election of Executive Directors as a result of the Amendment to the Agreement Establishing the Inter-American Investment Corporation proposed during the 2024 Annual Meeting

If the amendment to the Agreement proposed during the 2024 Annual Meeting to increase the number of Executive Directors elected by the Governors from the member countries referred to in Section 4(c)(iii) of Article IV of the Agreement becomes effective, a vacancy in the Board of Executive Directors shall be considered to exist. A special election to permit the Governors referred to in said Section 4(c)(iii) to fill this vacancy, and other vacancies that may result from such increase in Executive Directors, shall then take place in accordance with Part III of these Regulations.”

8. That the amendment to the Agreement described in paragraph 1 of this Resolution shall enter into force immediately upon the date of the official communication addressed to all members certifying that the Resolution has been adopted, as referred to in Article VIII, Section 1(c) of the Agreement.

9. That the amendment to the Election Regulations described in paragraphs 2 through 7 of this Resolution shall enter into force on the same date that the amendment to the Agreement enters into force pursuant to paragraph 8 above.

(Adopted on \_\_\_\_ )