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SUMMARY DOCUMENT: DELIVERING THE RENEWED VISION FOR THE IDB GROUP PRIVATE SECTOR MERGE-OUT

May 8, 2015

This document is a summary of the document "Delivering the Renewed Vision, Organizational and Capitalization Proposal for the IDB Group Private Sector Merge Out" dated March 11, 2015 and includes updates according to Resolution AG-9/15 and CII/AG-2/15 approved on March 30, 2015 by the Boards of Governors of the IDB and the IIC at the 2015 Annual Meeting in Busan, Korea.

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ACRONYMS AND ABBREVIATIONS

ACR	Administrative Coverage Ratio
AHC	Ad Hoc Committee on the Private Sector
BA	Business Aligned
BE	Business Embedded
CAF	Chief Administration and Finance Officer
CAGR	Compound Annual Growth Rate
CAP	Capital Adequacy Policy
CEO	Chief Executive Officer
CIO	Chief Investment Operations
CO	Corporations
CRO	Chief Risk Officer
CSO	Chief Strategic Planning, Development Effectiveness and Programming
DFI	Development Financial Institution
EAG	External Advisory Group
FI	Financial Intermediary
FSO	Fund for Special Operations
FTE	Full Time Equivalent
GCI-9	Ninth General Capital Increase
IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IIC	Inter-American Investment Corporation
IMO	Implementation Management Office
IREs	Internationally Recognized Experts
IT	Information Technology
LAC	Latin American and Caribbean
LTFP	Long-Term Financial Plan
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund
MSMEs	Micro, Small and Medium Enterprises
NSG	Non-Sovereign Guaranteed
OC	Ordinary Capital
OMJ	Opportunities for the Majority
OVE	Office of Evaluation and Oversight
PBAs	Priority Business Areas
PBL	Policy Based Loan
RAC	Risk Adjusted Capital
SCF	Structured and Corporate Finance
SLA	Service Level Agreement
SG	Sovereign Guarantee
SS	Shared Services

UBC	Unused Borrowing Capacity
VPF	Vice Presidency for Finance and Administration
VPP	Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations
VPS	Vice Presidency for Sectors and Knowledge

I. INTRODUCTION[1]

1.1 The private sector plays a key role in economic development and achieving higher economic growth. It is also a key vehicle to reducing poverty and creating opportunities for individuals and can be a significant means to advance greater inclusion. Promoting development through the private sector has therefore been an important element of the Inter-American Development Bank Group's (IDBG) support for Latin American and Caribbean (LAC) countries since its foundation, over half a century ago.

1.2 IDBG's Non Sovereign Guaranteed (NSG) activities are carried out through four dedicated windows, housed in two legally independent institutions (the Inter-American Development Bank -IDB and the Inter-American Investment Corporation - IIC) and a trust fund (the Multilateral Investment Fund - MIF) administered by the Bank. This organizational fragmentation is reflected in different governance structures, balance sheets, operating models and overlapping mandates. The IDBG's NSG organizational arrangement is not the result of deliberate organizational design; it merely reflects mandates assigned to the IDBG over time, without placing adequate attention to questions of administrative efficiency, IDBG-wide synergies or to the capital requirements of stand-alone NSG operations.

1.3 The shortcomings of the organization in place at the IDBG to support development through the private sector have been evident for a long time. Two years ago, during the annual meeting held in March 2013 in Panama City, the Boards of Governors of the IDB and the IIC issued a resolution[2] to establish an Ad Hoc Committee on the private sector (AHC), representing the Boards of Executive Directors of the IDB and of the IIC, as well as the Donors Committee of the MIF. The IDB and IIC Governors mandated the AHC to direct the IDB, IIC and MIF Management in the development of a Renewed Vision for the activities of the IDB Group (IDBG) with the private sector, with a focus on strengthening development effectiveness, development impact and additionality. The Resolution also included considering possible operational changes and structural alternatives required to deliver the Renewed Vision as well as maximizing the efficient use of resources and the synergies between public and private sector activities.

1.4 Governors welcomed the progress made towards the proposed operational and financial consolidation of the IDBG's NSG activities into the IIC for purposes of supporting the implementation of the Renewed Vision during the 2014 Annual Meeting. They also supported ongoing efforts to enhance development effectiveness, development impact and additionality as well as closer Sovereign

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[1] This document summarizes the document "Delivering the Renewed Vision, Organizational and Capitalization Proposal for the IDB Group Private Sector Merge Out" prepared for Governors' consideration at the 2015 Annual Meeting held in Busan, and the Resolution AG-9/15 and CII/AG-2/15 approved by the Boards of Governors of the IDB and the IIC on March 30, 2015 at the Annual Meeting.

[2] Resolution AG-7/13 and CII/AG-2/13.

Guaranteed (SG) and NSG coordination. Governors instructed the AHC of the Boards of Executive Directors of the IDB and the IIC to hire internationally recognized experts (IREs) to provide an external and independent analysis of the assumptions and implications of Management's proposed business and capitalization models as well as inputs to Management in the development of proposals, including a detailed implementation plan, to (i) transfer operational and administrative functions and non-financial resources from the IDB to the IIC as well as to (ii) capitalize the consolidated entity. These proposals were to be presented for consideration and decision to the IDB and IIC's Boards of Governors at the March 2015 Annual Meeting.

1.5 During the meeting of the Committees of the Boards of Governors of the IDB and IIC that took place in October 2014, Governors expressed their support to the reform process and restated NewCo's[3] objective to promote economic and social development in Latin America and the Caribbean through the private sector. Governors requested that work should continue to develop the organizational and capitalization proposals to be presented at the 2015 Annual Meeting in Busan.

1.6 The AHC selected McKinsey & Company through a competitive hiring process as its IREs. McKinsey presented its evaluation of Management's Preliminary Organizational proposal to the AHC on October 30th 2014. It stated that Management's proposal was "largely in line with best practices for development finance institutions and private sector finance institutions" and made recommendations for enhancing it for consideration of the AHC and Management.

1.7 Management agreed with the majority of McKinsey's proposed enhancements and with the guidance provided by Governors, the AHC, and McKinsey & Company, proceeded to refine the Organizational Proposal. Management subsequently worked under the guidance of McKinsey & Company in the preparation of an implementation plan.

1.8 Management also prepared a Capitalization Proposal under the guidance of the AHC and in accordance to the mandates of the Resolution approved by Governors at the 2014 Annual Meeting held in Bahia, which stated that [the proposal] "… shall: (i) take into account IDB's upcoming new capital adequacy policy; (ii) preserve the SG and NSG lending envelope consistent with GCI-9; (iii) safeguard the AAA IDB credit rating; and (iv) propose parameters for a sunset clause for cross-booking. The capitalization proposal shall include mechanisms that will allow for flexibility."[4]

1.9 The mandate for preparing the capitalization proposal addresses the restrictions faced by the IDB in terms of its capacity to transfer capital to NewCo consistent with its credit rating mandate and its new capital adequacy policy. It also requires

[3] NewCo is the name used throughout this document to refer to the entity that would consolidate the IDBG's NSG operations. NewCo will operate under the existing IIC Charter and its legal name will be the IIC, but the use of NewCo in this document aims to avoid confusion with the IIC as it exists today.

[4] Resolution AG-6/14 and CII/AG-2/14.

preserving the IDBG's mission in terms of lending and ensuring NewCo's viability. Therefore, capitalization proposals that did not preserve SG and NSG lending volumes consistent with the GCI-9, that included open ended periods of cross-booking and/or arrangements that would ultimately be reflected in a sub-capitalized institution were not congruent with the Resolution.

1.10 McKinsey & Company provided an independent and external analysis of NewCo's capitalization requirements, financial models and provided valuable inputs to the AHC and Management, which were subsequently considered in developing the proposal.

1.11 This document is organized as follows: after this brief introduction, Section II reviews the central elements of the Renewed Vision for the IDBG's NSG activities. The third section begins with a description of the current state of NSG activities at the IDBG and then presents the central elements of the Organizational Proposal and Implementation Plan discussed by the AHC. The fourth and last section details the capitalization agreement reached by Governors in Busan of $2.03 billion, comprised of $1.305 billion in additional shareholder contributions and $0.725 billion in capital transfers from the IDB to the IIC.

II. THE CASE FOR NEWCO

2.1 This chapter summarizes the analysis carried out on the IDBG's private sector reform focusing on two specific questions:

a. Given the clear role that Development Finance Institutions (DFIs) play to promote development through the private sector, what is the IDBG's specific vision to address this challenge?

b. Why is NewCo the best answer to deliver on the IDBG's vision?

A. The IDBG's Renewed Vision to promote development through the private sector

2.2 ***The Renewed Vision for fostering development through the private sector*** aims at improving the effectiveness of the interventions the IDBG supports in the region. It requires actively selecting projects based on their potential to generate measurable developmental impacts alongside a financial return that will ensure NewCo's financial sustainability (NewCo's dual mandate). This vision is built on (1) Three strategic pillars, (2) Five priority business areas, (3) Three transversal areas, and (4) One strategic tool –the portfolio approach- to guide project origination.

2.3 NewCo will establish goal level indicators for operational level objectives and key strategic goals. These indicators will be used to prioritize projects and ensure their relevance in terms of the IDBG's mandate and the region's needs. Likewise, outcome and output indicators for every project will be used to track the corporate performance. Lastly, strategic communications will be critical for the dissemination of successful outcomes and models.

2.4 The ***three strategic pillars*** designed to lead NewCo's activities follow.

a. The first pillar is **strategic selectivity**. NewCo will choose interventions in areas where it can make the greatest difference and will shape these interventions in a way that their impact can be maximized.

b. A **systemic approach** will be used to ensure that NewCo's resources have an impact greater than that of an individual project. This will be achieved by setting ambitious, systemic targets upfront, programming upstream work and designing targeted operations, coupled with effective evaluation, knowledge generation and strategic communication.

c. An ex-ante and ex-post focus on **development effectiveness** will ensure that the systemic objectives established are properly tracked and can be used to guide strategic direction at the corporate level. Earlier engagement complemented by a rigorous approach to monitoring and evaluating results, will be built into the organizational design and staff incentives will be implemented to ensure this becomes an integral part of NewCo's culture[5].

2.5 To ensure focus on development impact, NewCo will promote, target and strategically select its operations in ***five clearly defined Priority Business Areas***[6] (PBAs). The selection of these areas is supported by a vast amount of analysis that shows their relevance from a development effectiveness perspective and each will have associated measurable results.

a. **PBA 1 - Increase MSMEs' access to Finance and Technical Assistance.** By focusing on this business area, NewCo aims to enhance MSME productivity and build domestic markets for a broad range of competitive financing and business advisory services to support MSMEs through their growth cycle.

b. **PBA 2 - Promote infrastructure for development.** By supporting the design and execution of infrastructure projects, increasing access to clean water, energy, modern transport and goods and services, NewCo aims to foster competitiveness, productivity and integration within the region as well as globally.

c. **PBA 3 - Support innovation and technological development.** Productivity growth is strongly constrained by suboptimal investment in innovation. Support for innovation requires partnership between the public and private sector to create the right conditions to support innovation as well as programs to enhance young people's creativity and technical skills.

d. **PBA 4 - Enhance private provision of basic goods and services**, income generating opportunities and social mobility for vulnerable populations. Private entities can effectively bring lower cost, higher quality goods and services like education, housing, water, health and financial services to vulnerable populations, and can effectively integrate small farmers, the self-employed and new entrepreneurs into their supply chains.

PBA 5 - Foster green growth. The private sector will need to take a leading role in the use of energy efficient production methods, carbon reduction efforts, and the creation of new economic, financial, and business opportunities that contribute to sustainable development.

2.6 Each PBA will also take into account ***three transversal topics***:

a. **Gender and Diversity:** Each PBA will establish gender and diversity goals and incorporate mechanisms, when necessary, to support these.

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[5] NewCo will make a greater use of incentives structures currently in place at the IIC in order to enhance development outcomes.

[6] These areas have been chosen due to: (i) their importance for the region's economies, (ii) the presence of extensive demand for financing to address market imperfections, (iii) specific competitive advantages that give NewCo a strategic edge and allow it to market effectively, and (iv) the ability of NewCo to leverage and complement the work of key development partners, such as other MDBs and national development banks

b. **Environmental and Social Sustainability:** All programs will maintain the IDBG's high levels of environmental and social safeguards and, where relevant, will introduce components to provide environmental and social value added.

c. **Enabling Environment:** Coordination within the IDBG will be particularly relevant to work with a variety of stakeholders on the enabling environment and allow the scalability of programs that prove effective.

2.7 To successfully achieve development through the private sector, the IDBG will need to work with the full range of actors -including self-employed individuals, microenterprises, small and medium sized firms, large enterprises, financial intermediaries, and state-owned enterprises[7]. All these actors face distinct institutional and market failures, operate under specific regulatory environments, and have different needs. This brings into focus the true importance of a strong and comprehensive development framework. Therefore, providing specific answers for each type of demand must be a key feature of any Bank Group strategy dealing with the private sector. Much more needs to be done to address the disparities between the relatively few capital-intensive, highly productive firms and the large mass of smaller, less efficient, and often informal firms that lag behind. Strategies to create linkages and develop more integrated economic systems where private investments can be better leveraged need to be put in place if the private sector is to maximize its value as an engine of equitable growth.

2.8 The overall goals for NewCo's work with the private sector will be aligned with the IDBG strategic goals: (i) promoting sustainable growth and (ii) reducing poverty, inequality and vulnerability. ***A Corporate Results Framework*** that will use higher order result indicators to reflect shared institutional goals it's being developed.

2.9 Delivering on the Renewed Vision's "Development Effectiveness" pillar will require the implementation of a comprehensive Development Effectiveness Framework (DEF). This framework should contemplate thorough practices for (i) defining strategic guidelines, (ii) setting tight priorities, (iii) selecting interventions that meet those guidelines and priorities, and (iv) evaluating the results. Furthermore, selecting the right interventions requires an effective Development Effectiveness Tool (DET) to measure the expected development impact and additionality of NewCo's operations as well as their potential financial contribution to ensure NewCo's long-term financial sustainability. Each of the IDB group windows has adopted similar organizational arrangements and tools to address these issues. NewCo will unify these arrangements into a ***single DEF***, a ***single DET*** and a ***balanced portfolio approach***. Management has already made

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[7] Allowing NewCo to deliver on the Renewed Vision requires the revision of the eligibility regulations in this area so that the Merge-Out, a-priori, does not exclude the full range of operations currently carried out by any of the IDBG's NSG windows. This is reflected in Article 10 of Resolution AG-9/15 and CII/AG-2/15.

significant progress to develop these instruments, which will be tested in the second and third quarters of 2015 and will be fully operational by January 2016.

2.10 The strategic tool guiding project origination will be ***the Portfolio Approach***, in place at the IIC since 2007, by which operations are viewed not only individually, but also according to their contributions to the overall portfolio. The projects eligible for financing by NewCo will be assessed based on their potential for development impact and financial risk/returns. The objective is to build a balanced portfolio covering the full range of outcomes between projects that may have very high development impact but more uncertain risk-weighted financial return, and projects that show great strength from the risk/return perspective but show less but still satisfactory development impact. This process aims at systematically managing potential trade-offs and constructing a portfolio which on the whole delivers on the mission to maximize development impact and ensure long-term financial sustainability.

B. NewCo is the right instrument to deliver on the Renewed Vision

2.11 The Renewed Vision asserts that merging-out the IDBG's private sector efforts into an independent entity will result in a ***private sector focused*** DFI, dubbed NewCo. In the hands of the Board and Management NewCo will become ***a powerful instrument*** to maximize ***development through the private sector*** within a framework of ***long-term financial sustainability***.

2.12 Management believes that the power of this instrument is a result of its design characteristics. In this context, NewCo is envisioned as development driven, transparent and accountable, flexible and adaptable, market focused, client centered, financially sustainable and fully responsive to the region and its shareholders. As a value proposition, these design characteristics can be translated into (i) two overarching objectives and (ii) five channels of impact.

2.13 The **two overarching objectives** achievable through consolidation are summarized below and a more comprehensive treatment is offered at the end of this section.

2.14 The strengthening of a high-performance ***private sector culture*** capable of managing private sector risk, centered on client service, committed to productivity, and thriving in a flexible organizational environment that promotes collaboration. A culture that embraces change and innovation and constantly increases its capacity to create and disseminate knowledge.

2.15 The establishment of a more ***strategically focused and accountable entity*** capable of designing and successfully implementing multi-year business plans geared towards the fulfillment of its dual mandate. Plans that create strong links between clearly defined development and business objectives, priority business areas and resources. Plans that include strong mechanisms for accountability to those objectives and a financial bottom line. Finally, plans that allow for revision and redirection taking full advantage of opportunities and challenges as they arise.

2.16 Management's analysis and discussions with the AHC have shown that the Merge-Out has the potential to substantially improve the IDBG's impact and financial strength through **five channels**:

2.17 *First impact channel*: Ensuring ***stable and predictable lending*** through the economic cycle. Crowding-out events of NSG lending, such as those registered at the IDB between 2008 and 2009, have important and sometimes permanent negative effects on the ability of the IDBG to reach private sector actors. NewCo's independence will allow it to make sound decisions for its own account in consideration of its development and business objectives which is essential for delivering impact.

2.18 Building relationships with private sector actors is a continuous effort that requires building trust and the ability to deliver when and as promised, with tolerance levels on behalf of private sector counterparts that are substantially lower than those present for SG interventions. This is especially true for multilateral institutions, which in compliance with their mandate, must ensure proper safeguards are in place. These safeguards typically exceed national standards, and are well beyond what the private financial sector might require.

2.19 As stated by McKinsey at AHC discussions, NewCo should maintain "a consistent presence during the economic cycle, adapting its product mix to suit changing economic times, which has more development impact than pro-cyclical private sector support. The IDBG should be able to adopt a long-term perspective with operating with the private sector and lending throughout the business cycle."

2.20 An independent, private-sector focused NewCo with the ability to maintain a stable and predictable flow of resources to the region throughout the economic cycles is an essential factor to achieve the objectives defined by the Development Effectiveness pillar of the Renewed Vision.

2.21 *Second impact channel*: Increase the IDBG's capacity to ***mobilize third party resources*** by becoming a more substantial, experienced and attractive partner for the private sector than what is the case in the status-quo. Following McKinsey's recommendations, this will require NewCo's Board and Management to adopt target mobilization levels and implement a strategy to achieve these targets. Adopting targets that are consistent with the experience of Development Financial Institutions that focus solely on the private sector would allow NewCo to deploy an estimated $65 billion in additional funds to the region in the proposed capitalization scenario over the ten-year projection period as well as improved know-how.

2.22 This is a core premise of the Merge-Out. Scale will play a role to attract investors to the region and so will coming to the market as a private sector focused institution that can speak the language of the partners it's trying to reach, both direct consequences of consolidation. Key to this effort will be the opportune creation of an asset management company as defined in the organization proposal.

2.23 *Third impact channel*: Achieve systemic impact and greater multiplier effects beyond its financial offering through ***more effective use of knowledge products***,

services and activities. Loan and equity operations alone, without effective evaluation, and knowledge generation and sharing, as well as effective dissemination and communication cannot achieve systemic impact. The Merge-Out affords the opportunity for knowledge to become part of NewCo's DNA. Effective coordination with the IDB will enhance this impact by leveraging the Bank's significant analytical and operational work with NewCo's activities.

2.24 This is why, alongside its financial products NewCo will deploy a comprehensive set of knowledge products including grant-based technical cooperation, fee-based advisory services and public-good type knowledge products. To further enhance its capacity for systemic impact, NewCo's knowledge offering will also leverage and disseminate IDBG products with "mass-market" reach.

2.25 The creation and dissemination of knowledge is a key component of NewCo's success. The Organization Proposal contemplates an array of roles and functions to ensure NewCo is supported by a strong analytical base. The resulting knowledge will be aimed primarily at identifying market failures and designing financial and knowledge instruments to address them. To achieve this purpose, the scope of the proposed "Strategy, Development and Programming" area that is presented in Section III, includes SG/NSG coordination and a knowledge and learning function both mandated to closely coordinate with the Bank, especially for the design of more effective interventions. Furthermore, the proposed "Investment Operations" area contemplates market intelligence and product development functions intended to take NewCo's analytical power directly to the market. To complete the cycle NewCo will focus on the optimization of its systems and processes and create the capacity to capture and utilize lessons learned from its operations.

2.26 *Fourth impact channel*: Create ***additional capital through increased retained earnings***. In the medium to long term, the availability of additional capital presents a clear opportunity to make practical use of the pillar of Strategic Selectivity. NewCo's Board and Management will have the responsibility to allocate these resources as they become available in line with NewCo's mission to maximize development impact as a consequence of clear financial strength.

2.27 The Merge-Out scenario assumes a 2.6% annual compound growth rate (CAGR) for NSG approvals between 2016 and 2025. McKinsey's final report on the subject points out that "*as NewCo gains scale and maturity it should enjoy even stronger income generation,* (even beyond the numbers in current projections), *also, as a separate institution, it will not be constrained by the same mandate and requirements that currently limit the growth of SCF and OMJ. Finally, if NewCo is able to improve its business profile for credit rating purposes, it could reduce the amount of capital it needs to hold*." Any and all of these events would allow NewCo to grow at a faster rate than projected.

2.28 *Fifth impact channel*: ***Generating and maintaining significant synergies*** at the operational level. A direct effect of consolidation will be increased operational efficiency obtained through optimized policies, procedures and systems that will translate into cost savings and efficiency gains that will increase NewCo's capacity to reach and impact the region's private sector.

2.29 Cost savings are expected as a result of synergies through the consolidation of IDBG's NSG activities. In addition, new positions will be created in NewCo for key functions such as SG/NSG coordination, market intelligence and Service Level Agreements (SLA) governance, which do not exist (or exist in a very limited way) in the status-quo, providing a qualitative boost to the quantitative savings estimated.

2.30 A clear positive feedback cycle exists between all five channels and NewCo's credit risk rating. Management believes that the assumptions behind the Organization and Capitalization Proposals –if properly implemented- provide arguments to pursue an improvement in NewCo's Business Profile as a path to improve its credit risk rating. If implemented, a strong capitalization commitment and fulfillment would bolster the argument of shareholder support. NewCo's expanded toolbox, scale, stable lending and mobilization capacity would strengthen its policy importance. Strengthening the link with the IDB through SG/NSG coordination and improving quality through market intelligence would be clear signals of improved governance. Given the tools, Management intends to exercise best efforts to achieve this objective.

The importance of SG-NSG coordination at the IDBG

2.31 The Organizational Proposal gives significant attention to the importance of effective SG-NSG coordination and includes multiple design recommendations for both strengthening this coordination and embedding it within NewCo's way of doing business. The most important of these include:

a. Introduction of Joint Board of Executive Directors meetings for IBDG-wide strategic issues. Management's proposal stresses the importance of establishing processes to facilitate joint meetings between the Boards of Executive Directors of both institutions to discuss strategic IDBG-wide issues and ensure necessary Board-level alignment on the most important SG-NSG strategic decisions.

b. Introduction of new or expanded coordination areas at Management level. The following Management level coordination instances are outlined: (i) New General Supervision Committee in NewCo chaired by the Chairman of the IIC (who is also the President of IDB), (ii) increased NewCo participation in IDB committees; (iii) an Operations Committee chaired by NewCo's General Manager would include participation as appropriate from the Office of the Chairman and (iv) new joint SLA management committee.

c. Introduction of an explicit functional unit in NewCo focused on safeguarding SG-NSG coordination. Management recommends the introduction of a unit for SG-NSG coordination within NewCo. This unit will serve as NewCo's counterpart for programming and sector framework related activities with the IDB.

d. The KNL liaison function. The proposed liaison function for KNL is a pillar of SG-NSG coordination. KNL will seek to ensure that the analytical work undertaken by the Bank and by NewCo include public and private sector perspectives as well as knowledge derived from their respective operational experiences when warranted. It will also provide a single standard of quality, common reporting frameworks, methodologies, resources, etc. KNL will also design and develop, in cooperation with NewCo, face-to-face, online and blended training and learning activities for employees and strategic partners in Latin America and the Caribbean. KNL will also provide basic infrastructure (library services, training facilities and repositories, etc.).

e. Strategic Planning and Development Effectiveness. This unit will monitor and report results from NewCo financed projects and non-financial products. It will work closely with its IDB counterpart which will be responsible for preparation of the reports determined by the IDBG's Corporate Results Framework. There will be close interaction with the Bank's unit responsible for setting the standards for measuring and monitoring development effectiveness in order to ensure methodological consistency between SG-NSG operations.

f. Establishment of the Country Representative as the liaison between the activities of IDB and NewCo at a country level. There will be a single Country Representative which will lead the country dialogue with the government, civil society groups and stakeholders in an integrated way. Furthermore the Country Representative will be the main point of contact for SG-NSG coordination at a country level. In order to achieve this mission Management's proposal outlines at least three strategies: (i) provide intensive training to existing representatives so that they can best serve this dual mission, (ii) adjust the skill set prevalent in Country Teams so that they can adequately support the Country Representative, (iii) incorporate the new role description of Country Representatives in their selection process.

g. An outline of clear touchpoints which require continuous SG-NSG collaboration. Even though the proposal stresses that fluent dialogue and interaction among NewCo and IDB personnel should be encouraged at all levels of the organization, it also specifies minimum key points of contact in which continuous collaboration is required in order to achieve the successful implementation of the IDBG Strategy. Namely these touchpoints are the following: (i) Country dialogue under the leadership of the Country Representative, (ii) preparation of Integrated Country Strategies, (iii) preparation of NewCo's Business Plan, (iv) participation on programming exercises, (v) work on Sector Frameworks, vi) discussions on project eligibility and in the stages of project structuring and approval and vii) knowledge related activities.

h. Governance functions. NewCo will adopt common oversight functions with the IDB, subject to the same standards and quality. By adopting a single Office of Evaluation and Oversight (OVE), Management's proposal places

SG-NSG coordination at the front and center of the IDBG NSG reform, as the [lack of] coordination has been a central observation of OVE's GCI-9 mid-term evaluation, as well as country and sector reports.

2.32 Finally, SG-NSG coordination should transcend the organizational set up and formal rules and become a part of the institution's culture. It is important to note that success will also require a culture shift at the IDB. Therefore it is important to ensure that the culture shaping efforts take into account the necessity for the SG-NSG coordination mandate to permeate through all levels of IDBG. This will require deliberate and sustained efforts involving the Boards of NewCo and the Bank, the Senior Management of both institutions and their staff. That said, successful implementation of this mandate will be a result of three broad principles that should be in place: (i) avoid cross-subsidies between both entities; (ii) introduce regulations and incentives that encourage collaboration between both entities that reduce transaction costs and promote endogenous collaboration, not mandatory targets; (iii) consistent policies will prevent regulatory arbitrage between both entities.

The strengthening of a private sector culture

2.33 The existence of a private sector culture is inextricably tied to *the distinctive role of managing private sector risk*. This deceptively simple statement translates into a results-oriented discipline, a focused mindset and a set of specific talent and skills mix, all necessary to thrive in an environment of uncertainty as global commercial market ebb and flow.

2.34 In the case of NewCo, the need to foster a private sector culture is amplified by the fact that risk must be managed within the constraints of its DFI nature. Different from "pure" private sector financial institutions which are driven primarily by income generation, NewCo must build and manage a portfolio of financial and non-financial products to meet its dual mandate of maximizing development impact within a framework of long-term financial sustainability.

2.35 Promoting a private sector culture starts with a strategic process that promotes accountability. More specifically, NewCo needs to engender the right set of analytical skills capable of first defining a risk appetite that is fully aligned with its private sector focus and includes the capability to measure, track and control risk over a diverse set of products.

2.36 Clarity of strategy and a risk appetite aligned with NewCo's dual mandate must then translate into client focus and responsiveness and the ability to constantly adapt its toolbox to anticipate and meet the changing needs of clients in the region, either for endogenous reasons -clients evolve and NewCo must evolve with them- or exogenous reasons such as changes in the economic or business cycle.

2.37 A private sector culture is a high-performance culture that cares deeply about productivity and is especially mindful of the scarcity of resources and the developmental mandate countries have assigned to them. A culture that understands that clients' and colleagues' time is extremely valuable and thrives in an organizational environment that is modular, configurable and promotes collaboration. It's a culture that embraces change and innovation and constantly increases its capacity to create and disseminate knowledge inside and outside its bounds. These cultural traits are aligned with the principles proposed in the Institutional Strategy to guide the IDBG's work such as collaboration, innovation and knowledge, responsiveness, leverage and partnerships, effectiveness and efficiency.

2.38 Most importantly, private sector culture needs its own focused and independent space to flourish. Management believes that NewCo is that space for the IDBG's private sector operations.

A more strategically focused and accountable institution

2.39 Different from the current situation where three or four separate strategic and business planning processes and discussions occur, NewCo will have a strategic framework (described by the Renewed Vision) closely aligned with the IDBG's institutional strategy and integrated country strategies. The strategic framework and Business Plan would be presented and discussed with NewCo's Board and, once the Business Plan is approved, it would become the main tool for reporting and accountability.

2.40 NewCo, through its Board and Management, must gain the capacity to continually design and successfully implement business plans geared towards the fulfillment of its dual mandate. Plans that create strong links between clearly defined development and business objectives, including the allocation of a percentage of resources to support interventions in the C and D countries[8]. Plans that define priority business areas and resources and that include strong mechanisms for accountability to those objectives and a financial bottom line. Plans that allow for revision and redirection taking full advantage of opportunities and challenges as they arise. These plans must foster the alignment of incentives ensuring that all areas of the institution work together and face challenges with the primary objective of finding solutions that serve its clients in line with the plan's objectives. Lessons learned from success or failure must then feed back into the planning process as a new planning cycle starts.

2.41 As is the case with all strategic decisions, the creation of NewCo is set against a risky and uncertain world where having options is inherently valuable. Management has included specific features in NewCo's organizational design to define its strategic framework and associate this framework with detailed business planning, execution and accountability processes.

2.42 In line with private sector practice, NewCo's design ensures that at any decision point, its Board and Management, using available information and assessing the specific development needs of the region, have the ability to move any number of

[8] Resolution AG-9/15 y CII/AG-2/15, includes a target of 40% of lending to C and D countries as well as ensuring an increase in total lending to Caribbean countries as well as other countries that have benefited less from NSG operations.

strategic variables such as NewCo's (i) asset mix –loan/equity/treasury, FI/corporate, (ii) timing of interventions, (iii) staffing number and geographic composition, (iv) products, (v) geographic reach or concentration, (vi) level, quality and funding of technical assistance products, and (vii) any conceivable combination of these variables.

2.43 However, achieving this alongside its twin objective of full accountability to NewCo's governance through the execution phase can only be achieved through a Merge-Out. Only a Merge-Out scenario - through a separate set of financial statements and under the supervision of focused oversight[9] functions- will provide the Board of Directors with an undiluted perspective on the work of NewCo's staff and Management to deploy NewCo's own capital for the promotion of development through the private sector.

2.44 In conclusion, a design that fosters a vibrant ***private sector culture*** set in the context of a ***powerful institution*** defined as ***strategically selective and fully accountabl***e is what cements NewCo's value proposition and supports the conclusion that NewCo is the IDBG's best option to maximize its capacity to promote ***development through the private sector***.

[9] These would include the same oversight functions as the IDB's, i.e.: external and internal auditors, rating agencies, the office of evaluation and oversight, the ethics office, the office of institutional integrity, among others.

III. SUMMARY OF NEWCO'S ORGANIZATIONAL PROPOSAL

A. Current state assessment of NSG activities at the IDBG

3.1 The IDBG NSG operations are recognized for investing in underserved project types (micro, small and medium enterprises - MSMEs), in underfunded sectors (financial services, infrastructure, Base of the Pyramid markets), and for sharing knowledge and measuring its results. The current environment has also fostered a work-force dedicated and deeply passionate about the IDBG's development mandate and 'end-recipients' of its efforts. Staff from the different windows has developed a deep understanding of market dynamics, development needs and potential partners[10].

3.2 IDBG's NSG activities are carried out through four dedicated windows: Structured and Corporate Finance (SCF), Opportunities for the Majority (OMJ), IIC and the Multilateral Investment Fund (MIF). These windows are housed in two legally independent institutions (the IDB and the IIC) and a trust fund (the MIF) administered by the Bank. This organizational fragmentation is reflected in different governance structures, balance sheets, operating models and overlapping mandates. More to the point, this organizational arrangement is not the result of deliberate organizational design; it merely reflects mandates assigned to the IDBG over time, without placing adequate attention to questions of administrative efficiency, IDBG-wide synergies or to the capital requirements of stand-alone NSG operations.

3.3 The shortcomings of the organization in place at the IDBG to support development through the private sector have been evident for a long time, as witnessed by three high-level External Advisory Groups (EAGs) tasked with providing external and independent reviews of private sector lending, and by reports produced by Management, the IDBG's independent Office of Evaluation and Oversight (OVE) and external consultants.

3.4 In its most recent assessment of the IDBG's work with the private sector, prepared as part of the GCI-9 mid-term evaluation, OVE highlighted the lack of coordination between SG and NSG operational areas as well as among the four private sector windows as key factors limiting its effectiveness. Although OVE's assessment recognized repeated attempts to improve this problem, it found that "operations with coordinated SG and NSG actions and integrated objectives are rare" and that this lack of coordination has resulted in "significant lost opportunities—and not only in infrastructure, where improved collaboration would bring clear gains (as in operations involving public-private partnerships and concessions)". With regards to coordination within the private sector, OVE's assessment is very clear: "The various private sector windows have overlapping

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[10] See Annex I for financial highlights of the four IDBG NSG windows.

mandates, particularly in financial markets and Micro, Small and Medium Enterprises (MSMEs). The current structure and incentives in the IDBG are inefficient and ineffective in encouraging coordination and synergy".

3.5 Ultimately, despite the high aspirations of all IDBG stakeholders regarding the role of the private sector in promoting economic and social development in the region, the current fragmented organizational arrangements of NSG operations has resulted in a silo performance of windows, limiting collaboration and the ability to reach the scale and specialization needed to increase development impact. This silo structure of the four windows is reflected in the consolidation of different, yet almost equal in some cases, processes and value chain integration in each one of the windows which makes simple consolidation of these windows impossible without an organizational reform.

B. The proposed design

3.6 As pointed out in the previous chapter, the Renewed Vision for the IDBG's activities with the Private Sector underlines that all of NewCo's activities will be based on three strategic design principles: strategic selectivity, systemic approach and development effectiveness. Moreover, the Renewed Vision proposes that operations will be targeted in five clearly defined PBAs, taking into account three transversal areas: gender and diversity; environmental and social sustainability; and the enabling environment.

3.7 While it may be tempting to create an operating model that is hard-wired to the PBAs and transversal areas, that would end up creating an environment that is counter to the systemic impact, collaboration, and, eventually, greater development impact. There is a risk that organizing around PBAs will replicate the current environment of independent silo-windows, albeit all within NewCo. Some of the possible risks could be that: (i) significant capacity could be tied-up in each "PBA window" by duplicating similar functions; (ii) potential cross-over of clients could likely lead to duplication of efforts; (iii) staff time will be spent trying to coordinate, organize and understand how they should prioritize their work, (iv) competition between the "PBA windows" will naturally occur instead of focusing on NewCo as a whole and (v) it would lead to an institution with limited flexibility to adjust to the new development challenges of member countries in the medium and long term. These five risk areas would not only undermine the ability to grow and optimize NewCo's resources, but also reduce the capacity of NewCo to drive systemic impact through a coordinated approach.

3.8 In order to avoid the risks described in the previous paragraph, as well as the current IDBG's NSG organizational limitations, the design proposed for NewCo follows a value-chain approach that considers the full range of NewCo's prospective activities from the standpoint of the value they generate to beneficiaries, clients, and other stakeholders starting with the point of delivery ('front office') through project and service control ('middle office') to supporting utilities ('back office') [11].

3.9 NewCo's proposed organizational structure was developed using a methodological framework best described as a deconstruction of a notional institution, identifying the key functions and sub-functions and then assembling these in a future-state structure that responds to the characteristics of the desired institution[12] . Conceptually, the framework is summarized with the following four fundamental questions: (i) *what needs to be done?;* (ii) *how will it be done?*; (iii) *who will do it?;* and (iv) *where will it be done?*

3.10 Once the key functions and sub-functions have been identified, they are classified according to three service provider categories: (i) **Business embedded** (BE) functions and sub-functions are intrinsic to a business; (ii) **Business aligned** (BA) functions and sub-functions are enablers to a business' front line but are not the primary interface with the client and agglomeration of these functions allows the delivery of higher quality services in a cost efficient manner; (iii) **Shared services** (SS) provide key support functions to a frontline business. Their focus is on effective and efficient processing which is frequently outsourced in order to achieve economies of scale.

3.11 The key underlying assumption of this approach is that quality and cost-effective third party service delivery is possible and that unsatisfactory performance can be corrected in a timely manner. This is a normal feature of modern economic life, including that of the financial services industry: organizations specialize in their specific business and source service provision externally to perform at higher levels.

3.12 Selecting service delivery alternatives for each function and sub-function has implications for organizational design. This may be reflected in significant modifications of a current organizational structure when applied to existing entities that are undergoing a reform process. In any case, the functional strategy will determine different organizational alternatives in terms of who will perform the functions and sub-functions and where they will be located.

3.13 The output of the methodology described in the preceding paragraphs applied to NewCo is a construct that results from (i) Management's value judgment of what should remain embedded in NewCo; (ii) caution surrounding quality service provision within the IDBG in the near future and (iii) a conservative approach regarding market perception that could generate undesired outcomes (e.g. financial consolidation by external stakeholders). Experience may lead to additional synergies in the future, allowing greater specialization between the IDB and NewCo.

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[11] Oliver Wyman, a consulting firm that was hired as a result of a competitive hiring process, supported Management in the development of the Organizational Proposal.

[12] Two elements of this approach need to be emphasized: (i) the object of deconstruction is a notional institution and not any of the existing IDBG's NSG windows and (ii) deconstruct and destruct must not be confused as they are fundamentally different concepts.

3.14 The implication of this methodology is straightforward. NewCo's proposed organizational structure is not the result of "lifting" the existing IDB-NSG windows and simply "shifting" them into the current IIC to implement the Merge-Out. Management believes this is neither possible nor desirable. While the current IIC is a self-standing multilateral which combines in-house capabilities with service agreements provided by the IDB[13], scale and design considerations prevent it from housing the other windows under its existing form. Moreover, the shift and lift approach would not address the Governors' mandate for synergies, development effectiveness and quality oversight functions at NewCo[14].

3.15 Management believes that the proposed organizational reform will improve the way the IDBG fosters development through the private sector. At the same time it will benefit NewCo, the IDB and the staff of both institutions by focusing on core competencies while delivering their development mandates, mitigating operational risks, centralizing knowledge, and providing more significant career opportunities than what is allowed under the current fragmented arrangement.

3.16 NewCo would consolidate the existing IIC, OMJ and SCF. A differentiated approach is followed in the case of the MIF, for which Governors mandated the Donors Committee to direct Management in analyzing and developing options for the future of the MIF as part of the consolidation of the IDB Group private sector activities. After the Donors Committee approves a proposal, it will present its recommendations to the Boards of Executive Directors and subsequently to the Boards of Governors of the IDB and IIC, as applicable, by no later than March 31, 2016.

3.17 NewCo's proposed organizational structure is shown in Figure 3.1. It reflects the features of functional partitioning and accepted organizational design principles[15]. It is also consistent with the requirements defined in the current IIC Charter which provides for the basic governance of the institution and thus the framework for any organizational proposal under consideration at this time. This framework includes the Board of Governors, the Board of Executive Directors, the Chairman of the Board of Executive Directors and the General Manager (Chief Executive Officer - CEO) and his/her basic support structure, the Strategic Core. The roles and functions would continue to be regulated by the IIC Charter and regulations and mandates issued by the IIC Board of Governors and Board of Executive Directors.

3.18 The President of the IDB is the ex-officio Chairman of the IIC Board of Executive Directors. The Chairman presides over meetings of the Board and of the Executive Committee and casts a vote in the event of a tie. Subject to agreement

[13] The IIC also provides Credit Committee services to the MIF.
[14] Resolution AG-6/14 and CII/AG-2/14.
[15] Notwithstanding the care put into NewCo's organizational design, an independent evaluation of its performance will be carried out by an organizational firm after its' first multi-annual business plan is concluded. OVE will continue to be responsible for independent evaluations of NewCo's delivery of its development mandate.

with the Board, the Chairman designates the official who shall serve as Secretary of the Board. Additionally, the Chairman recommends the candidate for the position of NewCo's General Manager to the Board of Executive Directors. The Chairman exercises his/her general supervision of the General Manager.

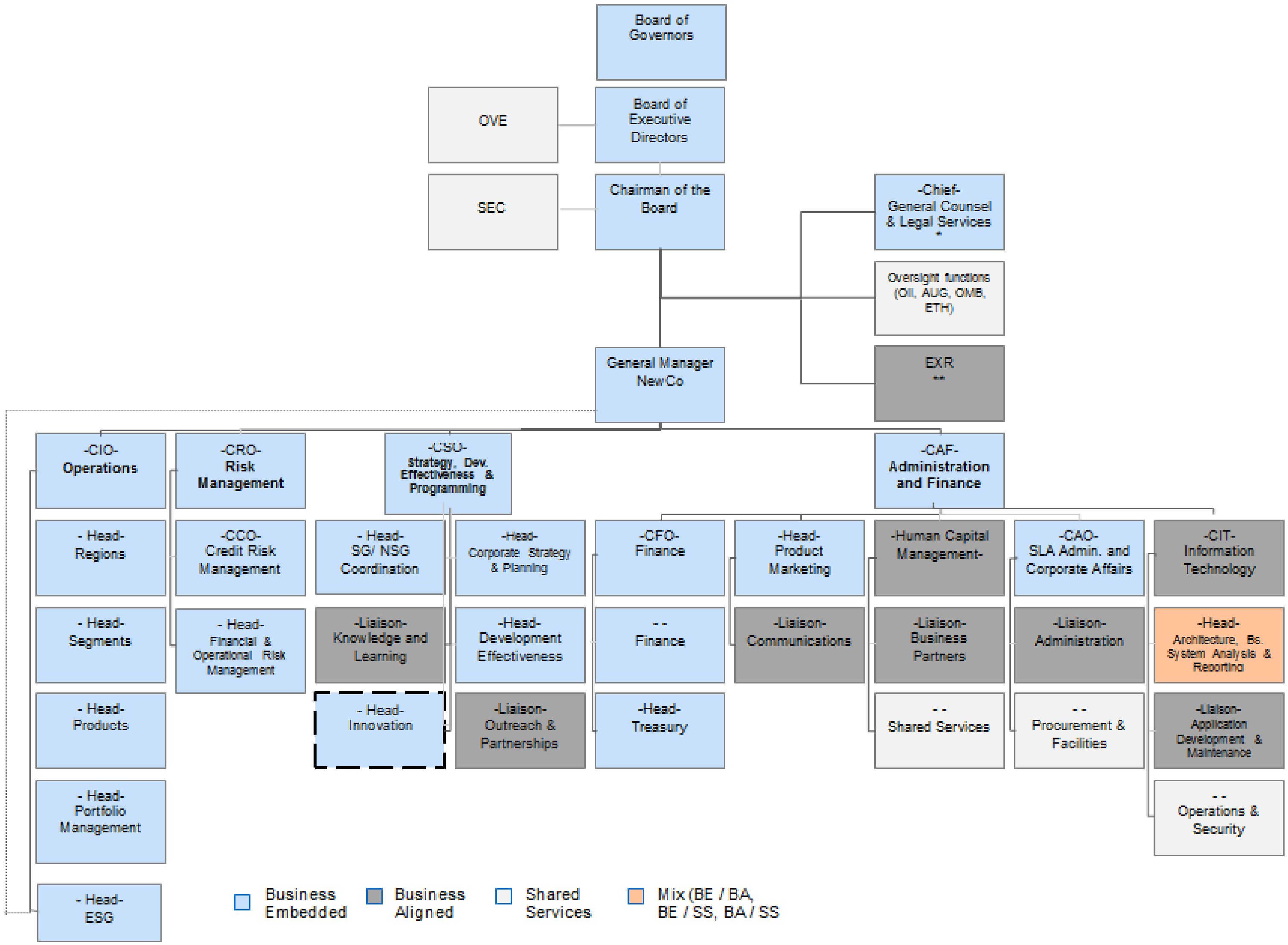
3.19 Further to the Charter's provision for general supervision, the Chairman of the Board maintains effective and open communication with the General Manager who is responsible for day to day operation of the institution. This requires developing a synergistic relationship to ensure that the Board, the Chairman and the General Manager are aligned to a common vision of success for NewCo. To this end, the Chairman would be involved in the details of how NewCo Management develops strategies to ensure they fit into and further the interests of the whole IDBG and its shareholders, as well as how such strategies are executed.

3.20 The Chairman of the Board would carry out an oversight role in the NewCo context by leading a Chairman's Committee for NewCo General Supervision to review strategic matters. Furthermore, an Operations Committee chaired by the NewCo General Manager would include participation as appropriate from the office of the Chairman.

3.21 The strategic core will be comprised of the following officers: (i) Chief, Investment Operations (CIO); (ii) Chief Risk Officer (CRO); (iii) Chief, Strategic Planning, Development Effectiveness and Programing (CSO); (iv) Chief Administration and Finance Officer (CAF); and (v) General Counsel. Additionally, the Chief of External Relations of the IDB as well as the heads of various IDBG oversight functions will be brought in to strategic decision-making as appropriate to their substantive areas of expertise.

3.22 NewCo will adopt common oversight functions with the IDB, subject to the same standards and quality. The reporting lines of these oversight units in NewCo will be the same as at the IDB. Likewise, as indicated in paragraph 2.6 b, all programs will maintain the IDBG's high levels of environmental and social safeguards and, where relevant, will introduce components to provide environmental and social value added.

Figure 3.1. NewCo's proposed organizational structure[16]



[16] As shared services, the reporting lines of oversight units in NewCo will remain the same as at the IDB. To provide for the independence of AUG, as operated at the IDB, the Executive Auditor will report to NewCo's Board of Executive Directors through the appropriate Committee and the Chairman of the Board. The Independent Consultation and Investigation Mechanism (MICI) will be included once a decision by NewCo's Board has been made.

C. Service Level Agreements

3.23 The successful implementation of NewCo's operations, as part of the IDBG, rests on its ability to deliver products and services according to quality and cost standards, that are sustainable and in line with its mission, and follow industry best practices wherever applicable. NewCo will function as a self-standing multilateral entity, with many of its internal services, enabled by service agreements, provided by the IDB. Through Management's work on this organizational proposal, with the support of the team of external consultants, it has become clear that for the effective deployment of the new operational structure foreseen for NewCo and the embodiment of the current and any future PBAs, a new concept of Service Level Agreements (SLAs) between NewCo and the IDB will have to be established in accordance with mechanisms that better align and cater to those business needs: thus the concepts of business-aligned (BA) and shared services (SS) functionalities previously explained.

3.24 Since at least the mid-to-late 1980s, SS have been a persistent and well-established feature of the corporate landscape. The construct whereby certain support services to the business are pooled and provided to more than one line of business originated in multi-line industrial and manufacturing sectors as a response to cost pressures and recognition that these business services exhibit economies of scale. While cost reduction through scale, sharing of best practices, removal of duplication, reduced headcount, and managed demand was the primary rationale, companies soon realized that other tangible benefits in the form of improved service quality through concentration of skills (e.g., scarce technical and managerial expertise) and customer focus, as well as lower delivery risk (e.g. greater functional integrity, transparency) could be expected outcomes.

3.25 Major financial institutions became relatively early adopters and by the early 1990's virtually all global financial services firms and large corporations in mature markets had implemented some form of shared services leveraging IT infrastructure and resource sharing to eliminate duplication and their experience with third party service providers to further promote scale, efficiencies and the benefits of functional specialization. Over 30 years of experience with this form of support organization has brought many refinements in the financial sector, including extension of the scope of what was considered 'shareable' beyond traditional commodity (or utility) activities.

D. Managing NewCo's Human Capital

3.26 At the time this report is being prepared, the IDBG employs 287 staff members and 143 FTE contractuals in NSG activities in SCF, OMJ, VPP, VPF and the IIC[17]. The average tenure for IDB staff members is 9.9 years and the majority of staff members are placed at Grades 4 and 5. At the IIC the average tenure is 8.7

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[17] An additional 104 Staff members and 120 FTE consultants are hired by the Bank to deliver the MIF's work program. These numbers include personnel assigned to the Social Entrepreneurship Program.

and the average grade is between 4 and 5. Because of the scope and depth of the approved IDBG's NSG reform, the Merge-Out presents all the characteristics of a typical major change management process, notwithstanding the number of employees directly involved in the reform (the whole NewCo will be smaller than the Vice Presidency for Sectors and Knowledge (VPS) at the IDB).

3.27 New and different profiles will be required to implement new functions in line with the strategy of the new institution and the deliverables expected. The composition and number of staff and complementary workforce once determined and defined will need to be mapped to the structure of the new organization. Mechanisms and processes for the transition of staff to the new organization will be put in place taking into consideration current obligations and potential legal and financial risks.

3.28 The staff rules of the IDB and the IIC enable both organizations to implement the Merge-Out in an orderly fashion[18].

3.29 In transitioning the human capital to NewCo, both IDB and IIC employees will be subject to a coordinated and common exercise. This will encompass not only staff but also contractual employees. The voluntary participation of all employees affected by this exercise fosters equal opportunity across the IDBG. Similarly, proposals for a new career framework with a compensation scheme in line with comparators in the market, needs to be submitted for consideration and approval by NewCo's Board of Executive Directors[19]. Finally, a critical element for a successful transition to NewCo is a solid communication plan that will address the changes and mitigate management challenges, in order to retain good performers and offer timely opportunities in the new organizational set up.

E. NewCo's Business Processes

3.30 To maximize development impact within a framework of long-term financial sustainability, NewCo will seek to design and deploy client-centric solutions closely aligned with the three strategic pillars, five PBAs and three transversal areas defined in the Renewed Vision.

3.31 The recipients of NewCo interventions will mainly be firms and financial intermediaries, but will also include public entities[20] that support private sector directly or through on-lending, Special Purpose Vehicles that support infrastructure provision, capital market issuers or other financial actors that benefit from funding or guarantees. NewCo will need to balance specific needs of

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[18] In considering the different scenarios for the transition of the workforce affected by this exercise, Management has reviewed previous exercises conducted by the IDB, such as the Realignment exercise in the year 2007.

[19] In addition to alignment with competitors, NewCo's compensation policy will focus on its development mandate.

[20] See footnote 7.

clients with adequate levels of standardization to meet market needs while preserving and enhancing NewCo's productivity.

3.32 An important part of NewCo's strategy will be to leverage its balance sheet capacity and maximize resources available for eligible projects that foster developmental impact. NewCo will therefore seek to attract to its projects (i) international investors, (ii) multilateral/developmental institutions, and (iii) local financiers and/or impact investors. Mechanisms to achieve this goal will include A/B loan structures, co-financing structures or club deals and equity.

3.33 Alongside its financial products NewCo will deploy a comprehensive set of knowledge products including grant-based technical cooperation and fee-based advisory services. To further enhance its capacity for systemic impact, NewCo's knowledge offering will also leverage and disseminate IDBG products with "mass market" reach such as the innovative platform denominated ConnectAmericas, the first business social network of its kind built alongside InvestAmericas, an online platform that facilitates business by connecting LAC companies with investors.

3.34 The design of future-state processes that complement NewCo's proposed organizational structure follows a three-step process based on a thorough analysis of current-state operations and support processes for all four IDBG NSG lending windows[21]. This analysis was further aided by IDBG staff input, benchmarking data and expert knowledge from Oliver Wyman and reviewed by McKinsey & Company.

3.35 As a result of this work, six processes are developed. A client-centric (i) **origination process**, focused on providing clients with a "single point of contact" and multiple channels for interaction. An efficient (ii) **project approval and disbursement process** focused on applying the "right level of rigor" based on size and complexity of the project. A centralized (iii) **portfolio management process** reliant on constant monitoring, tracking and reporting of each project's development impact and risk characteristics, while contributing expertise to new deals and new projects with existing clients. In the same line. A (iv) **special assets operations process** centered on projects at risk of impairment, and developing counter strategies to recover or repurpose those deals. A formalized (v) **new financial product development process** to harness product innovation within the organization. Finally a (vi) **knowledge product development process** that promotes this key pillar within NewCo.

F. Technology and Systems

3.36 Technology and systems in the four windows reflect the current fragmentation of NSG activities at IDBG. There is no holistic notion of a NewCo business systems architecture, rather each of the NSG lending windows has an existing systems

[21] The three steps are: (i) current state process analysis; (ii) future state process design; (iii) summarized considerations.

landscape. Given the legacy and the evolution of each of the four windows, the fragmentation in technology landscape is not surprising, however on-going and emerging initiatives seem to perpetuate the problem as the initiatives have been conceived and developed without taking into consideration the convergence of NewCo process and business requirements in the future state. Here again, a holistic view of the in-flight and emerging initiative portfolio reveals that there are significant divergences among the current technology development plans of each window.

3.37 Juxtaposing the current state landscape and the initiative portfolio against the future operating model of NewCo, it is clearly evident that there are significant differences between the NewCo process and organization and the supporting systems deployment that must be taken into account.

3.38 Best practice in developing a robust IT architecture begins by addressing key business model, functional and operational process related questions. The functional partitioning model allows NewCo to be scalable, cost effective, focused and integrated and also creates the foundation on which both the process architecture and IT architecture can be defined and developed.

3.39 NewCo's organization design, processes and supporting systems require a consistent approach. This harmonization exercise should precede any technology selection and deployment initiative (planned either by IDB and/or IIC) and should be based on NewCo's future state operating model and organization design. Therefore, during implementation NewCo shall settle on the details of the organization design, align on the future-state operating model and converge on the future state business processes. In the meantime, effort expended towards early stage in-flight initiatives should be discontinued as this is likely to result in solutions that are not aligned with future state requirements and potentially, throw-away work.

G. Transition and Implementation

3.40 Management prepared an implementation plan under the guidance of McKinsey & Company. The plan outlined the main strategic and operational activities that needed to be carried out in order to successfully launch NewCo and guarantee Day 1 operations. The plan was structured around the following workstreams: (i) Human Capital Management; (ii) Communications Strategy; (iii) Service Level Agreements; (iv) Business Processes; (v) Information Systems and Technology; (vi) Business Plan development.

3.41 For each workstream, the content is divided into four sub-sections, with some adjustments to account for the specific nature of each topic:

- *Priority activities and deliverables.* Outline of the priority activities and decisions that need to be made and details that must be defined during the implementation phase; as well as the primary deliverables for the workstream.

- *Timeline.* Target sequencing of the priority activities during the implementation period.
- *Potential implementation risks and plans to address them.* Up-front identification of risks that could delay implementation, and suggested courses of action to mitigate these.
- *Longer-term implementation considerations.* Preliminary list of elements that will need to be addressed post Day 1 launch of NewCo (i.e., during the first 1-2 years of operations).

3.42 The implementation plan is meant to provide NewCo's leadership, Management and other staff of the Transitional Governance with sufficient guidance and direction to lead an effective implementation.

3.43 A Steering Committee chaired by the President of the Bank will lead the consolidation of SCF, OMJ into the IIC[22]. It will be formed by key Management from PRE, PCY, EVP, VPF, SCF, OMJ, IIC and the MIF appointed by the President.

3.44 An Implementation Management Office (IMO) will be the central team leading the day to day implementation effort. It will report to the Office of the President and receive strategic guidance from the Steering Committee.

3.45 The Boards of Executive Directors of the IDB and IIC will be engaged in the implementation phase through periodic reports from Management on progress made. Also, a number of activities will require Board approval. In order to minimize delays in the implementation process, Management will present matters for Board consideration as appropriate in a timely manner and it will be key that the Board prioritizes these issues in order to make timely decisions on matters that risk delaying the overall process. Even though additional issues may arise once implementation begins, the priority topics that so far have been identified that will require Board consideration during 2015 are:

3.46 Approval of NewCo's new Operational Policy

3.47 Approval of NewCo's Business Plan, Budget and Funding Strategy

3.48 Approval of NewCo's new compensation and rewards framework, and staffing plan

3.49 The appointment of NewCo's General Manager and approval of the NewCo's leadership organizational structure

3.50 Approval of policies associated with cross-booking

3.51 Approval of an IDB Supplementary Budget for the implementation phase

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[22] As indicated in paragraph 3.18, The President of the IDB is the ex-officio Chairman of the IIC Board of Executive Directors.

IV. NEWCO CAPITALIZATION PROPOSAL

4.1 This chapter presents a summary of the capitalization agreement reached by Governors of the IDB and the IIC at the 2015 Annual Meeting in Busan, which follows the parameters defined in the Resolutions approved at the 2014 Annual Meetings held in Bahía, Brazil. Among other things, the Resolutions mandated that the capitalization proposal for NewCo "… shall: (i) take into account IDB's upcoming new capital adequacy policy; (ii) preserve the SG and NSG lending envelope consistent with GCI-9; (iii) safeguard the AAA IDB credit rating; and (iv) propose parameters for a sunset clause for cross-booking. The capitalization proposal shall include mechanisms that will allow for flexibility."[23]

4.2 The mandate for preparing the capitalization proposal addresses the restrictions faced by the IDB in terms of its capacity to transfer capital to NewCo consistent with its credit rating mandate and its new capital adequacy policy. It also requires preserving the IDBG's mission in terms of lending and ensuring NewCo's viability. Therefore, capitalization proposals that did not preserve SG and NSG lending volumes consistent with the GCI-9, that include open ended periods of cross-booking and/or arrangements that would ultimately be reflected in a sub-capitalized institution were not congruent with the Resolution.

4.3 The Bank's 2015 Transitional Ordinary Capital (OC) Long-Term Financial Plan (LTFP) provides the IDB's baseline sovereign guaranteed (SG) and NSG lending capacity while the IIC's financial capacity is derived from NewCo's long term financial model. Combined, they determine the baseline of the IDBG lending and investment envelope, which is referred to as the Status Quo.

4.4 A core premise of the Renewed Vision for the IDBG's activities with the private sector is that NewCo would become a better partner to emerging actors of development finance (sovereign wealth funds, impact investors, philanthropies, etc.) than what is possible under the Status Quo. Scale will play a role to attract investors to the region and so will coming to the market as a private sector focused institution. Thus, NewCo's resource mobilization targets will almost double the amount of approvals over a 10 year projection period.

4.5 Section A presents the capitalization agreement reached by Governors in Busan of \$2.03 billion comprised of \$1.305 billion of capital contributions over a seven-year period and \$725 million to be transferred from the IDB to NewCo over eight years starting in 2018. This capitalization scheme is supported by a seven-year cross booking (co-financing) arrangement between the IDB and NewCo. Section B presents additional considerations on pricing of the new shares, borrowing countries majority ownership of the IDBG and shareholder representation at NewCo's Board of Executive Directors.

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[23] Resolution AG-6/14 and CII/AG-2/14.

A. NewCo's capital requirements

4.6 NewCo's capital requirements are driven by four factors: (i) its approval levels over a selected timeframe; (ii) the specifics of cross-booking (both in time as well as in size and composition); (iii) net income from NewCo's operations over said timeframe; and (iv) its required capital ratio. There are interdependencies among these factors and they operate in a dynamic context, so the *timing* of capital infusions and NSG lending levels impact net income and, in turn, affect NewCo's overall capital requirements

4.7 In estimating NewCo's capital requirements, approval levels are assumed to be the same as in the Status Quo with a seven year cross-booking (co-financing) arrangement between the IDB and NewCo that would be in place. . Based on technical analysis, NewCo needs approximately $2.03 billion of additional capital to support the projected operational program and to meet other applicable financial constraints, including capital requirements throughout the projected period.

4.8 The next two sections will examine the role of cross-booking in determining NewCo's $2.03 billion of additional capital requirements as well as the sources of this capital increase.

Risk optimized cross-booking

4.9 Cross-booking is used to define a co-financing arrangement between IDB and NewCo. Absent charter or operational limitations as well as limitations inherent in NewCo's and IDB's own prudential limits, loans and guarantees are expected to be booked jointly by IDB and NewCo upon implementation of the Merge Out. Charter limitations refer to equity investments that will be booked exclusively at NewCo. Operational limitations include but are not limited to the ability by IDB and/or NewCo to access local currency on commercially reasonable terms and project size[24] (i.e. it may be impractical or not cost effective to provide for cross booking of all projects), thus further due diligence will be required to define the scope of cross booking.

4.10 The capitalization proposal endorsed by Governors contemplates 7 years of cross-booking representing 25% of total NSG approvals for the period. As discussed at the AHC and confirmed by McKinsey's analysis, if structured properly, the use of cross-booking can support the reduction of overall capital requirements.

4.11 In addition to the seven-year cross-booking period, the approved scenario also optimizes cross-booking at the IDB and NewCo. This is achieved by applying cross-booking so that initially a larger percentage of the relatively more capital intensive transactions are booked at the institution with the greatest amount of capital. As a result, in the first years a greater share of corporate lending (COs) is

[24] Or other criteria that can be clearly explained to investors and rating agencies and that does not allow for arbitrary selection of projects.

booked at the IDB, while NewCo books a greater share of operations with financial intermediaries (FIs). Risk optimized cross-booking does not change the overall IDBG NSG envelope nor the total amount of FI and CO approvals, but it does reduce the amount of capital that would be required if proportional cross-booking was adopted.

Sourcing NewCo's capitalization

4.12 In addition to using the risk-optimized cross-booking, the capitalization agreement includes transfers from the Bank to NewCo. The approved $2.03 billion capital increase would be sourced through $1.305 billion of additional shareholder contributions and $725 million of capital transfers from the Bank. Transfers reduce the burden on additional shareholder contributions by 36%.

4.13 Shareholders' contributions are expected to begin in the last quarter of 2016 and these will follow a schedule of decreasing amounts, over a seven year period. Capital transfers from the IDB to NewCo are scheduled to start in 2018 and will be subject to yearly approval by the Board of Governors of the IDB subject to the financial soundness of the Bank.

Potentially releasable capital at the IDB

4.14 Capital contributions received by NewCo will allow it to book a greater amount of NSG approvals, reducing the capital required by the IDB to book NSG operations. The amount of capital that will no longer be used at the IDB for booking NSG operations is quantified by the yearly amount of equity that could be reduced at the IDB so that the RAC of the approved scenario is the same as the RAC of the Status Quo. This capital can be referred to as "potentially releasable capital". This capital determines the path and timing proposed for transfers from the Bank to NewCo and at the same time supports the implementation of the Bank's capital adequacy policy (i.e. building the buffers required by this policy).

4.15 The potentially releasable capital derived from the reduction of NSG booking at IDB was considered by Governors to be an eligible source for transfers. However, certain conditions are to be met for capital transfers from the Bank to NewCo to usefully satisfy the latter's capital requirements. A list of these conditions include:

a. Capital transfers from the IDB to NewCo must comply with the Bank's AAA credit rating mandate, its Capital Adequacy Policy and Governors' commitments to ensure that these are implemented successfully.

b. The Bank's current capital indicates that transfers will not be available in the initial years. However, the proposed transfer schedule would be consistent with the implementation of the Bank's capital requirements.

c. Transfers will be implemented on a conditional basis in order not to adversely impact the Bank's capital ratios[25].

d. In order to overcome the negative impact associated with the uncertainty of conditional transfers on NewCo's capitalization, the amount of transfers must be 'doable" in the mid-term. A capitalization schedule for NewCo based on unrealistically high or very distant conditional capital transfers from the Bank will be perceived negatively by the markets and hurt NewCo.

e. "Doable" does not only reflect the possibility of transfers from the Bank's perspective. It also requires that NewCo be able to adapt its Business Plan without impairing its mission or compromising its development mandate. This suggests capping the share of transfers in NewCo's overall capitalization.

f. Likewise, timing considerations for transfers are also important for NewCo and were taken into account in the capitalization agreement. Transfers that occur later in time require frontloading capital contributions from shareholders to offset the former.

g. Ultimately, in the context of the proposed IDBG NSG reform, Governors viewed transfers as a complement to capital contributions from shareholders and not a substitute for them.

Financial sustainability and financial constraints

4.16 In pursuing the Renewed Vision for fostering development through the private sector, NewCo must also generate financial returns, as its business model, and ultimately development through the private sector, requires financial sustainability[26].

4.17 NewCo's capital will fuel additional growth in lending and equity operations as well as non-refundable activities that will be important for it to deliver its development mandate. Ultimately, financial sustainability is also critical for NewCo to attract partners that share its commitment to Latin America and the Caribbean (LAC) development (e.g. philanthropies, foundations, sovereign wealth funds, etc.).

Administrative Expenses

4.18 While the Merge-Out should not be seen as a cost-cutting exercise, the consolidation of IDBG private sector activities into NewCo is expected to generate reductions in administrative expenses through the elimination of

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[25] According to the Generally Accepted Accounting Principles (GAAP), if non-conditional transfers of the potentially releasable capital from the IDB to NewCo were to be included in the capitalization scheme for NewCo, the Bank will be required to upfront expense in year 0 the entire amount of the transfers expected throughout the full period, regardless of the transfer schedule. This would significantly reduce the IDB's RAC, compromise its AAA rating and reduce the Bank's lending capacity for the sovereign portfolio. Needless to say, this would not be consistent with the Bank's new capital adequacy policy mandate and regulations.

[26] This double/triple bottom line approach is in many ways similar to that of impact investors as well as other actors that are reshaping the landscape of development finance.

duplications and by increasing efficiency and productivity. Additionally, a "qualitative leap" is expected from the reform as a result of the allocation of resources to activities that are critical to the implementation of the Renewed Vision and are not covered or are only partially covered under the existing organizational arrangement.

4.19 Other assumptions that affect future administrative expenses are the following:

i. It is assumed that the existing NSG portfolio remains at the entity where it was originated (i.e. Structured and Corporate Finance (SCF) and Opportunities for the Majority (OMJ) legacy portfolio originated prior to the merger remains at the IDB while the existing IIC portfolio is part of NewCo exposures) and winds down as it is repaid based on existing contractual conditions[27]. NewCo will manage the legacy portfolio for the IDB as part of a service agreement between both entities.

ii. The origination and supervision costs associated with new NSG loans booked at the IDB that result from cross-booking are included in the administrative costs of the Bank. These activities will be carried out by NewCo and provided to the IDB through a fee-based service agreement.

Impact on the IDB

4.20 Under NewCo's capitalization proposal endorsed by Governors, the overall SG lending levels would remain at Status Quo level during the 2016-2025 projection period.

4.21 Despite the reduced amounts of NSG lending, the Bank will be able to meet all of its target financial requirements after the Merge-Out without increasing the cost of SG lending *vis a vis* the Status Quo. The main financial requirements are:

a. Risk Adjusted Capital ratio (RAC): IDB is forecast to exceed its target minimum RAC ratio each year between 2016 -2025. The Merge-Out allows the Bank to strengthen its capital base as required by the Bank's new capital adequacy policy and therefore contributing to preserve its AAA rating as mandated by the Ninth General Capital Increase (GCI-9).

b. Administrative Coverage ratio (ACR): IDB is forecast to exceed its minimum ACR each year during 2016-2025. While the Bank's foregone NSG net income reduces ACR in the approved capitalization scenario *vis a vis* what would take place in the Status Quo, ACR projections still exceed the mandated ratio throughout the projection period.

[27] There are two main reasons for this assumption. First, a significant amount of financial resources would be required to purchase the portfolio to be transferred to NewCo. In addition, such resources would not translate into an additional financial capacity. Capital is only required to fund new operations in this estimate of NewCo's capital requirements. Second, the current portfolio would have to be reviewed to ensure that any transfer of assets would not be in violation of legal or contractual obligations, and to identify the third party consents that would be required to affect such transfer.

c. Unused Borrowing Capacity (UBC): IDB is forecast to remain well above its target minimum each year during 2016-2025 projection period in the approved capitalization scenario.

B. Additional Considerations

4.22 This section examines the issues of pricing of shares, borrowing country majority ownership at the IDBG and shareholder representation at NewCo's Board.

Pricing of Shares

4.23 While the IIC's Charter establishes par value at $10,000 for the initial paid-in capital, it does not mandate a specific subscription price for paid-in capital authorized thereafter.

4.24 Governors decided that the price of additional shares that would be issued to implement the Renewed Vision be the sum of the [historical] $10,000 par value plus a per-share premium. Determining this share premium on strictly financial criteria would be challenging due to the development mandate of the Corporation. With this in mind two factors were proposed to determine the per-share premium: (i) the IIC's retained earnings, which would reflect the IIC's performance and (ii) the cumulative inflation which would be a proxy for past shareholders' efforts.

4.25 The IIC's retained earnings at the time the capitalization proposal was made represent 21.5% of its paid-in capital. Member countries have a claim on these earnings according to the IIC's current shareholding structure.

4.26 The second factor determining the size of the premium is the cumulative inflation since the 1999 capital increase.

4.27 The inflation and retained earning coefficients used to obtain the premium follow:

- Retained earnings coefficient = 1.21471
- Inflation Coefficient[28] = 1.40315
- Coefficient = 0.21471 + 1.40315 = 1.61786
- Premium = 0.61786 * 10,000 = 6,179
- Price value of additional shares = Par Value + Premium
    - $16,178.6 = $10,000 + 6,179

4.28 The price of additional shares determines the number of shares to be issued to subscribe NewCo's $2.03 billion capitalization agreement. This would result in 125,474 additional shares being issued[29].

- $2,030,000,000 / $16,178.6 = 125,474 shares

[28] The Consumer Price Index provided by the US Department of Labor, Bureau of Labor Statistics was used to calculate this coefficient. The Index values for December 1999 (the month the IIC's capital increase is authorized) and November 2014 were 168.3 and 236.2 respectively.

[29] Considering the 70,590 shares already issued, the total number of shares would be 196,064.

Flexibility and incentives in capital contributions

4.29 The IDBG's experience, which does not differ from that of other multilateral agencies, is that the time-lag between the date Governors approve any capital contributions and the date those contributions are actually received can last between 12 to 18 months. Moreover, this lag is not limited to the initial installment, as contributions are not always received according to the approved encashment schedules. In order to introduce flexibility in capital contributions as well as incentives to timely payments, a cumulative 5% adjustment in the price per share (i.e. par value) for each year of delay in scheduled payments was included in the Resolution approved by Governors[30]. This adjustment would apply from 2017 onwards so as to allow for sufficient time for countries to process the initial legislative approval authorization.

Majority Shareholding for Regional Developing Countries

4.30 The IDB and the IIC are unique among multilateral financial institutions in that they have kept a majority of voting power for borrowing member countries in their capital structures since their creation[31]. This majority has provided a strong sense of ownership for borrowing member countries, reflected in their strong commitment to the financial sustainability of the Bank and the Corporation as well as their engagement in governance matters, which is not observed in non-borrower majority owned institutions.

4.31 In the context of the IIC's first capital increase, the Governors expressed an interest in preserving at least an absolute majority shareholding for the regional developing member countries[32]. Additionally, the IIC Bylaws[33] provide that, when considering applications for new memberships, "the Board of Executive Directors shall give due consideration to the effect the admission of new members will have on the distribution of voting rights and on maintaining the relative majorities between regional developing and other member countries."

4.32 Resolution AG-9/15 and IIC/AG-2/15 approved in Busan states that in carrying out any share reallocation between member countries, the voting power of the regional developing member countries as a group should not fall below 54% at the end of the capitalization period.

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[30] This would be consistent with GCI-9 which allowed for frontloading FSO contributions or making higher nominal payments according to a five year schedule. See Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (AB-2764). It is also aligned with McKinsey's recommendation to include "… enforcement mechanisms necessary to ensure delivery of capital in agreed upon time frame".

[31] These majorities coexist with non-borrowing country majorities in the dedicated funds (e.g. Fund for Special Operations, Multilateral Investment Fund and other dedicated trust funds).

[32] See points 10 and 12 of the "Understanding for the Admission of New Member Countries to the Inter-American Investment Corporation" (CII/CA-65-1), which was never fully implemented.

[33] See "By-Laws of the Inter-American Investment Corporation" (CII/AB-7-2).

Representation

4.33 The IIC Charter establishes that the Board of Executive Directors is composed of thirteen Executive Directors and their Alternates. It further provides that IIC Board members are elected or appointed among the Executive Directors and Alternates of the IDB, except when a group of IIC member countries is represented at the IDB by a national from a country that is not a member of the IIC, or, in the case of non-regional member countries and Canada, when representation by Executive Directors or Alternates of the IDB is not adequate given the different structure of participation and composition[34]. As established in the IIC Bylaws and in the Regulations for the Election of Executive Directors, the IIC Executive Directors and Alternates shall not receive salaries from the Corporation[35]. Both the IIC Bylaws and the Regulations for the Election of Executive Directors were adopted by the IIC Board of Governors in 1986.

4.34 Management would prepare a proposal to be considered by IIC Governors to amend the IIC Bylaws and the Regulations for the Election of Executive Directors to better reflect NewCo's more extensive operations, as well as its shareholding framework. A change in the number of Executive Directors and Alternates would require amending the Charter and this is not being proposed at this time.

[34] IIC Charter, Article IV, Section 4(b).
[35] Section 2(b) of the IIC Bylaws, and Section 4(b) of the Regulations for the Election of Executive Directors (document CII/AB-8-1).

ANNEX I
Highlights of IDBG NSG Operations

Volumes, in US$ millions	Average for 2014, 2013, 2012 and 2011 SCF	IIC	OMJ	MIF
Approvals				
Number - loans and guarantees	44	68	10	3
Number - equity investments	N/A	2	N/A	7
Number - technical assistance activities	4	32	6	86
Volume - loans and guarantees	1775	414	68	8
Volume - equity investments	N/A	8	N/A	26
Volume - technical assistance activities	2	5	2	72
Volume - Trade Finance Facilitation Program (TFFP)	386	N/A	N/A	N/A
Volume - mobilized resources	2226	437	31	297
Outstanding Investment Portfolio				
Number - loans and guarantees	142	204	26	25
Number - equity investments	N/A	18	N/A	58
Volume - loans, net	4317	992	79	24
Volume - loan loss allowance	227	46	3	N/A
Volume - guarantees issued[1] (off-balance sheet)	555	4	2	N/A
Volume - equity investments	N/A	26	N/A	139

(1) Also includes guarantees issued under the TFFP.

N/A: Not applicable or not available.

ANNEX II

NSG Total Approvals per Country for 2008-2014 (Includes SCF, OMJ and IIC)

	SCF		OMJ		IIC		TOTAL	
	Amount ($)	%	Amount ($)	%	Amount ($)	%	Amount ($)	%
Argentina	413,184,475	3.49%	2,900,000	0.74%	122,450,000	4.63%	538,534,475	3.62%
Brazil	2,529,883,244	21.35%	27,231,987	6.92%	296,800,000	11.23%	2,853,915,231	19.17%
Mexico	1,368,313,302	11.55%	52,680,262	13.38%	307,593,000	11.63%	1,728,586,564	11.61%
Venezuela	-	-	-	-	-	-	-	-
Sub-total A countries	**4,311,381,021**	**36.38%**	**82,812,249**	**21.04%**	**726,843,000**	**27.49%**	**5,121,036,270**	**34.40%**
Chile	1,032,800,000	8.71%	10,000,000	2.54%	203,000,000	7.68%	1,245,800,000	8.37%
Colombia	277,166,834	2.34%	60,615,123	15.40%	194,675,000	7.36%	532,456,957	3.58%
Peru	1,005,171,192	8.48%	55,000,000	13.97%	265,750,000	10.05%	1,325,921,192	8.91%
Sub-total B countries	**2,315,138,026**	**19.54%**	**125,615,123**	**31.92%**	**663,425,000**	**25.09%**	**3,104,178,149**	**20.85%**
Bahamas	-	-	-	-	2,225,000	0.08%	2,225,000	0.01%
Barbados	55,000,000	0.46%	-	-	-	-	55,000,000	0.37%
Costa Rica	542,553,321	4.58%	5,000,000	1.27%	182,250,000	6.89%	729,803,321	4.90%
Jamaica	76,750,000	0.65%	-	-	38,670,000	1.46%	115,420,000	0.78%
Panama	668,670,607	5.64%	-	-	182,500,000	6.90%	851,170,607	5.72%
Suriname	-	-		-	1,000,000	0.04%	1,000,000	0.01%
Trinidad & Tobago	-	-	-	-	-	-	-	-
Uruguay	629,200,000	5.31%	2,453,461	0.62%	51,470,000	1.95%	683,123,461	4.59%
Sub-total C countries	**1,972,173,928**	**16.64%**	**7,453,461**	**1.89%**	**458,115,000**	**17.33%**	**2,437,742,389**	**16.37%**
Belize	-	-	-	-	-	-	-	-
Bolivia	48,800,000	0.41%	7,100,000	1.80%	64,918,000	2.46%	120,818,000	0.81%
Dominican Republic	353,100,000	2.98%	-	-	51,636,500	1.95%	404,736,500	2.72%
Ecuador	320,000,000	2.70%	23,000,000	5.84%	137,000,000	5.18%	480,000,000	3.22%
El Salvador	193,000,000	1.63%	34,100,000	8.66%	94,760,000	3.58%	321,860,000	2.16%
Guatemala	316,250,329	2.67%	-	-	45,930,000	1.74%	362,180,329	2.43%
Guyana	-	-	-	-	2,000,000	0.08%	2,000,000	0.01%
Haiti	4,000,000	0.03%	3,000,000	0.76%	21,540,000	0.81%	28,540,000	0.19%
Honduras	184,500,000	1.56%	-	-	23,165,000	0.88%	207,665,000	1.39%
Nicaragua	111,634,824	0.94%	15,000,000	3.81%	139,817,000	5.29%	266,451,824	1.79%
Paraguay	302,968,014	2.56%	37,500,000	9.53%	87,695,000	3.32%	428,163,014	2.88%
Sub-total D countries	**1,834,253,167**	**15.48%**	**119,700,000**	**30.41%**	**668,461,500**	**25.28%**	**2,622,414,667**	**17.61%**
Regional	**1,418,000,000**	**11.97%**	**58,000,000**	**14.74%**	**126,900,000**	**4.80%**	**1,602,900,000**	**10.77%**
Total	**11,850,946,142**	**100%**	**393,580,833**	**100%**	**2,643,744,500**	**100%**	**14,888,271,475**	**100%**

Source: VPP-NSG and IIC projects databases

These amounts refer to operations approved by the Boards of Directors of the IDB and IIC, and do not exclude the operations that were cancelled throughout the period (2008-2014). Therefore, this information reflects efforts made by the different NSG windows to support interventions in member countries and not the actual amount of resources disbursed in those countries during that period.