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Update to the Institutional Strategy 2010–2020

Partnering with Latin America and the Caribbean to Improve Lives

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| CONTENTS |

EXECUTIVE SUMMARY V

THE CONTEXT OF THE STRATEGY UPDATEVI

1 | INTRODUCTION..... 1

2 | KEY CHANGES AND DEVELOPMENT CHALLENGES IN LATIN AMERICA AND THE CARIBBEAN..... 3

2.a | Key Changes in the Region..... 3

2.b | Structural and Emerging Development Challenges 4

 2.b.1. Social exclusion and inequality 4

 2.b.2. Low productivity and innovation 5

 2.b.3. Limited economic integration 5

3 | IDB’S VISION: PARTNERING WITH THE REGION TO MEET ITS DEVELOPMENT CHALLENGES..... 6

3.a | Partnering with Countries: How the IDB Will Work with Clients to Deliver Its Vision 6

3.b | Delivering the Vision: IDB’s Strategic Policy Objectives..... 7

3.c | Working with Stakeholders..... 9

4 | ENHANCING IDB’S STRATEGIC RELEVANCE..... 10

4.a | Strengthening the Bank’s Catalytic Role 10

 4.a.1. Strengthening IDB’s strategic relevance to better serve client countries 11

 4.a.2. Strengthening the IDB’s comparative advantages to harness catalytic capability 11

4.b | Monitoring IDB’s Outcomes..... 19

5 | NEXT STEPS 20

6 | APPENDIX:..... I

DRAFT RESOLUTIONS

APPROVED RESOLUTIONS

| FIGURES |

Figure 2. The Role of Country Strategies.....14

Figure 2. Alignment in Action18

Figure 3. Corporate Vision.....19

| ACRONYMS

CRF	Corporate Results Framework
CS	Country Strategy
GDP	gross domestic product
IDB	Inter-American Development Bank
IDB-9	IDB's Ninth General Capital Increase
IS	Institutional Strategy
LAC	Latin America and the Caribbean
MDB	multilateral development bank
NSG	non-sovereign guaranteed
SDGs	Sustainable Development Goals
SG	sovereign guaranteed
SME	small and medium-sized enterprise

EXECUTIVE SUMMARY

“Do not wait to strike till the iron is hot, but make it hot by striking.”
—*The Short Plays* (Vol. 2), William Butler Yeats (1865–1939)

1. Latin America and the Caribbean (LAC) has made remarkable progress over the last decade. Skillful macroeconomic management and favorable terms of trade over the period doubled the regional gross domestic product (GDP) and increased the Region’s access to finance. LAC weathered the financial crisis well and not only ended the decade with the lowest poverty rates in its history, but also with an emerging middle class. However, the slowdown after the global financial crisis revealed persistent weaknesses, such as commodity dependence, lags in productivity, and pockets of extreme poverty.
2. To deal with these old problems and emerging difficulties, LAC must overcome its three main development challenges: social exclusion and inequality; low productivity and innovation; and limited economic integration. Public policies that address these challenges must take into account the fact that they are inter-related and that common issues cut across them, such as gender equality and diversity, climate change and sustainability, and institutional capacity.
3. For this Update of the Institutional Strategy, the vision of the Inter-American Development Bank (IDB) is to increase productivity and reduce inequality in a sustainable way to transform LAC into a more inclusive and prosperous society. In partnering with the Region to achieve this vision, the Bank reaffirms its commitment to fulfill the objectives of the IDB’s Ninth General Capital Increase (IDB-9) of reducing poverty and increasing sustainable growth, while addressing the special needs of small and vulnerable countries and fostering development through the private sector. Given the Region’s heterogeneity, tackling its three main development challenges requires a proactive, flexible response from the IDB to accommodate client countries’ different development needs and help them reach their specific development objectives.
4. To make this vision a reality, the IDB will strengthen its comparative advantages by increasing its catalytic role, strengthening its client focus, and reinforcing its development effectiveness. These improvements will be achieved through the adoption of six operational guiding principles: leverage and partnerships, innovation and knowledge, responsiveness, multi-sectorality, effectiveness and efficiency, and alignment. Furthermore, the Bank will ramp up its efforts to tackle remaining weaknesses and strengthen areas identified by its stakeholders and revealed in performance data, such as speeding up operational deliveries.
5. This Strategy Update will serve as the main driver for the Bank’s work in the next four years. Monitoring the Update’s implementation will be carried out through an updated Corporate Results Framework (CRF), which is expected to have fewer, more relevant, and more robust indicators, and by increasing the integration of these indicators into other corporate performance measurement systems and IDB business processes.

THE CONTEXT OF THE STRATEGY UPDATE

1. With the approval of the Ninth General Increase in the Resources of the Inter-American Development Bank (IDB-9) in 2010,¹ the Board of Governors (the Governors) endorsed the Institutional Strategy (IS) that would serve as the Bank’s “core strategic guidance.”² The IS established two overarching objectives for the IDB: sustainable growth and poverty and inequality reduction. In doing so, the IS helped the Bank focus its work toward fulfilling the mission originally set out in the Agreement that established the IDB in 1959. As stated in the Agreement: *The purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively.*
2. IDB-9 also established the Bank’s Corporate Results Framework (CRF), which sets out indicators and time-bound targets that allow for evidence-based monitoring of the implementation of the IS and other organizational priorities, such as some of the reforms set out in the Agenda for a Better Bank (ABB). The CRF currently covers the period between 2012 and 2015. The Governors stipulated that the Bank’s IS and CRF would be reviewed every four years and updated in the context of emerging challenges and changes in the Region.
3. In response to these directives, approved by the Governors, and within the existing strategic and operational framework that evolved out of IDB-9, the Bank presents this Update to its Institutional Strategy for the next four years (2016–2019). This Update serves to recalibrate the Bank’s strategic direction, while remaining true to its commitment within the IDB-9 to continue to enhance the effectiveness and efficiency with which it serves the development needs of the Region. Moreover, this Update is the product of a comprehensive consultation process with many technical experts within and outside the Organization—including a year-long exercise with clients and stakeholders via focus groups and surveys to assess the Region’s priorities and the Bank’s effectiveness in working with countries to address them—key evaluations by the independent Office of Evaluation and Oversight (OVE),³ and Management’s own stocktaking.
4. Once the update to the Strategy is approved, the Bank will update the existing CRF. Technically robust indicators with realistic targets will be available, starting in January 2016, to measure results not only from IDB-supported interventions aimed at addressing the three key challenges facing the Region, but also how the Bank operates, including implementation of the six principles that will guide its day-to-day work. The Governors recently delegated authority to the Bank’s Board of Executive Directors to approve the updated CRF and any subsequent modifications to it.⁴ Through this step, both Bank Management and its shareholders will be better positioned to make sure the organization is on track to meet its strategic objectives.

¹ Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (AB-2764).

² The Strategy, which was approved in the framework of IDB-9, defines five priority sectors for the Bank: social policy; infrastructure; institutions; regional and global integration; and environment, climate change, renewable energy, and food security. It also identifies two strategic goals: (i) addressing the needs of small and vulnerable countries (Haiti) as well as improving the availability of concessional financing (through the Fund for Special Operations, or FSO) and (ii) supporting development through the private sector.

³ Its comprehensive 2012 Mid-Term Evaluation of IDB-9 Commitments included an overview report and 22 background papers. OVE stated that while the Bank “has to be responsive to client’s needs, it should also focus on activities where it clearly adds value” and emphasized that the IS “needs to build on past experience, take into account institutional strengths and weaknesses, and be understood and owned by important stakeholder groups if [it] is to have the power and credibility to guide the Organization” (RE-425). In the Chair Report of the Policy and Evaluation Committee, after its consideration of said evaluation, “the requirement on ‘comprehensive implementation’ of IDB-9 has been fulfilled or is being fulfilled in almost all areas. This achievement is noteworthy, bearing in mind, as OVE did, that seldom has an international organization completed so many complex initiatives simultaneously in such a short period. Moreover, this was done in a context of international crisis and growth in the Bank’s portfolio, as noted by Management” (RE-425-4).

⁴ “Updating of the IDB’s Corporate Results Framework: Proposal to Request Delegation of Authority from the Board of Governors”, August 2014 (AB-2993).

1 | INTRODUCTION

- 1.1 The countries of Latin America and the Caribbean (LAC) have witnessed considerable change over the last quarter century, particularly within the last 10 years. As a result of skillful macroeconomic management and favorable terms of trade, regional growth over the last decade has averaged more than 3 percent annually, and regional gross domestic product (GDP) has more than doubled to US\$9.1 trillion. While the 2008 crisis revealed some of the Region’s structural weaknesses—notably, extreme poverty has not been eradicated¹—the fact that LAC weathered the global financial crisis well and ended the decade with an emerging middle class testifies to its rising strength.
- 1.2 The basic foundations for continued development in the Region are in place or are being implemented, as the majority of LAC countries have achieved a significant level of development and know-how. For instance, LAC countries understand how sound public finances and civil service systems affect the quality of life of the population through their impact on service delivery, how important it is to build reserves and control inflation for macroeconomic stability, how the investment climate affects private sector activity, and how meeting infrastructure and energy needs affects not only the economy but also social development and the environment. What countries in the Region are demanding now is more sophisticated, innovative, and tailor-made solutions, as well as partnerships to implement policies, programs, and projects that build upon their achievements to date and enable them to address old difficulties and emerging challenges. As it has done consistently since 1959, the IDB continues to evolve to adapt to the Region’s transformation.
- 1.3 The IDB’s vision for this Update of the Institutional Strategy (IS) is to work in partnership with the Region to increase productivity and reduce inequality in a sustainable way to ultimately transform LAC into a more inclusive and prosperous society. This vision builds on the Bank’s previous efforts to fulfill the objectives of IDB’s Ninth General Capital Increase (IDB-9) of reducing poverty and increasing sustainable growth, while addressing the special needs of the less developed and smaller countries and fostering development through the private sector.²
- 1.4 As discussed by the IDB’s Board of Governors at the 2014 Annual Meeting in Bahía, Brazil, to ultimately transform LAC into a more inclusive and prosperous society, three main development challenges must be addressed: social exclusion and inequality, low productivity and innovation, and limited economic integration. The first challenge is based on the fact that LAC remains an unequal region despite the undeniable emergence of a middle class. The second derives from the productivity gaps that have widened significantly over the last 50 years, not in comparison with advanced economies, but also *vis-à-vis* other emerging regions. The third is due to LAC’s fragmented integration and concentration of exports on a few volatile commodities and basic manufactures. Moreover, these three challenges are inter-related and certain overarching issues cut across them that public policies need to address: gender equality and diversity; climate change and environmental sustainability; and institutions and the rule of law. Furthermore, addressing these challenges will support LAC’s efforts to continue converging into a middle-class Region by creating upward pathways for families that are poor or that risk of falling into absolute poverty. Addressing these challenges will also make people in the Region more

¹ Eighty million people in LAC (13.3 percent of the population) continue to live in extreme poverty (on US\$2.5 a day or less).

² IDB-9 Report, or “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank,” (AB-2764), May 2010.

productive, participative, and dynamic through gains in growth, human development, productivity, and per capita income. Given the IDB's nature as a multilateral development bank (MDB), support to public policy priorities that address these challenges should be driven by the countries' own vision, development models, and aspirations.

- 1.5 While this Strategy Update was being developed, Management has sought inputs from a wide variety of sources: its public and private sector partners, staff, and renowned international experts and think tanks. Based on these consultations, a background document, "Development Challenges of Latin America and the Caribbean," was prepared.³ It provides a prospective view of the upcoming 10 years and discusses the complexity of the challenges that will need to be addressed. A second background document, "Addressing Development Challenges in Latin America and the Caribbean: Guiding Working Principles,"⁴ takes stock of the Bank's efforts to improve its efficiency and effectiveness, and highlights its comparative advantages to adapt to meet the Region's evolving demands. Both papers serve as the basis of this Strategy Update.
- 1.6 To work with its client countries to overcome their main development challenges and fulfill their aspirations, the Bank reaffirms its commitment to leverage its comparative advantages and tailor its products and services to improve the lives of all people in the Region today and in the years to come. The IDB's goal for the next four years is to leverage its relevance⁵ based on its client focus, development effectiveness, and catalytic role. This Strategy Update will set the course to continue improving the Bank's ability to respond proactively to clients' specific needs with effective development interventions supported by its thorough understanding of each country in the Region, while mainstreaming technical knowledge and operational expertise to enhance its responsiveness.
- 1.7 Moving in this direction will require the Bank to continue improving its portfolio of instruments, enhance project design and supervision of execution, and continue improving business practices. The Bank will identify, mobilize, and leverage more internal and external resources and knowledge, networking with partners in and outside the Region to bring relevant experiences and provide a broader menu of development options. The Bank will also improve its knowledge management systems to share and disseminate knowledge better. The IDB will foster a look at development challenges from an inter-disciplinary perspective by putting in place better incentives for collaboration to find more innovative and integral solutions to complex problems. The IDB will also capitalize on its role as an honest broker and use the trust it has built up, as well as its convening power, to bring different parties to the table to play a catalytic role. While maintaining a focus on the development effectiveness of projects, the IDB will enhance its internal processes throughout the project cycle by better balancing its mix of technical and managerial capabilities. Finally, the implementation of this Strategy Update will lead the IDB to be swifter and more proactive, better able to anticipate problems and propose and process innovative solutions that exploit synergies between the public and private sectors, while leveraging its technical expertise and deep understanding of the countries.

³ GN-2788.

⁴ GN-2788-1.

⁵ Maintaining the IDB's relevance to LAC requires a constant process of listening to clients, stakeholders and relevant experts in and outside the Region, analyzing alternatives, and selecting which interventions to pursue, as well as doing, learning, and adapting to provide value added to the Region. The IDB cannot finance everything; it provides only about US\$12 billion annually for LAC, which is minimal compared to what the Region needs or can absorb. Selectivity in this sense is driven by each country's vision and level of development, together with the IDB's expertise and knowledge, to provide value added based on its comparative advantages.

- 1.8 The Strategy outlines six guiding operative principles that build upon the IDB’s comparative advantages, and set it apart from other development players in the Region. These principles are responsiveness; multi-sectorality; effectiveness and efficiency; leverage and partnerships; innovation and knowledge; and alignment. The adoption of these principles—some of which, such as development effectiveness and efficiency, have already been incorporated into the Bank—will guide the Bank’s work at the corporate, country, and individual levels by being mainstreamed into corresponding policies, instruments, and frameworks. The relative weight of these principles during implementation will depend on the context of each client country. Furthermore, Management will continue working with the Board of Executive Directors to update the Corporate Results Framework (CRF)—which helps aligns the work of the Bank’s employees to the Strategy—and will present the proposed CRF update that reflect both the “what” and the “how” of the approved Strategy Update. The updated CRF will be presented for Board decision later this year so that it may be in place by January 2016. The Board will discuss the other strategic policies and instruments in the corresponding Board Committees.
- 1.9 The document is organized as follows: Section 2 briefly analyzes key changes in the Region and discusses LAC’s three main development challenges. Section 3 discusses the Bank’s vision. Section 4 explains how the Bank will enhance its relevance and adapt to the evolving needs of client countries to work better with them to address their challenges and the key areas where interventions are needed. Section 5 briefly sketches key next steps. The Appendix contains the draft Resolutions of the Strategy for the approval by the Board of Executive Directors and the Board of Governors.

2 | Key Changes and Development Challenges in Latin America and the Caribbean

2.a | Key Changes in the Region

- 2.1. Latin American and Caribbean countries have made significant progress; by 2020, most of the countries in the Region will be considered high middle-income economies.⁶ However, LAC must overcome several risks and challenges to successfully reduce the major barriers to development. The economic and financial scenarios of the previous decade are changing. A more difficult short-term outlook is already in sight, and it will be a test for the Region’s development gains, resilience, and aim of converging into a middle-class society.
- 2.2. On the one hand, some development indicators—especially those regarding extreme poverty, health, the environment, and diversity⁷—still lag behind other emerging regions and reveal the Region’s economic and social structural weaknesses. Extreme poverty, although greatly reduced, has not been eradicated; and infant and maternal mortality, while decreasing, is lagging behind other emerging regions.⁸ Growth rates and productivity in LAC have also lagged behind those of other emerging regions. On the other hand, LAC has made considerable progress with respect to its macroeconomic stability, and some other important welfare and development indicators in the

⁶ In terms of annual GDP per capita, 7 countries are expected to surpass the threshold of US\$20,000 by 2020, which means they can reach developed status by the end of this decade. An additional 11 countries could surpass the threshold of US\$10,000 over the same period, and even the poorest country may reach middle-income status by reaching the US\$5,000 benchmark. All Dollar amounts are in terms of purchasing power parity (ppp).

⁷ Diversity encompasses issues concerning gender discrimination, the disabled, indigenous peoples, and minorities.

⁸ A similar view of challenges despite the achievements in LAC is shared by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), as presented in the 2012 report, “Structural Change for Equality, an Integrated Approach” (34th ECLAC Session, San Salvador), New York: United Nations.

Region have improved: poverty and extreme poverty have been halved; basic school coverage is almost universal in many countries; the completion rate for primary education averages 95 percent; and life expectancy averages 74 years. The distinguishing characteristic of this period is that a growing middle class is emerging in many countries, and consolidating in others.

- 2.3. Despite the achievements in reducing inequality, LAC continues to be the most unequal region in the world; the inequality is present between and within its countries. Furthermore, the gender equality gap has not narrowed at the pace of other regions: women's educational attainment is still not adequately reflected in labor markets, especially in terms of compensation, and domestic violence is still very present in the Region. Moreover, citizen security has been threatened by a surge of organized crime and violence in some countries, and the capacity of the civil service needs to be further developed to eradicate corruption. In addition, environmental sustainability and institutional development have not progressed at the same rate as in other regions.

2.b | Structural and Emerging Development Challenges

- 2.4. To ensure that the development gains are preserved and that LAC continues to converge toward a prosperous and inclusive region despite changing global conditions,⁹ key structural constraints from the Region's past and emerging challenges from the current environment must be addressed jointly. The Region must lower inequality and poverty, increase productivity and innovation, and enhance economic integration.
- 2.5. These challenges are strongly inter-related, and each can be thought of as a cause and consequence of the other. Inequality and exclusion affect productivity; low productivity affects integration; and lack of integration causes inequality. Moreover, these challenges share important cross-cutting elements: gender equality and diversity; climate change and environmental sustainability; and institutions and the rule of law. Tackling them therefore requires a multi-disciplinary approach.

2.b.1. Social exclusion and inequality

- 2.6. Despite the vigorous emergence of a middle class and improvements in income per capita in the past decade, the Region is still characterized by higher poverty rates compared to other parts of the world with similar income levels. Eighty million people in the Region continue to live in extreme poverty, which is disproportionately concentrated among women and children and in particular groups, such as indigenous peoples, Afro-descendants, and residents of rural areas and urban slums. LAC is the most urbanized region in the world, and faces daunting pressures in its large and mid-sized cities to address poverty and exclusion challenges posed by housing deficits, growing slums, and access to services.
- 2.7. Persistent social exclusion and inequality affect the poor stuck in the informal economy, the unemployed, and the emerging middle class—and render all of them more vulnerable to shocks. There are several causes: (i) insufficient safety nets, such as health insurance and pensions systems; (ii) changing epidemiological profiles in the population, along with unequal access to quality health services; (iii) the limited capacity of the public sector and civil service to deliver services, fight corruption, and enforce the rule of law; (iv) low social mobility in many countries;

⁹ As the tailwinds from the high commodity prices of the previous decade vanish, it should be expected that in the near future the fiscal and monetary spaces will be narrower than they were before the last crisis, and that adverse exogenous shocks may become less predictable, more intense, and longer lasting.

and (v) gender- and minority-based exclusions in education and labor markets, along with domestic violence and teen pregnancy. Adding to the pressures of these challenges are the effects of rising demands on housing, infrastructure, energy, and efforts to mitigate and adapt to climate change related to urbanization.

2.b.2. Low productivity and innovation

- 2.8. The Region's internal sources of growth have had only limited impact in generating endogenous growth in a sustainable way; this is directly related to the Region's relatively low productivity and innovation. Over the last 50 years, the productivity gap with respect to advanced economies and other emerging regions has significantly widened—and the gap is even larger in rural areas. In terms of innovation, most LAC countries underperform with respect to other countries with comparable income levels, as measured by intensity of research and development (R&D).
- 2.9. Multiple factors lie behind the productivity lag. Some are related to the characteristics of the labor force, others to the level of development and depth of the financial sector, others to informality, and still others to the way production factors are combined. Additional underlying factors behind this lag are social exclusion and inequality (which directly impact the development of quality human capital), infrastructure, climate change, institutional and regulatory frameworks, and insecurity in some countries.¹⁰ While public sector investment can foster innovation, the lack of innovation in LAC can also be explained by the low levels of private sector participation in it: fewer researchers are employed in business in LAC than in OECD countries.

2.b.3. Limited economic integration

- 2.10. LAC's economic integration process,¹¹ which advanced considerably in the 1990s, has slowed in the last decade, hindering the contribution of integration to sustainable inclusive growth. This is due to five facts: first, LAC's integration architecture is based on a limited, heterogeneous, and complex set of recent and longstanding functional agreements based on political cooperation, which coexist with trade and market-based integration instruments that are not harmonized. Second, the Region's share of world merchandise trade is low and its exports are concentrated in a few volatile commodities or unsophisticated manufactures. Third, the net benefits of trade are asymmetrically distributed among and within countries. Fourth, participation in production-sharing schemes remains low. Fifth, in the current global environment, where commodity prices are declining, many LAC countries are being excluded from negotiations to form mega-regional trade blocs. In contrast, some wider integration initiatives were initiated in the past decade with varying degrees of success, especially in infrastructure, such as IIRSA and UNASUR¹² on political cooperation, and the *Mesoamérica* project for sub-regional project coordination and cooperation.
- 2.11. Beyond trade and political agreements, LAC's economic integration still lags compared to other emerging regions in a wider sense. Its customs and border crossings are slow and bureaucratic, its transport and port infrastructures are small and aging, and the efforts to pool energy and other natural resources fall short compared to the needs to exploit the potential of regional markets.

¹⁰ Other factors underlying the productivity lag and productivity heterogeneity in LAC are due to gender and infrastructure differences among and within countries in the Region, as argued in the 2005 report by ECLAC-IDB, "*Heterogeneidad Estructural, Asimetrías Tecnológicas y Crecimiento en América Latina.*"

¹¹ Economic integration refers to a process in which two or more countries in a broadly defined geographical area reduce policy or physical barriers to advance shared economic goals.

¹² Initiative for the Integration of the Regional Infrastructure of South America and *Unión de Naciones Suramericanas*, respectively.

These issues also affect the productivity and competitiveness of individual countries and the Region as a whole because they hamper its small and medium-sized enterprises (SMEs) (and its firms in general) from developing or joining value chains and engaging in more sophisticated, higher value-added production.

3 | IDB'S VISION: PARTNERING WITH THE REGION TO MEET ITS DEVELOPMENT CHALLENGES

- 3.1 In a Region with complex problems and widening financial markets, the IDB's Strategy Update responds to LAC's call for action by adopting a new vision to increase productivity and reduce inequality in a sustainable way, to ultimately transform the Region into a more inclusive and prosperous society. The Bank's strategic approach to assist the Region in overcoming its development challenges will be tailored to understanding the nature of the particular development problems of each country, based on sound empirical evidence and a more integrated view—rather than a sector by sector one—as to how best to solve these problems. To do so, the IDB must continuously enhance the menu of products and services it offers.
- 3.2 To achieve this vision, the IDB must also continue recognize the Region's geographic, socioeconomic, and political heterogeneity, with an understanding that the Bank works with countries that are at different stages of development and that have diverse views of how best to achieve their development objectives. This heterogeneity in turn is reflected in the basic premise of the Bank's work that there is no single recipe that will fit all partners.¹³ The IDB's ability to further tailor the way it responds, through the provision of development finance and knowledge, to the unique and evolving development challenges of its client countries is what will consolidate the Bank's position as the most impactful source of multilateral development finance in the Region.

3.a | Partnering with Countries: How the IDB Will Work with Clients to Deliver Its Vision

- 3.3 Delivering this vision will require leveraging the Bank's financial resources, as well as increasing its knowledge and expertise to partner with countries to enhance its overall value added. The IDB must continue strengthening its ability to leverage and catalyze public and private development finance in innovative ways, and in doing so, review its instruments and products . In addition, the Bank will ramp up its efforts to generate and disseminate relevant knowledge based on its own monitoring and evaluation work, experience, and its expertise in the Region. It will also promote knowledge sharing among policymakers and development practitioners across the Region and around the world. This Strategy Update recognizes that it is the combination of finance and knowledge, in conjunction with the Bank's convening power and reputation as a trusted partner, that are key to successfully delivering its vision.

¹³ A clear understanding of the entire spectrum of client needs is necessary to increase IDB's development impact in all countries. On the one hand, while poverty has been significantly reduced in middle-income countries, inequality is pervasive, pockets of extreme poverty still persist, and emerging vulnerable middle classes need support to avoid regression into poverty. Low-income economies, on the other hand, are dealing with problems that the Region has experience with, but the pressing need to solve basic problems still demands a differentiated approach. Finally, vulnerable countries need support during times of adverse shocks and financial downturns.

3.b | Delivering the Vision: IDB's Strategic Policy Objectives

- 3.4 To help countries address their development challenges, the IDB works with clients by concentrating its efforts on the joint strategic policy objectives agreed upon with its shareholders. The IDB recognizes that it cannot meet all the financial needs of its clients. Thus the following policy objectives provide a broad—though not exhaustive—view of IDB support to tackle the Region's barriers to development. Addressing these barriers does not imply that the IDB will provide one response to all clients. It will adapt to country needs, building on its strategic planning, understanding, and systematic approach to countries' different development stages, which will help improve its customized support to individual client countries.
- 3.5 To lessen social exclusion and inequality, it is critical to safeguard the social gains made in recent years. The Bank's intervention in public policies and projects in this area would have the following objectives:
- a. *Eradicate extreme poverty.* Policies and their implementation should make quality health and education services accessible to all segments of the population, and a wide variety of tools should be considered (including, but not limited to, conditional cash transfers). Moreover, investments in human capital should be made throughout the life cycle, ranging from early childhood development to old-age pensions, and account for LAC's higher burden of disease and disability due to non-communicable diseases. Particular focus should be placed on education, as it can be used as an equalizing factor to break the inter-generational transmission of poverty and become a vehicle for social mobility.
 - b. *Create a more distributive fiscal policy.* On the tax side, this includes improving revenue collection and administration, and designing more progressive tax systems. On the public expenditure side, this includes addressing dynamic inconsistencies in policies, agency problems, capture, and low levels of inter-sectoral and inter-governmental coordination.
 - c. *Strengthen the capacity of the state.* For instance, the state should fight corruption by ensuring the efficiency, effectiveness, and transparency of institutions, and should promote the development of gender and minority groups by enforcing laws that eliminate their discrimination.
 - d. *Include all segments of the population in financial markets.* Without access to finance, a sizable share of the Region's population is at risk of being excluded from the benefits of economic growth. In particular, the poor and vulnerable need to become part of the financial system. They need a broad array of financial services, including financial education, consumer protection, remittance services, savings accounts, micro-insurance, credit lines, and access to affordable housing finance.
 - e. *Provide inclusive infrastructure and infrastructure services.* To ensure that urban areas are more inclusive for the poor and vulnerable, housing deficits (especially for the poorest) should be addressed in conjunction with factors such as transportation infrastructure, adaptation to climate change, safe and stable provision of energy, safe drinking water, safe water for recreation, broadband, sanitation, citizen security and public safety, and good social infrastructure (particularly hospitals and schools). In the case of rural areas, investments should be made in infrastructure, agricultural technology, and clarification of land titling and property rights.

3.6 To boost countries' internal sources of growth to increase LAC's productivity and innovation, the IDB would adhere to the following objectives:

- a. *Develop quality human capital.* Better health services, labor training, and life-long skills development, and labor intermediation services, specifically for inserting women, youth, and the unskilled into the workforce, can yield high payoffs in terms of productivity. To help overcome the constraints to innovation, increased access to quality higher education and policies that promote more researchers, especially women, in STEM fields (science, technology, engineering, and mathematics) should also be a priority.
- b. *Establish smart institutional frameworks.* The development and application of consistent policy frameworks—together with deeper financial markets and public-private partnerships to manage risks and balance costs with development impact, especially for infrastructure development—are fundamental. Effective institutional frameworks need to be in place to establish and maintain a healthy business climate, provide quality and ample services to citizens, and promote overall efficient, fruitful, and transparent interactions with governments.
- c. *Provide adequate knowledge and innovation ecosystems.* Sustained growth requires LAC to move from technology adoption and adaptation to creation to support the expansion of new and more sophisticated SMEs and make invention the driver of growth. Policies should also facilitate the use of technology to sustainably seize the Region's natural resource endowment, especially in the development of technically and economically feasible agricultural production, energy generation, and infrastructure consistent with goals to stabilize climate change.
- d. *Provide urban planning and rural infrastructure.* The winners of the new wave of productive cities will be determined by the provision of infrastructure services. Amassing talent and skills in dense urban centers (which requires municipal planning and regulation) contributes to economic growth at a pace that is greater than the sum of otherwise individual efforts. Similarly, providing infrastructure to rural communities leads to higher earning for agricultural workers, better food supplies, higher rates of primary school completion, and expanded opportunities in sectors other than agriculture

3.7 To increase integration beyond market access and foster production-sharing schemes, policies should aim to:

- a. *Improve regional infrastructure.* Widening integration requires investments in transport, telecommunication, and energy infrastructure both within and across borders. These provide ample scope for public-private and regional inter-governmental collaboration. These also provide an opportunity to develop optimal regional energy matrixes by pooling resources, as well as to adapt regionally integrated efforts to stabilize climate change and ensure environmental sustainability.
- b. *Insert firms into value chains.* Participating in value chains, particularly in the quality and high value-added segments, is a beneficial process not only for large and medium enterprises but for SMEs, as it allows firms to exploit their comparative advantages at finer stages of production and helps the Region diversify its export basket.
- c. *Converge integration policies and instruments.* Deepening integration requires the minimization of policy-related obstacles, including fragmented regulatory costs (such as trade

rules and customs procedures), information costs (such as risk perception and contracts enforcement), and financing and logistics costs. This could include establishing single-trade windows that integrate processes and security requirements in a single stop.

- d. *Leverage South-South and Triangular cooperation.* Cooperation should be harnessed to generate regional public goods that facilitate the movement of factors of production (especially labor), address potential distribution issues, and solve disputes. Cooperation can also leverage the exchange of knowledge and best practices, particularly with Asia and other emerging regions, to shorten the learning curve of policymakers and decision-makers. Additionally, cooperation can help harmonize regulations—which, in a context of financial integration, can help improve the resilience of local markets to exogenous shocks, reduce the cost of capital, and mobilize resources to manage the risks of natural disasters.

3.8 All three challenges are impacted by cross-cutting issues that hinder the Region’s development: gender equality and diversity, climate change and sustainability, and institutions and the rule of law. Thus the Bank’s interventions would also give special attention to these elements in all areas of work, guided by current Bank policy, sector strategies, and action plans¹⁴ and incorporated into programming through Country Strategies (CSs) according to clients’ specific context.

- a. *Gender equality and diversity.* A substantial fraction of the income inequality in LAC is determined by characteristics such as race, place of birth, the education levels of one’s parents, gender, and sexual orientation. These deep inequalities in well-being mean that the focus on fairness must be increased to ensure that those underserved or excluded—primarily women and minorities, including the disabled—are given equal opportunities for growth.
- b. *Address the economic and social impacts of climate change adaptation and mitigation.* LAC is highly vulnerable to the detrimental effects of climate change in terms of physical damage and negative social impacts. In addition, climate impacts are likely to affect the most vulnerable groups disproportionately, especially the poor and indigenous.
- c. *Strengthen institutional capacity and the rule of law.* Institutions determine the volume, quality, timeliness, and accessibility of services that are provided to the population. Institutions also have the ability to remove constraints for business growth and productivity and provide certainty to transactions and dispute settlement. They are also crucial to the enforcement of the rule of law and the fight against corruption.

3.c | Working with Stakeholders

3.9 The IDB recognizes that it operates in a complex stakeholder environment where different actors may have interests that converge or diverge. IDB’s interventions will continue delivering the full potential of the Bank’s value-added through its understanding of these different stakeholders. In this regard, the IDB will work mainly with national and subnational governments and the private sector, but will also engage with civil society and regional groups and other MDBs and donors. Recognizing their individual strengths, the IDB will work with each stakeholder, with the understanding that helping balance their interests and creating spaces for collaboration can create synergies and increase the development impact of its interventions.

¹⁴ Bank policies and sector strategies on these cross-cutting issues include the Environment and Safeguards Compliance Policy (2006), the Operational Policy on Gender Equality in Development (2010), and the Sector Strategy on Institutions for Growth and Welfare (2011), www.iadb.org.

- 3.10 The IDB will continue working with national governments as its primary clients as per the Charter mandate, and because of the role the state plays in setting policies essential for economic activity (institutional frameworks, rule of law, and sector and social priorities). The IDB will also partner with subnational governments, where the challenges of institutional capacity and inclusion tend to be even greater.
- 3.11 Along with the government, the private sector has an essential role to play in improving productivity and generating sustainable growth, as it fosters innovation and job creation. The IDB will improve and increase its development support through the private sector to accelerate the Region's lagging growth, create more jobs, and improve the lives of the poor. Thanks to its convening power and its reputation as a long-term trusted partner with technical knowledge, the Bank is able to bring the public and private sectors together and engage them in joint ventures, such as public-private partnerships or long-term concessions, to share risks and broaden investment horizons.
- 3.12 The consolidation of democracy in the Region over the last 20 years, the impact of globalization, and the advances in information technologies have made evident the growing importance of citizen participation in public policy formulation and implementation, especially in government accountability. It therefore is important that the IDB continue leveraging its strengths to bring other development partners to the table to create effective and inclusive public policies.
- 3.13 As a complement to working with governments, the private sector, and civil society, the IDB will continue supporting regional efforts that advance LAC's political, economic, and social integration within and outside the Region. As the leading source of development financing and knowledge in LAC, the IDB will use its regional leadership and strong relationships with the diverse stakeholders and regional development partners to translate the management of global public goods into targets and interventions at the country level—as is planned with the development of the United Nation's Sustainable Development Goals (SDGs).

4 | ENHANCING IDB's STRATEGIC RELEVANCE

- 4.1 To support country partners in addressing their development challenges, the IDB currently provides a broad range of financial and nonfinancial products and services. It uses its comparative advantages of client focus—in particular, its unique understanding of the Region—as well as its development effectiveness and catalytic role, to ensure that Bank-supported interventions have the highest probability of generating their expected development outcomes.

4.a | Strengthening the Bank's Catalytic Role

- 4.2 The IDB's other strengths also complement its value-added to the Region, including : (i) the Bank's *low cost of financing*; (ii) its *access to regional networks and external resources*, (ii) its *ability to bring together actors in the Region* (which enables the Organization to bring different parties together to work on common solutions to sensitive issues that may transcend national borders or extend beyond boundaries between the public and private sectors or academia; (iii) its recognized *high technical and operational standards* (which ensure that all interventions have a significant development impact); (iv) its reputation as a *trusted partner* (which allows clients to embark on long-term reforms and regional integration issues); (v) its *accumulated knowledge* of

the Region (because of its presence in the field—unmatched by any other MDB in LAC—and work over half a century in the Region); and (vi) its *regional ownership* (due to its nature as a financial cooperative, where borrowers and donors share corporate governance and decision making).

- 4.3 In addition to building on these strengths, the Bank needs to tackle and overcome its real and perceived weaknesses. In updating this Strategy, the Bank carried out an exhaustive and candid self-assessment of the Bank’s strengths and weaknesses, gathered in a year-long exercise through comprehensive consultations with clients and stakeholders via focus groups and surveys.¹⁵ Among the perceived strengths of the Organization are its deep sector and technical expertise; its knowledge products; its country knowledge and client ownership; its brand and local presence; its convening power to act as honest broker; and its reputation as a long-term trusted partner. Among the perceived weaknesses are headquarters-centered decision making; slow processes; a tendency to work in silos; and a lack of multi-disciplinary approaches, with room to increase knowledge sharing, as well as sector coordination—especially between public and private spheres—and to improve its portfolio of financial and nonfinancial instruments.¹⁶

4.a.1. Strengthening IDB’s strategic relevance to better serve client countries

- 4.4 Partner countries are asking for an Organization that continues exercising its regional leadership in all interventions, with further flexibility and country-customization of products, a broader array of instruments, and faster processing times for project preparation, while ensuring the highest quality in design that can lead to a more efficient implementation and more knowledge sharing.¹⁷
- 4.5 Addressing these changes will require balancing many of the trade-offs the Organization faces. For instance, the IDB has placed strong emphasis on client focus and has placed technical staff closer to its clients via decentralization. However, further increasing the number of staff in Country Offices (COFs) implies a trade-off in Headquarters for cross-fertilization of knowledge—a feature also highly demanded by clients. In a similar way, the benefits of multi-sector approaches, involving multiple actors across several geographic areas, must be weighed against the trade-off of potentially longer project preparation horizons. With respect to knowledge and financing, clients are increasingly looking beyond the Bank’s financial resources per se and toward the value added embedded in its interventions, especially its knowledge and technical cooperation products, where the IDB has become a leader in certain critical issues for the Region, such as citizen security. Clients want access to this knowledge not only via lending instruments but also via other services (such as grants or fee-based instruments). Providing these services is highly dependent on available budget resources. At a time with zero-real budget growth, this trade-off is very important.

4.a.2. Strengthening the IDB’s comparative advantages to harness catalytic capability

- 4.6 To ultimately transform LAC into a more inclusive and prosperous society, the Bank will have to harness its catalytic capability building on its main comparative advantages to respond to an increasingly complex environment. To that end, six guiding principles have been developed to

¹⁵ External Feedback System (EFS).

¹⁶ See, among others, Chris Humphrey, “Análisis Comparativo del BID *vis-à-vis* Otros Financiadores de Desarrollo en América Latina y el Caribe,” Ph.D. dissertation, London School of Economics, (and IDB-SPD Working Paper), April 2014.

¹⁷ Humphrey 2014.

formalize how the IDB will enhance and align its day-to-day work. These principles must not be seen in absolute terms, as their relative weight of these principles during implementation will depend on the context of each client country

- 4.7 *Improving the IDB's client focus.* Client focus is the Bank's ability to respond appropriately to each of its client country's needs and development agendas, often taking advantage of the country's own ability to solve its most pressing development problems. At the country/program level, to enhance its client focus, the Bank will continue building on its close relationships, proximity, and long-term support to client countries by further strengthening its role on the field, with special attention to low-income and vulnerable countries. The IDB will also improve its coordination efforts between public and private operations, through its Renewed Vision for the private sector.¹⁸ Having set that, the IDB recognizes that it cannot be all things to all people, at the risk of losing focus to the detriment of the Bank's aggregate portfolio.
- 4.8 At the level of specific Bank-supported interventions, the IDB will improve the value it provides through its highly-qualified technical staff by organizing and delivering, where appropriate, multi-sectoral responses to the Region's development challenges.

Guiding Principle 1: Responsiveness

- 4.9 The Bank must continue to capitalize on the trust of its partners as an honest broker. The IDB enjoys a close proximity to its clients and familiarity with the idiosyncrasies of the countries of the Region. The IDB's ease in partnering with clients, and in providing options to achieve their development visions and aspirations, is a key to success. Given the Region's heterogeneity, responsiveness entails continuing to tailor activities to countries' specific needs. This entails reviewing and exploring options to broaden the portfolio of available instruments and embed them with knowledge.

Guiding Principle 2: Multi-sectorality

- 4.10 Addressing LAC's challenges is increasingly going to require comprehensive, interdisciplinary solutions that seldom involve only one sector, and often involve both the public and private sectors (and may require actions across borders between those sectors or even across nations. Multi-sectorality helps address complex development problems from different perspectives.
- 4.11 A stronger multi-sector approach will be based on lessons learned to share knowledge and customize integral interventions that better fit each client's circumstances. It must also promote a culture of collaboration among sectors through clear incentives for cross-collaborate work. In addition, multi-sectorality must permeate all interventions with the three themes that cut across all activities the Bank has already been working on: gender equality and diversity; climate change and environmental sustainability; and institutions and the rule of law.

¹⁸ Inter-American Development Bank. 2013a. "A Renewed Vision for the Activities of the IDB Group with the Private Sector", GN-2722, CII/GN-280, MIF/GN-171, July 2013. Washington, D.C.

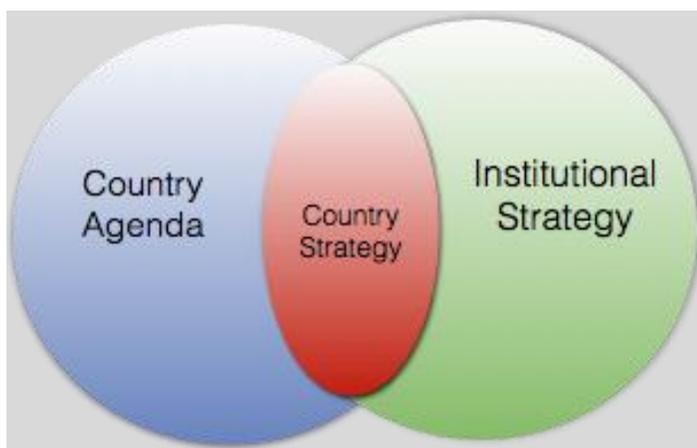
4.12 *Client focus: Key action items.* To improve the IDB's client focus and operationalize the principles of responsiveness and multi-sectorality, the Bank will consider:

- a. *Enhancing its role in the field.* The IDB should take stock of its presence in Country Offices to bring the Bank closer to its clients, according to the countries' own needs, paying special attention to quality in small and vulnerable countries.
- b. *Strengthening the local presence of private sector windows.* Within the discussions of the Renewed Vision of the IDB's private sector reform, the organizational proposal for the consolidated entity calls for a more focused approach to NSG activities that includes both more flexible and agile processes and an increased COF presence in the Region over time, especially in small and vulnerable countries.
- c. *Continue with innovative incentives to encourage collaboration.* The Human Capital Strategy should continue strengthening incentives for collaboration across sectors and further promote staff mobility to ensure that the right team with the right skills mix is at the right place at the right time. Such steps would acknowledge that human capital is the Bank's most important asset. Efforts to consolidate the link between research and operations through applied, practical knowledge should continue. Moreover, the Organization should continue building on recent innovative incentives such as double and/or multiple booking, which bring together two or more Divisions to prepare and execute projects, and give full credit for the loan to all units involved.¹⁹
- d. *Periodically reviewing instruments.* The Bank should continue improving its systems and periodically review and enhance its portfolio of instruments as needed.²⁰
- e. *Enhancing coordination on Country Strategies (CSs).* CSs play a pivotal role in achieving multi-sectorality because of their ability to offer integrated responses to priority areas that require multi-disciplinary solutions spanning both the public and private sectors (see figure 1). This will require enhancing coordination among Sector Departments and Divisions and between teams responsible for sovereign guarantee (SG) and non-sovereign guarantee (NSG) interventions.

¹⁹ Thanks to such incentives, approval of double-booked SG and NSG operations increased by more than 100 percent between 2012 and 2014 in the number of operations, and in the volume of approvals in 2013. These double-booking approvals are encouraging multi-sectorality in the Bank.

²⁰ Many of them are in the Manuals system and hence are reviewed every three years, according to IDB system rules. In fact, the IDB's System of Regulations is the group of policies and directives governing operations and institutional matters, as approved by the Bank's governance authorities (AM-101 Bank System of Regulations - effective November 2014, accessible on IDB's intranet in <http://manuals>).

Figure 1. The Role of Country Strategies



- 4.13 *Continuing the Bank's support for effective development interventions.* To improve development effectiveness, the Bank will continue ensuring the highest development impact per dollar invested. The IDB will fine-tune its activities to ensure its development effectiveness, specifically focusing on enhancing its strategic programmatic approach and on improving project execution and impact.

Guiding Principle 3: Effectiveness and efficiency

- 4.14 With the 2008 approval of its Development Effectiveness Framework (DEF), the Bank launched a series of instruments and business practices aimed at increasing the effectiveness of its Country Strategies, SG and NSG loan operations, and knowledge products by ensuring that they can be evaluated based on solid empirical evidence and in line with good practice standards; are properly targeting development objectives; and are aligned with the Corporate Results Framework. The IDB has made several enhancements recently, including improvements to the Project Monitoring System and Project Completion Reports for SG loans, as well as the Development Effectiveness Matrix for NSG loans.
- 4.15 With the DEF architecture completed for SG interventions, the Bank has begun to focus on ensuring that the vast amount of knowledge generated from its application is shared with both Bank and country counterparts and is used in the design of new operations. By showing what works, the Bank helps scale up successful development interventions, and by showing what does not work, the Bank helps avoid costly mistakes by not repeating failures.
- 4.16 Similarly, through clearly defined performance metrics and systems that support them, at both the corporate and project level, the Bank has enhanced its ability to measure the efficiency with which it works, and then to take action to improve it. For example, the Bank continuously monitors and reports on several performance indicators in the current CRF and the results-based budget (RBB) framework related to the time and costs of the delivery of different types of operations. Through Program Óptima, these data inform the Bank's efforts to improve the processes related to project preparation and supervision.

- 4.17 *Development effectiveness and efficiency: Key action items.* To operationalize the principles of effectiveness and efficiency, the Bank is committed to:
- a. *Closing the cycle: Incorporating learning about past into project design.* The Bank will enhance the way in which lessons from past experiences—found in institutional reports and impact evaluations²¹—provide feedback, are being used in new operations, and are made available to the development community at large.
 - b. *Providing incentives to learn during the project cycle.* Once lessons are available to all, the Bank will need to provide the internal ecosystem where its staff can readily identify and learn from failures and use successes to benefit future operations.
 - c. *Speeding up the project cycle.* The need to respond to the call for quicker delivery of operations means the Bank must design, process, and supervise execution of operations more efficiently, while strictly adhering to its safeguards and Bank policies. To accomplish this, the IDB will continue to improve its business process throughout the entire project cycle.²²
- 4.18 *Strengthening the IDB's catalytic role in the Region.* The IDB's catalytic capability results from the Bank's ability to leverage its resources and networks to accelerate the pace and impact of development of its client countries. This catalytic role comes from its capacity to make complex and impactful projects happen or accelerate them not only because it can leverage financial resources, but also due to its knowledge, experience and convening power to bring different parties to the table. At the country/program level, the IDB will strategically work with clients to tackle their main development challenges by selecting tailored interventions that add the most value, while balancing the Bank's responsive nature. At the project level, the IDB's strategic view will be enhanced by understanding the multiple options available, considering those that add the most value—taking into account the specific circumstances of each development problem—and, if needed, rethinking ways in which to tackle these problems to provide better—and if possible, easier—ways to overcome these barriers.

Guiding Principle 4: Leverage and Partnerships

- 4.19 Partnerships help bring in not only additional resources, but also knowledge that can enhance and scale up the impact of Bank-supported operations. Since signing the Paris Declaration in 2005 and through its 2011 endorsement of the Global Partnership for Effective Development

²¹ For instance, though Project Completion Reports (PCRs), the Bank will continue to enlarge and improve the stock of lessons learned, and extend their availability and usefulness for all clients and stakeholders.

²² For instance, Program Óptima has completed a comprehensive mapping of current operations and corporate processes, and significant progress has been made toward the objective of transforming IDB business activities so as to work better with clients and disseminate the development results of the Bank's interventions. More than 70 concrete improvements Bank-wide had been approved as a result by 2014. See OVE's 2013 background paper, "Integrated Business Solution 'Program Óptima'" (RE-432-3).

Cooperation,²³ the IDB has increasingly sought to operationalize this principle. Examples include articulating in Country Strategies how the IDB's planned activities complement the work of other development actors, as well as setting specific targets to leverage NSG lending. Today, the IDB, together with the other MDBs and the International Monetary Fund, coordinates with more than 100 working groups that address a variety of issues ranging from high-level strategic questions such as their collective role in the debate over the post 2015 development agenda²⁴ to meet the Millennium Development Goals to more operational issues such as environmental and social safeguards policies.

- 4.20 The Bank reaffirms its commitment to ramping up the level of engagement with its diverse counterpart governments, other MDBs (from within and outside of the Region), the private sector (both for-profit and non-profit entities) and the development community as a whole in understanding the evolving development challenges the Region faces, as well as the design and implementation of effective solutions. This means not only building on the Bank's comparative advantages as a regional institution, but also ensuring the complementarity and additionality of the work of other development partners—particularly at the country level—to reduce the transactional costs of public and private sector clients in providing both financial and nonfinancial support.

Guiding Principle 5: Innovation and Knowledge

- 4.21 The IDB places innovation and knowledge at the center of its work to accelerate development. It is through innovation that the Bank has the opportunity to support LAC's efforts to increase its development pace, reach many more beneficiaries, and find new solutions to spur economic expansion. This not only requires that the IDB continues to generate relevant technical knowledge and apply it with rigor, but also that it try, test, and reiterate innovative approaches and adapt them to country realities to solve development problems.
- 4.22 This powerful combination of learning and innovation will catalyze the IDB's work to improve lives. The Region and the Bank are at a point where success is defined not simply by scale, but by the ability to learn (and unlearn) more rapidly. Having an innovative culture is about redefining the rationale of the Bank from scalable efficiency to scalable learning that can be directly applied to the Bank's operational work, and contribute to broadening and refining its portfolio of interventions and knowledge products. This approach to innovation must continue to provide avenues for exploring new ways to address challenges, enhance knowledge exchange and management systems, and build knowledge networks with other development agencies and international organizations.
- 4.23 To promote the adaptation of successful development approaches, it is important to strengthen the Bank's capacity to learn and to disseminate what it has learned. This calls for increasing the efforts to generate knowledge of what works and what does not, based on rigorous evidence—which, in turn, requires continuing to evaluate projects throughout their life cycle. Furthermore,

²³ Established in Busan, Korea in 2011, the GPECD is an alliance of developing and developed countries, multilateral and bilateral institutions, and representatives of private sector and civil society that supports the following principles of effective development cooperation: (i) ownership by developing countries; (ii) focus on results; (iii) inclusive development partnerships (private sector, civil society, and emerging donors); and (iv) transparency and accountability.

²⁴ For more on the post-2015 development agenda see http://www.undp.org/content/undp/en/home/mdgoverview/mdg_goals/post-2015-development-agenda.html.

to so that innovation can permeate throughout the institution, the IDB needs to create a new culture where collaboration, diversity, experimentation, and practice are the main ingredients resulting in better solutions, processes, and products. This effort should not occur only within the Bank: much of the systemic impact of the Bank comes from its knowledge being used by our counterparts to adapt or scale up successful Bank-financed projects and to change and improve policy. For this reason, the Bank will continue strengthening its strategic communication capabilities at all levels.

4.24 *Strengthening IDB's catalytic role: Key action items.* To improve the IDB's catalytic role and operationalize the principles of knowledge and innovation and leverage and partnerships, the Bank will consider:

- a. *Refining the approach to client heterogeneity.* The IDB will need to continue acknowledging the different types of client segments in which it works as the starting point to specialize and improve the delivery of its services—for example, introducing instruments such as fee-based services, or more knowledge products for high-middle-income countries.
- b. *Prioritizing program selectivity.* The IDB will need to continue explicitly identifying its sectoral strengths to advise its clients where and how it can provide the greatest value, and match them with the countries' needs. Countries know their development constraints, and within that agenda, the Bank will provide options and instruments that ensure delivery. Selectivity will also continue to be part of the rolling, 3-year update of SFDs. These strategic, non-normative documents present frontier development literature and lessons learned within each sector to determine what works and what does not. SFDs also discuss the main challenges in the sector for the region and, given the Bank's comparative advantages and lessons learned, prioritize areas of work within the sector to enhance the impact of Bank's interventions.²⁵
- c. *Extending the networks of knowledge.* Building on its years of experience in the Region, technical knowledge, as well as world and regional partnerships, the IDB will continue its efforts to build knowledge management systems to bring proven solutions and/or innovations to solve its client's most pressing development problems in each intervention. The Bank will also strengthen its efforts in the management of its knowledge products, ensuring high technical quality and enhanced dissemination strategies.
- d. *Improving additionality.* Acknowledging the IDB's track record of catalyzing financing by leveraging resources and partner networks, the Organization will continue building up and enlarging partner networks in the Region and overseas.

4.25 *Advancing a comprehensive Institutional Strategy for the entire Inter-American Bank Group.* Aligning all work to the updated Strategy is essential to making the Update relevant to everyone at the IDB. To achieve this, the priorities and principles presented in the updated IS will have to permeate the IDB in its entirety—personnel, departments, entities, instruments (loans and

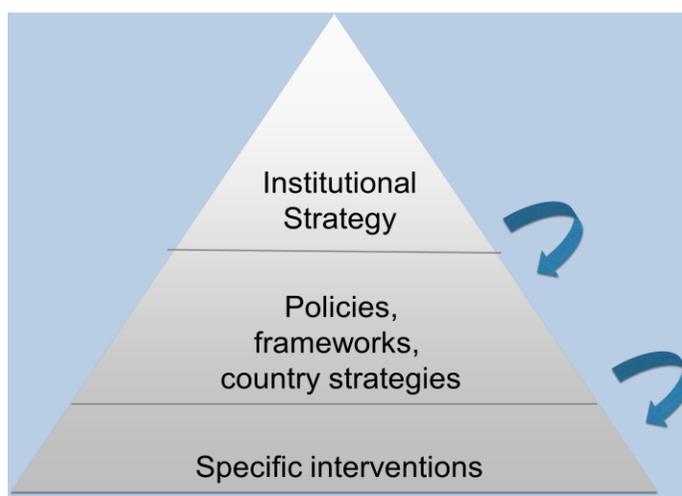
²⁵ These selectivity and prioritization in SFDs is not normative, but rather driven by the state of frontier sector discussion and client realities.

technical cooperation) and products—aligning the Bank’s operational, organizational, physical, human, and capital resources around it (see figure 1).

Guiding Principle 6: Alignment

- 4.26 The updated Institutional Strategy will guide the entire Bank from 2016 to 2019. For sovereign guarantee interventions, the update of the Institutional Strategy will be implemented via the Country Strategies (which will guide public and private sector interventions),²⁶ the Sector Framework Documents (SFDs), and country programming exercises and documents. In the case of NSG interventions, implementation of the updated Strategy will also be made through SFDs and the Renewed Vision. The updated Strategy refers to the public and private sectors in an integrated manner, with the intention of having a single strategy that takes advantage of synergies and provides the right incentives, and that will reflect the IDB Group once *NewCo* is established.
- 4.27 Essential to effective implementation of the Strategy is making it relevant to everyone at the IDB by aligning all work around it. To achieve this, the priorities and principles presented in the updated IS will have to permeate the IDB in its entirety—personnel, departments, entities, instruments (loans and technical cooperation) and products—aligning the Bank’s operational, organizational, physical, human, and capital resources around it (see figure 2).

Figure 2. Alignment in Action

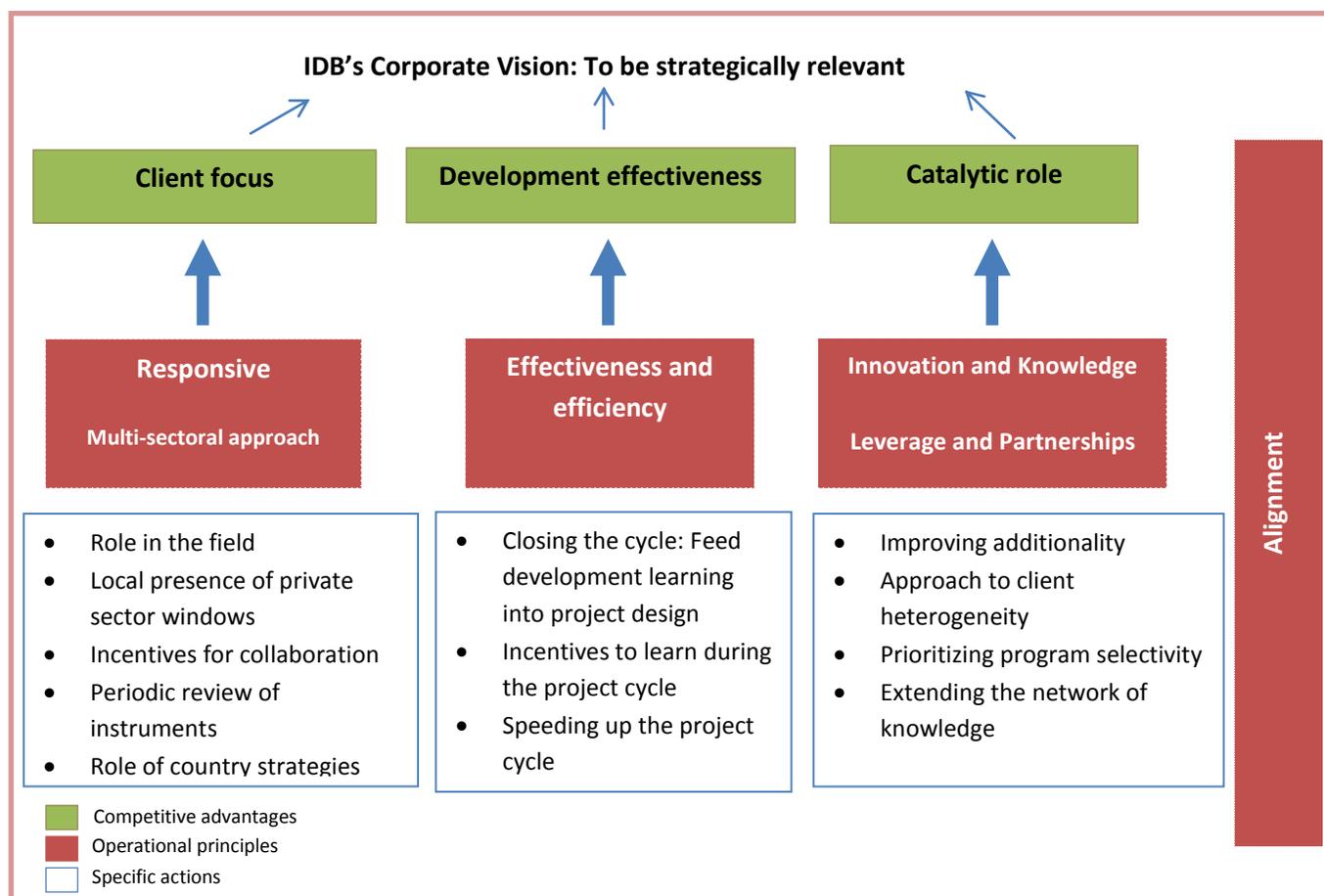


- 4.28 Alignment also means that the updated Institutional Strategy will become part of IDB’s corporate identity (see figure 3). This implies that all personnel should be knowledgeable about the IS, be capable of articulating its principles, and ultimately will have a sense of ownership regarding its goals, particularly those to which they can contribute. To enhance this sense of ownership, the Organization’s corporate communications will be critical. The Bank will also incorporate

²⁶ CSs will be critical instruments for alignment. They provide strategic direction and guide the programming exercise by which the financial and non-financial instruments (such as TCs) and multi-sector interventions are prioritized. In this context, it is envisioned that the new CS Guidelines which are currently being designed will call for indicating specifically how IDB’s competitive advantages will contribute in each country to tackle the development challenges through the IS objectives.

Strategy’s vision and principles into its dialogue and engagement with key stakeholders such as civil society organizations and academic institutions.

Figure 3. IDB’s Corporate Vision



4.b | Monitoring IDB’s Outcomes

4.29 The Corporate Results Framework (CRF) will continue to serve as the primary tool for monitoring and measuring the IDB’s performance and the achievement of its strategic objectives. As established in the IDB-9 Report, the CRF is “an integral part of the Bank’s efforts to use empirical evidence to manage for development results and is central to ensure accountability for delivering results.”

4.30 Progress on implementing the updated Institutional Strategy will be measured through an enhanced CRF that captures not only the results from IDB-supported interventions aimed at addressing the three key challenges facing the Region, but also how the Bank operationalizes the six principles that will guide its day-to-day work. The updated CRF will also aim to address the key recommendations made by OVE in its Mid-Term Evaluation of IDB-9 Commitments, in particular, its recommendation to “revisit the CRF with an eye towards simplification, improved

data accuracy and full knowledge and ownership by Bank staff and other stakeholders.”²⁷ The 2016–2019 CRF therefore is expected to have a simplified structure, fewer indicators, and improved data reporting procedures, and be better integrated into key IDB business processes.²⁸

- 4.31 Drawing on its own stocktaking with the current CRF and the experience of comparator organizations, Management has begun to examine how to improve not only the content of the CRF, but also the processes surrounding its use. In addition, the updated CRF will be informed by the ongoing discussion on the Sustainable Development Goals (SDGs). The updated CRF is expected to have three, instead of four, distinct levels of indicators: (i) Regional Context; (ii) Country Development Results; and (iii) Bank Performance. The first two levels will be organized around the Update’s three principal challenges and three cross-cutting themes. The third level will capture how the Bank works and will be organized around the six operational principles.²⁹
- 4.32 The results reported in the CRF will rely primarily on existing IDB data sources and monitoring tools, which will be adapted as needed to reflect the strategic and operational focus of the Update. With respect to Country Development Results, a key source of information for the majority of indicators will be the Project Monitoring Report (PMR) system—the information system that tracks the outputs and outcomes of Bank-financed SG operations. After the IS Update is approved, the complete CRF proposal (including targets for relevant indicators) will be finalized and presented to the Board of Executive Directors for its consideration and eventual approval in 2015, so that the Bank can begin to monitor the updated Strategy in January 2016

5| NEXT STEPS

- 5.1 This updated Institutional Strategy will steer the Bank’s work from 2016 to 2019, as well as ongoing and future strategic discussions at the corporate, country, and operational levels. It will also inform the design of specific Bank-supported interventions at the country level through policies and frameworks guiding the individual work planning and performance evaluations of IDB staff.
- 5.2 Most of the strategic discussions are under way and under the realm of the Board, and they will include:
 - a. *CRF and monitoring*: The recent delegation of authority over the updated CRF to the Board of Executive Directors³⁰ is an important step in making the CRF a more useful monitoring tool throughout the entire Strategy Update period. In the months following the Governors’ approval of the updated IS, the complete CRF proposal (including time-bound targets for each of its indicators) will be finalized and presented to the Board of Executive Directors.

²⁷ See RE-425.

²⁸ Moreover, dialogue with the Board of Executive Directors regarding the progress towards reaching the CRF targets will be conducted each year of the implementation of the Institutional Strategy 2016–2019.

²⁹ Regarding the development effectiveness and efficiency indicators, the MDBs are jointly working on defining better metrics to capture the concept of value for money. As part of this exercise, considerable methodological challenges have surfaced: namely, measuring the costs of delivering heterogeneous products in diverse settings that focus on generating development outcomes with the most impact, although they may not necessarily be the cheapest to deliver.

³⁰ Updating of the IDB’s Corporate Results Framework: Proposal to Request Delegation of Authority from Board of Governors (AB-2993), August 2014.

- b. *Country Strategies*: The ongoing process of updating the Country Strategy guidelines will continue in the context of this Institutional Strategy, and will be presented to the Board of Executive Directors for further strategic discussion. The main purpose of these guidelines is to promote a more efficient and tailored process that improves selectivity and applies country knowledge and multi-sectoral analysis better.
- c. *Portfolio of instruments*: The portfolio of instruments will be periodically revised and enhanced as needed to meet evolving client needs, such as regional financing facilities, fee for services, or policy-based lending.
- d. *Human resources*: As part of the planned update to the Human Capital Strategy (HCS), the Bank will ensure that all of the priorities and principles are adequately reflected in the core competencies for staff performance. Existing competencies will be reinforced or new competencies will be introduced to foster (i) collaboration, teamwork, and inclusion in the approach to the provision of business solutions; (ii) client focus to understand client needs and provide services that meet expectations for quality and performance; (iii) innovation and creativity for the development of solutions; and (iv) effective communication and leveraging of relationships and knowledge.
- e. *Special programs*: Integrating knowledge with the Bank's financial resources and developing knowledge management systems will command greater attention in the implementation of the updated Strategy. The IDB's Special Programs (SPs) is one of the central vehicles to accomplish this, as it mobilizes financial resources with knowledge generation/dissemination to support the three core challenges and three cross-cutting topics the Region will face in the coming years. The Bank will continue to work toward improving the mechanisms aimed at ensuring that the resources of Special Programs are allocated according to the strategic priorities of both the Bank and its member countries. In doing so, the Bank will leverage the flexibility and results-oriented approach of the current SPs architecture to make sure that these instruments make the greatest contribution to addressing priority social and economic development challenges in the Region.
- f. *Processes*: Progress toward meeting CRF targets, in turn, will inform the Bank's annual business planning at all levels (departments, divisions, Country Offices, and individual staff). Management will promote greater alignment of the CRF's metrics and business processes with those from other corporate performance measurement systems to foster shared accountability in meeting institutional goals, to provide a consistent vision of strategic direction throughout the IDB, and to ensure that all Bank staff understands how they are expected to contribute to these institutional goals and priorities.
- g. *Collaboration with development partners*: The Bank will continue to collaborate with its development partners, particularly the other MDBs active in the Region, in implementing this Strategy. The Bank is committed to ramping up its efforts to coordinate with other players to promote efficiency and avoid duplication of efforts in both financing and knowledge-sharing efforts, while focusing on the IS priorities that have been articulated in the Country Strategies, in line with the needs and interests that countries have specified.
- h. *SDGs and global public goods*: As the timing of this Strategy Update coincides with a critical year for the global development agenda, the IDB, along with the other MDBs and the IMF, have been closely working together to explore and confirm how best, within their respective

institutional mandates, they can contribute to supporting the implementation of the post 2015-Development Agenda and the SDGs that will eventually underpin it. Together, these organizations are preparing a paper that outlines their joint vision for this support. The paper will be presented in the upcoming Third International Conference on Financing for Development (FFD) to be held in July 2015. Like other development partners, these organizations agree on the need for intelligent development finance that goes well beyond filling financing gaps; as well as the need to unlock, leverage, and catalyze both private flows and domestic resources to fund the ambitious post-2015 agenda. The MDBs and the International Monetary Fund also reaffirm their commitment to work alongside their developing country partners to help translate the SDGs, once approved, into meaningful country level targets, policies, and programs³¹ and support their effective implementation.³² In the IDB's case, many development issues central to the SDGs, as currently articulated,³³ align closely with the key challenges and cross-cutting themes described in this Update. Issues such as inclusiveness, sustainable production, regional infrastructure, gender equality, institutions, and climate change are at the core of both agendas. As such, and as noted in Section 4, a select group of SDG indicators that are relevant for the Region and the Bank will be included in the updated CRF for 2016–2019, which will allow the Bank to harmonize CRF reporting with the international development agenda, where appropriate, and improve the efficiency of data collection and reporting.

- i. *Internal communications and buy-in:* The successful implementation of this updated Strategy, like any change in organizational culture, depends on the beliefs and behaviors of the individuals that make up that culture. As a result of the highly participatory process by which this Update was prepared (and the Update to the CRF is currently being developed), as well as the communication efforts carried out to date and planned for the future of both the Strategy Update and the recently launched IDB branding. This process should be fully embedded into the updated corporate identity and in related communications efforts so that all staff understand the Update and how their work fits in the Strategy and how to apply the principles to their day-to-day work, and can explain it to external audiences and partners. All Bank employees are expected to have greater sense of engagement with, and ownership of, the priorities and principles proposed in this Update.

³¹ Joint letter from the Presidents of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, and the World Bank Group, and the Managing Director of the International Monetary Fund to the United Nations Secretary General, July 2013.

³² Ultimately, it is through the programming process that MDBs and partner countries agree on the shared priorities and the financial and nonfinancial products and services best suited to address them.

³³ At the time of this writing, 17 SDGs were under consideration by the UN member states.

6| APPENDIX:

Appendix I

DRAFT RESOLUTIONS

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE- /15

Update to the Institutional Strategy Update 2010–2020

The Board of Executive Directors

RESOLVES:

1. To submit to the Board of Governors for consideration document [GN-____], entitled “Update to the Institutional Strategy Update 2010–2020: Partnering with Latin America and the Caribbean to Improve Lives.”

2. To submit to the Board of Governors for information document GN-2788-3, entitled “Corporate Results Framework: Progress to Date.”

3. To recommend that the Board of Governors approve the proposed resolution attached as Appendix II of the document, referred to in paragraph 1 of this resolution.

(Adopted on _____ 2015)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION AG- /15

Update to the Institutional Strategy Update 2010–2020

WHEREAS:

Pursuant to Resolution AG-7/10 of July 21, 2010, the Board of Governors approved the “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank” (hereinafter referred to as “IDB-9” or “the IDB-9 document”);

The IDB-9 document sets forth the Bank’s current Institutional Strategy, as the Bank’s core strategic guidance document, and establishes that every four years the Board of Governors will review and evaluate the execution of IDB-9 through updates to the Institutional Strategy;

Pursuant to Resolution DE-[____], the Board of Executive Directors agreed to submit for consideration of the Board of Governors document AB-[____], entitled “Update to the Institutional Strategy 2010–2020: Partnering with Latin America and the Caribbean to Improve Lives,” and this proposed resolution;

The Board of Governors

RESOLVES:

1. To approve the Update to the Institutional Strategy 2010–2020 set forth in document [AB-____].

(Adopted on _____ 2015)

APPROVED RESOLUTIONS

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-10 /15

Update to the Institutional Strategy Update 2010–2020

The Board of Executive Directors

RESOLVES:

1. To submit to the Board of Governors for consideration document GN-2788-5, entitled “Update to the Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve Lives.”
2. To submit to the Board of Governors for information document GN-2788-3, entitled “Corporate Results Framework: Progress to Date.”
3. To recommend that the Board of Governors approve the proposed resolution attached as Appendix II of the document, referred to in paragraph 1 of this resolution.

(Adopted on 12 March 2015)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION AG-8/15

Update to the Institutional Strategy 2010-2020

WHEREAS:

Pursuant to Resolution AG-7/10 of July 21, 2010, the Board of Governors approved the “Report on the Ninth General Increase in the Resources of the Inter-American Development Bank” (hereinafter referred to as “IDB-9” or “IDB-9 document”);

The IDB-9 document sets forth the Bank’s current Institutional Strategy, as the Bank’s core strategic guidance document, and establishes that every four years the Board of Governors will review and evaluate the execution of IDB-9 through updates to the Institutional Strategy;

Pursuant to Resolution DE-010/15, the Board of Executive Directors agreed to submit for consideration of the Board of Governors document AB-3008, entitled “Update to the Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve Lives” and this proposed resolution;

The Board of Governors

RESOLVES:

1. To approve the Update to the Institutional Strategy 2010-2020 set forth in document AB-3008.
2. To instruct Management to create an Action Plan with time-bound targets and specific actions for the implementation of the updated Institutional Strategy to be approved by the Board of Executive Directors by September 30, 2015.

Adopted on 30 March 2015