

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK GROUP

CORPORATE RESULTS FRAMEWORK
2016-2019
TECHNICAL GUIDANCE NOTE

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| ACRONYMS |

ABR	Annual Business Review
ASR	Annual Supervision Report
BDA	Budget and Administrative Services Department
CDR	Country Development Results
CRF	Corporate Results Framework
CS	Country Strategy
DELTA	Development Effectiveness Learning, Tracking, and Assessment tool
DEM	Development Effectiveness Matrix
DEO	Development Effectiveness Overview
DIAS	Development Impact and Additionality Scoring
DSP	Strategy and Development Department
DVF	Development Effectiveness Division
IDB	Inter-American Development Bank
IDB-9	Ninth General Capital Increase of the Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IFI	International Financial Institution
IIC	Inter-American Investment Corporation
LAC	Latin America and the Caribbean
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund
MfDR	Managing for Development Results
MSME	Micro, Small and Medium-sized Enterprise
NSG	Non-Sovereign Guaranteed
OVE	Office of Evaluation and Oversight
PCR	Project Completion Report
PEC	Policy and Evaluation Committee
PMR	Progress Monitoring Report
QBR	Quarterly Business Review
QRR	Quality and Risk Review
RBB	Results Based Budgeting
SDG	Sustainable Development Goal
SDV	Strategy Development Division
SG	Sovereign-Guaranteed
SME	Small and Medium-sized Enterprise
SMO	Strategy Monitoring Division
SPD	Office of Strategic Planning and Development Effectiveness
TC	Technical Cooperation
TCM	TC Monitoring and Reporting System
UIS	Update to the Institutional Strategy

I. INTRODUCTION

- 1.1 The purpose of this Technical Guidance Note is to provide instructions for implementing the Inter-American Development Bank Group (IDBG) Corporate Results Framework (CRF) 2016-2019 (GN-2727-6), as approved by the IDB Board of Executive Directors on November 18, 2015 and by the IIC Board of Directors on December 6, 2016.¹ By providing detailed information about the content and process (including governance structure) surrounding the CRF 2016-2019, this Technical Guidance Note intends to standardize the reporting processes for the CRF 2016-2019, ensuring reporting consistency, knowledge management and transparency. It serves both to aid IDBG employees in reporting on the CRF 2016-2019 and to provide clarity to external audiences of what is reported in the IDBG CRF.
- 1.2 In 2014, Governors delegated to the Board of Executive Directors the authority to approve the update to the IDB CRF for the 2016-2019 period including the ability to make subsequent updates or modifications to it, as warranted.² The CRF must remain stable enough over time to truly measure progress and as such, major changes to it are not expected from year to year. At the same time, the ability to introduce improvements over the course of the reporting period will yield a more useful CRF.
- 1.3 IDBG Management will update this document over time as indicators are updated, needs for clarifications arise and/or if there are changes to relevant systems or processes. As the CRF 2016-2019 is modified over time, changes will be documented in an annex to this Technical Guidance Note. This Technical Guidance Note is subject to approval by the Senior Management Committee as outlined in Section III of this document.³
- 1.4 The CRF 2016-2019 was prepared as part of the Update to the Institutional Strategy (AB-3008) under the strategic guidance of the Board of Executive Directors through a collaborative process relying on the expertise of many IDBG employees. The following documents represent major milestones in the process and also serve as useful background to the IDBG CRF 2016-2019.
- Corporate Results Framework 2016-2019. Second revised version. ([ENG](#)) ([SPA](#))
 - Action Plan for the Implementation of the Update to the Institutional Strategy ([GN-2788-11](#))
 - Update to the Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve lives ([ENG](#)) ([SPA](#))
 - Updating of the IDB's Corporate Results Framework: Proposal to Request Delegation of Authority from the Board of Governors ([ENG](#)) ([SPA](#))
 - Overview: Mid-term Evaluation of IDB-9 Commitments ([ENG](#)) ([SPA](#)) and the Mid-Term Evaluation of IDB-9 Commitments. Background Paper: Corporate Results Framework -Management's response ([ENG](#)) ([SPA](#)).
 - Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (Annex 1) ([ENG](#)) ([SPA](#)).
- 1.5 This Technical Guidance Note is divided into four sections, including this introduction, and also includes three electronic annexes. Section II lists the current CRF indicators, both main and auxiliary. Section III describes the processes for the CRF. Section IV describes

¹ In 2017, the Inter-American Investment Corporation (IIC)—which serves private sector clients in the region—was rebranded as IDB Invest

² Resolution [AG-10/14](#).

³ The Senior Management Committee rules ([OR-201](#)) provide that the General Manager of the IIC will participate when the committee deals with IDBG-wide issues, as determined by the President.

the classification methodology for the strategic alignment indicators. Annex I provides detailed indicator definitions. Annex II provides a conditional classification for strategic alignment to institutional priorities based on a project’s sub-sector. Annex III provides detailed guidance on disaggregation options related to climate change. The original version of the CRF Technical Guidance Note can be accessed [here](#) and the version updated in 2017 can be accessed [here](#).

- 1.6 For questions related to this Technical Guidance Note, please contact the joint IDB Group CRF team at crf@iadb.org.

II. LIST OF CURRENT CRF INDICATORS

- 2.1 The tables below present the current set of CRF indicators (main and auxiliary). Definitions and other indicator specific details can be found in Annex I of this document.

A. Main indicators

- 2.2 The Regional Context level provides information on long-term development progress in the region with respect to each of the three challenges outlined in the UIS: (1) social inclusion and equality; (2) productivity and innovation; and (3) economic integration as well as the three cross-cutting themes: (1) gender equality and diversity; (2) climate change and environmental sustainability; and (3) institutional capacity and the rule of law.

Table 2.1: Regional Context Indicators	
1.	Poverty headcount ratio
2.	Gini coefficient
3.	Social Progress Index
4.	Growth rate of GDP per person employed
5.	Global Innovation Index
6.	Research and development expenditure as a percentage of GDP
7.	Intraregional trade in goods
8.	Growth rate of the value of total exports of goods and services
9.	Foreign direct investment net inflows as percentage of GDP
10.	Greenhouse gas emissions
11.	Proportion of terrestrial and marine areas protected
12.	Government effectiveness (average LAC percentile)
13.	Rule of law (average LAC percentile)

2.3 The Country Development Results (CDR) level provides aggregate data on outputs and outcomes supported by IDBG-financed projects.

Table 2.2: Country Development Results Indicators
1. Countries in the region with improved learning outcomes according to PISA
2. Maternal mortality ratio
3. Property value within project area of influence
4. Reduction of emissions with support of IDBG financing
5. Public agencies' processing times of international trade of goods and services
6. Formal employment of women
7. Percent of GDP collected in taxes
8. Students benefited by education projects
9. Beneficiaries receiving health services
10. Beneficiaries of targeted anti-poverty programs
11. Beneficiaries of improved management and sustainable use of natural capital
12. Households benefitting from housing solutions
13. Beneficiaries of on-the-job training programs
14. Jobs created by supported firms
15. Women beneficiaries of economic empowerment initiatives
16. Micro / small / medium enterprises financed
17. Micro / small / medium enterprises provided with non-financial support
18. Households with new or upgraded access to drinking water
19. Households with new or upgraded access to sanitation
20. Installed power generation from renewable energy sources
21. Roads built or upgraded
22. Professionals from public and private sectors trained or assisted in economic integration
23. Regional, sub-regional and extra-regional integration agreements and cooperation initiatives supported
24. Subnational governments benefited by citizen security projects
25. Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery

2.4 The IDBG Performance level captures how the IDBG acts to support countries and clients in achieving results.

Table 2.3: IDBG Performance Indicators	
Responsiveness	
1.	Partners satisfied with IDBG development solutions
2.	Lending to small and vulnerable countries
3.	Operations meeting target preparation time
Multi-sectorality	
4.	Partners satisfied with IDBG use of multi-sector approach
5.	IDBG loan operations with multidisciplinary team compositions
Effectiveness and Efficiency	
Effectiveness	
6.	Active operations with satisfactory performance classification
7.	Operations with satisfactory development results at completion
8.	Operations with high environmental and social risks rated satisfactory in the implementation of mitigation measures
9.	Mid- and senior-level IDBG staff who are women
Efficiency	
10.	Cost to income ratio
11.	Cost to development-related assets ratio
Leverage and Partnerships	
12.	Mobilization volume by NSG financed projects / companies
13.	Partners satisfied with IDBG's ability to convene other partners
Innovation and Knowledge	
14.	Partners that consider IDBG solutions to be innovative
15.	Total IDBG blog readership
16.	Average visits to IDBG publications
Strategic Alignment	
17.	New approvals aligned with at least one challenge or cross-cutting theme of the Update to the Institutional Strategy (% of lending and TC volume) ⁴
	By challenge:
a.	Social inclusion and equality
b.	Productivity and innovation
c.	Economic integration
	By cross-cutting theme:
d.	Climate change and environmental sustainability
e.	Gender equality and diversity
f.	Institutional capacity and rule of law

⁴ Detailed information about strategic alignment can be found in Section IV.

B. Auxiliary Indicators

- 2.5 A set of auxiliary indicators has been included in the CRF that: i) allow for a larger set of standardized indicators that will permit the IDBG to more easily aggregate its results across its portfolio; ii) complement the main CRF indicators by providing additional metrics on IDBG's performance on strategic priorities outlined in the UIS and IDB-9 and allowing for continuity in reporting on indicators from the CRF 2012–2015; and iii) give space to experiment with new indicators to measure innovative areas without the constraint of specific targets.

1. Teachers trained
2. Children receiving early childhood development services targeted to the poor
3. Beneficiaries of improved access to formal financial services
4. Households with wastewater treatment
5. Households with solid waste disposed in a sanitary landfill
6. Households protected from flood risk
7. Households with new or improved access to electricity supply
8. Urban rail and bus mass transit systems built or upgraded
9. Ports built or upgraded
10. Airports built or upgraded
11. Interurban rail lines built or upgraded
12. Electricity transmission and distribution lines installed or upgraded
13. Farmers with improved access to agricultural services and investments
14. Beneficiaries of IDBG projects that contribute to at least one key dimension of food security
15. Terrestrial and marine areas with improved management
16. Tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion and/or improving environmental management
17. Countries that have improved disaster risk management
18. Countries benefited by IDB projects aimed at improving domestic resource mobilization
19. Subnational governments benefited by decentralization, fiscal management and institutional capacity projects
20. Countries that use fiduciary country systems
21. Public registries strengthened
22. Accountability institutions strengthened
23. Crime information systems strengthened
24. Business environment reforms enacted
25. Projects supporting innovation ecosystems
26. Cross-border and transnational projects
27. Amount of international trade promoted
28. Companies supported in innovation activities
29. Amount of FDI promoted
30. Beneficiaries of improved management and sustainable use of cultural capital

Table 2.5: Auxiliary IDBG Performance Indicators
Responsiveness
1. Partners satisfied with Country Strategy process
2. Time spent by IDBG senior technical specialists supporting loan operations in small and vulnerable countries
3. Partners satisfied with IDBG financing instruments
Effectiveness and Efficiency
Effectiveness
4. Technical cooperation operations with progress performance equal or higher than established threshold
5. Loans with satisfactory achievement of gender-related results at completion
Efficiency
6. SG investment loans fully disbursed on time
7. Key loan documents publicly disclosed in accordance with Bank policy
Leverage and Partnerships
8. Returning partners
9. Mobilization volume in SG operations
Innovation and Knowledge
10. Projects that support South-South and Triangular cooperation
11. IDBG publications generating significant conversation
12. Projects approved which are considered to be innovative (NSG)
13. Partners satisfied with IDBG's knowledge-sharing
Strategic Alignment
14. Operations aligned with Country Strategy
15. Climate finance according to the Joint MDB Approach
16. Bank portfolio reporting on greenhouse gas emissions
17. IDBG loan operations supporting activities that address a specific climate vulnerability
18. Loans with activities or components that target diverse populations (proactive actions) at entry
19. Loans with gender-related results at entry

III. CRF PROCESSES

3.1 The CRF 2016-2019 includes a series of process changes aimed at improving the utility of the CRF as a management tool and integrating the CRF into key IDBG business processes. The CRF processes are anchored around the Managing for Development Results (MfDR) cycle. Please see the CRF 2016-2019 ([GN-2727-6](#)) and the following sections for details.

A. Data Collection, Validation, and Analysis

3.2 Data collection, validation, and analysis are a shared responsibility of the Office of Strategic Planning and Development Effectiveness (SPD) at IDB, the Strategy and Development Department (DSP) at IDB Invest, MIF, and the CRF focal points throughout the IDBG. Details for collecting and validating data at each level of the CRF as well as the responsible parties are presented below. A brief description of the process to analyze the data is found at the end of this section.

3.3 The CRF focal points are senior specialists from throughout the IDBG that have been designated by their leadership to represent their business unit on matters related to the CRF. All CRF focal points are expected to have decision-making authority from their respective business units with regards to the CRF, including proposing changes to the CRF (see also section D “Process to Modify the CRF”) and contributing to the analysis of CRF data and explanations of performance. It is anticipated that the group will meet virtually throughout the year and roughly once annually in person.

1. Regional Context

3.4 Data for the Regional Context indicators will be collected annually based on the specific sources identified in Annex I. The CRF team will contact the relevant CRF focal points on an annual basis to review data availability. The CRF website (<http://www.iadb.org/crf>) includes links to results disaggregated by country, where available.

2. Country Development Results

3.5 Data for the Country Development Results (CDR) indicators will be drawn from the following sources:

3.6 **Sovereign Guaranteed Lending:** Data from SG lending operations will be primarily drawn from the PMR, but will also be drawn from other sources as indicated in Annex I. When registering the Results Matrix⁵ in Convergence, the operation team will flag the indicators that are aligned or contribute to the CDR indicators. For detailed guidance on how to flag indicators in the system and for step-by-step instructions on reporting through the PMR cycle, please see the [Results Matrix and Project Monitoring Guide](#) and its Annexes.⁶ For *contribution* to flagged CDR indicators the system will automatically apply a standardized unit of measure and prompt for the selection of fields for any relevant disaggregation (see paragraph 3.16 for further details on disaggregation).

⁵ For Policy-Based Loans (PBLs) and Policy-based Programmatic Loans (PBPs), the targeted nature of CDR indicators is likely to exclude contribution by definition. However, for these categories of SG loan operations, contribution can be possible, provided that indicators/outputs do not refer to a general population, and target a specific group of beneficiaries according to the CDR indicator definition.

⁶ The information contained in this document is confidential and will not be disclosed to external audiences. This is in accordance with the “Deliberative Information” exception referred to in paragraph 4.1 (g) of the Bank’s Access to Information Policy (GN-1831-28).

- 3.7 The SG data collection phase for the CRF is now aligned to the PMR reporting cycle.⁷ Final CRF data for the year will be confirmed after the PMR March cycle of the following year is closed. Draft preliminary data can also be pulled from Convergence after the Validation of the Chief of Operations (but before the PMR cycle is closed and the Division Chief and Country Representative validation).
- 3.8 The CRF focal points play an important role in reviewing CRF data in collaboration with SPD. The PMR sector focal point(s)⁸ in the contributing division(s) hold(s) the primary responsibility of reviewing the use of CRF indicator flags in the system to ensure consistent application of the definitions and to avoid double counting where more than one CRF indicator is being used in a given operation (this applies to both main and auxiliary indicators). SPD will assist in this review and analysis, highlighting any major inconsistencies in the data. CRF data will be finalized in May using the data available in the system after the PMR March cycle has closed and the data has been validated.
- 3.9 **Non-sovereign Guaranteed Lending:** At project eligibility and structuring/approval process, the project team will define indicators and include them in the Development Effectiveness Learning, Tracking, and Assessment Tool (DELTA) and the Results Matrix.
- 3.10 During the portfolio management cycle, data from NSG lending operations is drawn from the development results data reported annually by the clients. All the information will be managed in MAESTRO.
- 3.11 The Development Effectiveness officers of DSP/DVF will work together with the Portfolio Management Officers of INO/PTM to ensure the data collection, including the quality of the indicators, from the clients.
- 3.12 **Technical Cooperation Operations:** With respect to TCs and Investment Grants up to \$3 million, the IDB's TC Monitoring and Reporting System (TCM) enables reporting of TC results for select indicators. At TC preparation and approval, the operation team will populate the results matrix in Convergence. For detailed guidance on how to flag indicators in the system and for step-by-step instructions on reporting, please refer to the "How To" guides for Convergence. The system will encourage the use of standardized indicators and their corresponding unit of measures and prompt the user to select fields for relevant disaggregation(s).
- 3.13 Data from TC operations will be drawn from the TCM. The TC data collection phase for the CRF is aligned to the TCM reporting cycle.⁹ Final CRF data for the year will be confirmed after the reporting cycle is closed. If necessary, draft preliminary data can also be pulled from Convergence after the submission of the report by the Team Leaders (before the cycle is closed).
- 3.14 As with SG lending, the CRF focal points will play an important role in reviewing CRF data and data will be finalized using the data available in the system after the reporting cycle has closed and the data has been validated.
- 3.15 For NSG TCs, results will be captured as part of monitoring activities carried out by IDB Invest.

⁷ Based on the information reported by project teams and data drawn from Bank systems, monitoring indicators will give information on project performance twice a year: in March and in September, so that it can be validated. The cycle closing in March measures progress up to December 31st of the previous year and the cycle closing in September, up to June 30th of the current year. The classification of project performance is done once a year using all information on the progress of the project up to December 31st of each year.

⁸ Please see [The role of the Focal Point in the PMR methodology approved in November 2013](#) (internal use only)

⁹ Based on the information reported by TC teams and data drawn from Bank systems, results matrix indicators will give information in March on TC progress up to December 31st of the previous year.

3.16 **Disaggregation:** Project teams are strongly encouraged to collect disaggregated information on CDR indicators where feasible. Disaggregated information on CDR indicators is presented on the [CRF website](#) where available. The specific type(s) of disaggregation vary by indicator and data availability. The CDR indicator definitions note which types of disaggregation will be prioritized for each indicator. In general, the possible disaggregation options available in the Convergence system for CDR indicators include:

- a. **Gender** (women; men; girls; boys; women-owned/led firms): Collecting data disaggregated by sex is strongly encouraged for all projects that have indicators capturing individual beneficiaries.

A **women-led business** is defined as an enterprise which: is controlled at least fifty one percent (51%) by women (control would be 51% or 50%+ 1 share depending on local law) or where the Chief Executive Officer (CEO) and/or Chief Operations Officer (COO) or equivalent (highest managerial) position(s) (e.g. General Manager, President) is held by a woman.

- b. **Ethnicity** (indigenous; African descendant): Teams are strongly encouraged to collect data by population groups that are frequently marginalized where relevant to the project's logic and objectives – specifically indigenous peoples and African descendants. In accordance with the IDB's operational policy on indigenous peoples, **indigenous peoples** refers to those who meet the following three criteria: i) they are descendants from populations inhabiting Latin America and the Caribbean at the time of the conquest or colonization; ii) irrespective of their legal status or current residence, they retain some or all of their own social, economic, political, linguistic and cultural institutions and practices; and iii) they recognize themselves as belonging to indigenous or pre-colonial cultures or peoples. In the case of **African descendants**, disaggregation will be encouraged particularly in countries and sub-regions where African descendant populations face exclusion due to their racial or ethnic status or origin.
- c. **Location** (urban; rural)
- d. **Region** (choose all borrowing member countries that apply; other)
- e. **Level of Government/Agency** (national; subnational; municipal): For projects aiming to benefit governments or specific government agencies, progress reporting should indicate the level of government benefited where possible.
- f. **Size of Enterprise** (Micro-enterprises; Small and Medium enterprises): For projects aimed at benefiting companies or firms, disaggregation by the size of the enterprise is encouraged:
- Micro-enterprise – any enterprise that is smaller than the established criteria for SME, including a single entrepreneur
 - Small and medium enterprise (SME) – defined in accordance with the “Common Reporting Definition of SMEs across the IDB Group” ([PP 2-2](#)) (available for internal use only)
- g. **Level of Education** (Pre-primary; Primary; Secondary; Post-secondary)
- h. **Age** (youth; non-youth): for job training programs
- i. **Climate:** Climate-related disaggregation options are available for several CRF indicators in order to report on what portion of the total results reported support

climate change mitigation and/or adaptation activities. The specific disaggregation options by indicator are available in Annex III.

- j. **Percentage** (numerator; denominator: to enable aggregation at a corporate level of those CDR indicators that are reported in percentage form
- 3.17 For SG loan operations, disaggregated data to be reported for CRF indicators through the DEO and the CRF website should also be reported in Convergence. For detailed instructions on how to enter disaggregated information for SG loan operations using the PMR system, please see the [Results Matrix and Project Monitoring Guide](#) and its Annexes (for internal use only). The following general guidelines apply to reporting on disaggregated data for CRF indicators:
- a. Where possible, the preferred option is for the executing agency to measure and report on disaggregated data, based on the specific information available from execution. For example, if an indicator measures the number of professionals trained on a specific topic, the executing agency should keep a record of the people who were trained and disaggregate them by gender in their six-month progress reports.
 - b. When precise disaggregated data is not available from the executing agency, the disaggregated progress may be estimated based on specific information available at the project level, or at the level of the municipality/province benefited by the project. For example, if an indicator measures the number of people receiving a specific service, and the service targets a specific municipality, then the number of indigenous people benefited could be estimated by applying to the total progress the percentage of the population of the municipality that is indigenous, based on a recent census available on the government's statistical agency website. The criteria used to estimate the disaggregated progress should be as specific as possible to the area of the intervention. This implies, for example, avoiding as much as possible the use of information referring to the population at national level (which may not apply to the specific execution context). The specific criteria used to estimate the disaggregated progress should be discussed with GDI and/or with the person responsible for gender and diversity issues within the business unit supervising the project. Moreover, as the disaggregated progress will need to be reported in the PMR, the executing agency will have to agree with the criteria applied to estimate such figures.
- 3.18 For NSG projects, the data disaggregation by gender and enterprise size has been implemented and will be continued in accordance with the same criteria as the SG operations. In both cases, disaggregation can be done only to the extent feasible under the commercial practices of the clients.

3. IDBG Performance

- 3.19 Data for the IDBG Performance level of the CRF is collected from various IDBG systems. SPD and DSP are responsible for coordinating the collection and validation of data for indicators at this level corresponding to the IDB and IDB Invest, respectively, with the support of the relevant CRF focal points.

4. Contribution, Alignment and Strategic Alignment

- 3.20 It is worth highlighting the difference between *contribution*, *alignment* and *strategic alignment*. *Contribution* involves a tangible, measurable sum to the corresponding CRF 2016-2019 indicator. *Alignment* refers to the use of an indicator that is equivalent to a CRF CDR indicator but does not make a specific contribution that can be aggregated. *Strategic alignment* aims to quantify the total volume of operations strategically aligned with the UIS

three challenges and three cross-cutting themes as an indicator of IDBG performance. Strategic alignment refers to a connection between the operation's expected results and at least one of the UIS challenges or cross-cutting themes. Strategic alignment is not intended to track direct *contribution* or *alignment* to the CRF of IDBG-financed operations. (See Section IV for further details on strategic alignment classification).

- 3.21 The CRF measures both contribution and alignment at the CDR level and occurs through the inclusion of at least one CDR or CDR equivalent indicator in the results matrix of the operation. In the case of contribution, a standardized unit of measure must be used (see paragraph 3.6). CDR indicators will be available for either contribution or alignment in Convergence, not both as specified in Annex I. *Strategic alignment* is measured at the level of the operation through indicator 17 at the IDBG Performance level of the CRF.
- 3.22 For example, an operation that invests in building schools is expected to *contribute* to the CDR indicator *Students benefited by education projects*, by including an indicator with the same unit of measure in its results matrix. Whereas an operation that provides resources to develop a study regarding the effectiveness of an education reform will not yield a *contribution* to this CDR indicator, but could be *strategically aligned* with the UIS challenge of Social Inclusion and Equality if the appropriate justification is provided. Likewise, an operation that seeks to increase the quality of the education and is monitoring and evaluating its results through national literacy tests, could be *aligned* to the CDR indicator *Countries in the region with improved learning outcomes according to PISA (%)* since both the national literacy tests and the Programme for International Student Assessment (PISA) are aimed at measuring basic skills in reading, mathematical and scientific reasoning.

5. Traffic Light Methodology

- 3.23 A traffic light methodology is used to classify the progress on indicators as achieved, on track, on watch/moderate progress, or off track. Once data has been collected and aggregated, the CRF team assigns a traffic light status to the main CDR and IDBG Performance indicators based on the traffic light methodology (available on the CRF website at <http://crf.iadb.org/traffic-light-methodology>) and reports this information in the DEO and on the CRF website.

B. Primary Reporting Channels

- 3.24 The IDBG will report on the CRF in a number of ways:
- Development Effectiveness Overview:** CRF reporting will occur annually in the Development Effectiveness Overview. The print/pdf edition will report on the CRF indicators in the main tables and in aggregate form (auxiliary indicators and disaggregated data will be reported online).
 - CRF Website:** The most recently available snapshot of progress against CRF indicators (main and auxiliary, as well as any disaggregated data – including by country and listing individual contributing and aligned operations where appropriate) is available on the [CRF website](#). Only finalized data is reported on the website.
 - Other Reporting:** Selected IDBG Performance indicators will be reported on in the Monthly Operational Review, Quarterly Business Review (QBR) and Annual Business Review (ABR) throughout the year and twice annually in the budget execution reports.

C. Informing Annual Priorities and Business Planning

- 3.25 To promote the integration of the CRF and its progress into business planning and priority setting, the analysis of CRF progress will inform business planning and its two key

components, namely, the budget formulation (via formulation of business plans at the Vice Presidency level) and individual work programs.¹⁰

- 3.26 For the IDB, CRF progress is used to inform the annual budget formulation exercise. The business planning cycle begins with the definition of the work program priorities, based on the progress made in implementing the UIS as measured by the CRF indicators (relying on draft CRF data and analysis from the DEO).
- 3.27 This analysis is a key input to the business planning process, feeding into budget and work program discussions, and will also be used to determine whether any changes to the CRF should be proposed to the Boards of Directors. The timing of this process will be aligned with the IDB's budget cycle as per document GA-197-14.
- 3.28 For the IDB, SPD and BDA will continue to work collaboratively to ensure the alignment of RBB indicators with the CRF. In addition, selected CRF indicators will be included in Vice Presidents' and Managers' work programs and will be cascaded down to the employee level, keeping alignment with Departmental and Vice President-level Business Plans.

D. Process to Modify the CRF

- 3.29 The CRF 2016-2019 is intended to have a certain degree of flexibility in order to remain a relevant and useful management tool. However, stability over time is also important in order to effectively measure progress and monitor trends. Tables 3.1 and 3.2 below outline which level of approval (Boards of Executive Directors, Senior Management Committee or SPD and DSP Managers) is required to make each type of change.
- 3.30 All proposed changes to the CRF indicators must be accompanied by a rationale that justifies the reason for the change (e.g. a target having been met sooner than anticipated, changes to IDBG business processes, or unanticipated changes in the region's economy that significantly impact the IDBG's work). The change proposal must include the additional information indicated in Table 3.1 below.
- 3.31 Changes to the main CRF indicators may be proposed by any IDBG business unit at any time until 90 days prior to the CRF modification proposal distribution to the IDBG Boards of Directors (expected to be scheduled for each July). The CRF team will review proposals on a rolling basis, engaging relevant stakeholders throughout the IDBG. Representatives from the corresponding IDBG Manager(s) proposing the change should be present for the discussion with the Boards of Directors. Once approved by the Boards, the changes would be incorporated into relevant IDBG systems as needed and communicated to the CRF focal points so they may inform others as required (e.g. team leaders of projects which include the indicator in the results matrix).
- 3.32 Changes to the auxiliary CRF indicators may be proposed by any IDBG business unit at any time. The CRF team will review proposals on a rolling basis, engaging relevant stakeholders throughout the IDBG. Depending on the nature of the changes, proposals must be approved as indicated in Table 3.1 below. Once approved, the changes would be incorporated into relevant IDBG systems as needed and also communicated to the CRF focal points so they may inform others as required (e.g. team leaders of projects which include the indicator in the results matrix).

¹⁰ As stated in paragraph 3.3 of the CRF 2016-2019 proposal, "a single tool cannot capture detailed results at all levels of the IDBG. The CRF must be focused on measuring the key priorities outlined in the UIS. Simplicity in terms of both the number and type of indicators is essential to achieving this focus. The CRF 2016-2019 has a simplified structure and content, which includes a reduced number of main indicators that can be standardized effectively to represent the IDBG's diverse portfolio and business practices."

3.33 All changes to the CRF 2016-2019 will be clearly documented on the [CRF website](#). The definitions presented in this Technical Guidance Note will be updated accordingly.

Table 3.1: Changes to CRF Indicators

Type	Implication(s)	Proposal Requirement(s)	Approval Level
Addition of indicator (includes transfer of an auxiliary indicator to main table)	Possible modifications to IDBG systems In the case of transfer a baseline and target will be required in most cases	<ul style="list-style-type: none"> ▪ Name ▪ Definition ▪ Rationale for change (explicitly mentioning indicator significance for the UIS) ▪ Baseline (with year) ▪ Target (only for main indicators) ▪ Data source ▪ Contributing IDBG department(s) and division(s) ▪ Prioritized disaggregation (if any) 	Boards of Directors for changes to main indicators Senior Management Committee for changes to auxiliary indicators
Removal of indicator (includes transfer of a main indicator to auxiliary table)	Possible modifications to IDBG systems In the case of transfer any target that is in place will no longer be required	<ul style="list-style-type: none"> ▪ Rationale justifying removal 	Boards of Directors for changes to main indicators Senior Management Committee for changes to auxiliary indicators
Revision of name or target	Possible minor changes to IDBG systems	<ul style="list-style-type: none"> ▪ Adjustment ▪ Rationale for change 	Boards of Directors for changes to main indicators SPD and DSP Managers (in consultation with CRF focal points) for auxiliary indicators ¹¹
Changes to definitions, prioritized disaggregation, and/or data sources	Changes to Technical Guidance Note and CRF website	<ul style="list-style-type: none"> ▪ New definition and/or source ▪ Rationale for change 	SPD and DSP Managers (in consultation with CRF focal points) ¹²

¹¹ In the event agreement cannot be reached among all IDBG contributors to the indicator, the proposal would be raised to the Senior Management Committee

¹² In the event agreement cannot be reached among all IDBG contributors to the indicator, the proposal would be raised to the Senior Management Committee

Table 3.2: Changes to Business Processes Associated with the CRF

Type	Implication(s)	Proposal Requirement	Approval Level
Changes marking a material departure from the processes as presented in the CRF 2016-2019 Proposal (GN-2727-6) (ENG) (SPA)	Potential changes to IDBG systems	<ul style="list-style-type: none"> ▪ Thorough explanation of the implication(s) for the CRF (at all levels) 	Board of Directors
Changes to details of processes as described in this Technical Guidance Note that do not represent a departure from those outlined in the CRF 2016-2019 Proposal (GN-2727-6) (e.g. traffic light methodology) (ENG) (SPA)			Senior Management Committee
Changes to this Technical Guidance Note that are editorial in nature or are updates to reflect Board-approved changes to the CRF			SPD and DSP Managers (in consultation with CRF focal points)

E. Country Strategies

- 3.34 At Country Strategy (CS) preparation and approval the operation team inserts the CS results matrix in Convergence. The system allows the team to align each CS indicator to one or more indicators of the CRF, if applicable. The proposed alignment is validated by SPD through the CS DEM. Of note:
- a. Indicators identified in the CS Result matrix are validated as aligned to a CRF indicator if they support the achievement of that specific CRF indicator.
 - b. Indicators should be related, but they not need to be the same. The alignment should be clear and evident, and supported by the CS's diagnostic and the CS document itself.

IV. STRATEGIC ALIGNMENT CLASSIFICATION METHODOLOGY

A. General Considerations and Methodology

- 4.1 Strategic alignment is one of the operational guiding principles measured at the IDBG Performance level of the CRF 2016-2019. The strategic alignment classification methodology presented here allows the IDBG to measure the percentage of new approvals (by volume in US\$) that strategically align to each challenge and cross-cutting theme of the UIS. This allows the IDBG to assess the allocation of its financial resources according to the UIS priorities overall and to each UIS challenge and cross-cutting theme (i.e. to report on IDBG Performance indicator 17). This approach intends to build on and replace the Guidelines for Classifying Lending Program Priorities ([GN-2650](#)).
- 4.2 As stated above, strategic alignment refers to a connection between the operation's expected results and at least one of the UIS challenges or cross-cutting themes. Strategic alignment is not intended to track the IDBG-financed operations' direct *contribution* to the CRF, but to quantify the volume of operations that are strategically aligned with the UIS three challenges and three cross-cutting themes as an indicator of IDBG performance.
- 4.3 Operations may be classified under none, one or more than one of the UIS challenges/cross-cutting themes.
- 4.4 Strategic alignment applies to sovereign-guaranteed and non-sovereign loan operations (including PBLs and Guarantees), investment grants, equity investments, and non-reimbursable technical cooperation operations.¹³ The calculations include total approval amount (\$US) of the operation regardless of the source fund.
- 4.5 For lending operations, strategic alignment requires the following:
- a. A justification of the connection between the operation's expected results and the challenge(s) and/or cross-cutting theme(s). The justification must provide a clear argument on how the vertical logic and theory of change of the operation connects with the corresponding UIS challenge or cross-cutting theme.¹⁴ The connection with the UIS challenge or cross-cutting theme should be established through the central vertical logic of the project or, in the case of gender equality and diversity, it can also be through a vertical logic specifically related to gender and diversity issues that the project is aiming to address. See paragraphs 4.33 to 4.37 for more information.
 - b. The identification of an indicator from the operation's results matrix (this may be any indicator - CRF or not) that relates to the corresponding challenge or cross-cutting theme. The indicator used to justify strategic alignment may be at any level – output, outcome, or impact. In the case of loan operations, the indicator must be included in the results matrix of the operation.
- 4.6 In the case of TCs and Investment Grants up to \$3 million, the Team Leader must identify and, in all cases, justify the connection between the TC's expected results – as elaborated in mandatory outcome statements – and at least one of the UIS challenges or cross-cutting

¹³ Strategic alignment does not apply for Containers (e.g., Conditional Credit Line for investment projects (CCLIP), Contingent Credit Line for Natural Disasters) or Facilities, but is required for specific operations approved under each container (e.g., an individual operation under a CCLIP).

¹⁴ The vertical logic refers to the cause and effect relationship between the project's inputs, activities, outputs, outcomes, and impacts, representing a hypothesis postulated at entry concerning how the intervention will bring about the desired results. For more information, consult the DEM toolkit [here](#).

themes.¹⁵ Note that projects financed with resources from the Action Plan for C and D countries program, ordinary capital administrative expense operations, and facilities are not subject to strategic alignment classification.¹⁶

- 4.7 Given the sectoral characteristics of the three UIS **challenges**, operations can first be conditionally classified as being strategically aligned with challenges according to their sector and subsector. The table available in Annex II indicates with an “x” the expected strategic alignment of each sub-sector to each challenge. While this table is intended to facilitate the Team Leaders’ initial classification by filtering for the most relevant sub-sectors to each of the challenges, the final classification is not automatic and must be further supported as indicated in the above general guidelines and below specific guidelines for each challenge and theme. Team Leaders may override this conditional classification to strategically align the operation to a challenge so long as the operation meets the other classification requirements.
- 4.8 Regarding strategic alignment with the three UIS **cross-cutting themes**, the first step is for the Team Leader to reflect explicitly on how the operation might be aligned to each of the three cross-cutting themes of the UIS and select the appropriate indicators accordingly. In the case of climate change, the classification will rely on the assessment by the climate change teams at IDB or IDB Invest regarding the operation’s climate finance as per the harmonized MDB approach.
- 4.9 For SG operations, Team Leaders should register the operation’s strategic alignment in Convergence prior to approval. For IDB Invest operations, the strategic alignment of projects is registered in the DELTA system.

B. Detailed Methodology

1. Challenges

Social Inclusion and Equality

- 4.10 As stated in the UIS, despite the vigorous emergence of a middle class and improvements in income per capita in the past decade, the region is still characterized by higher poverty rates compared to other parts of the world with similar income levels. Eighty million people in the region continue to live in extreme poverty, which is disproportionately concentrated among women and children and in particular groups, such as indigenous peoples, Afro-descendants, and residents of rural areas and urban slums. LAC is the most urbanized region in the world, and faces daunting pressures in its large and mid-sized cities to address poverty and exclusion challenges posed by housing deficits, growing slums, and access to services. Operations will be considered to be strategically aligned to the UIS challenge of social inclusion and equality if the general criteria described above in Section A are met in addition to the specific criteria presented below.
- 4.11 The operation’s vertical logic and theory of change must be related to at least one of the following:
 - Reducing poverty and inequality

¹⁵ As delineated in the Technical Cooperation Monitoring and Reporting System (OP-1385-2), the identification of outcome indicators is optional in the TC results matrix. As such, the criteria outlined in this Annex that require the use of an operation’s results matrix and corresponding indicators to demonstrate strategic alignment are not applicable to TCs.

¹⁶ Due to the flexible nature of the Action Plan for C and D countries, it is not possible to properly classify the strategic alignment of these TC operations at approval. In the case of administrative expense operations, these operations are not subject to strategic alignment due to their focus on general administrative expenses. In the case of facilities, strategic alignment information is assigned as specific operations are approved that correspond to the facility and not to the facility itself.

- Providing inclusive services (access and quality) in health, education, social protection, social security, labor markets, or water and sanitation
- Creating a more distributive fiscal policy
- Enhancing social mobility for vulnerable populations including through private income generating opportunities
- Including all segments of the population and firms (particularly MSMEs) in financial markets and services
- Providing inclusive infrastructure or infrastructure services
- Enhancing the inclusive provision of basic goods and services, including through the private sector
- Enabling access to finance for MSMEs (as they provide employment or subsistence opportunities and contribute to sustainable economic growth predominantly in the lower-income segments of the population)
- Facilitating access to credit (particularly for housing) for segments of the population which usually face constraints in this regard

4.12 To meet the criteria for strategic alignment with the UIS challenge of social inclusion and equality the matrix must provide information that justifies one of the following criteria:

- Absolute: more than 40% of the beneficiaries of the project are expected to be poor according the country's official poverty line (headcount) or more than 40% of beneficiaries are unemployed or excluded from services (health, education, social protection, social insurance, labor market, water and sanitation, finance and technical assistance)
- Relative: the benefits of the project are expected to be proportionally larger for those with lower levels of resources or less access to quality services. This can be determined considering a relevant measure (such as education, per capita household income, access to health services, access to services, salaries, standardized height for age (measure of health, nutrition)) in which the contrast is made within or across geographic localities
- Ratio of net benefits: more than half the estimated net economic benefits accrue to the lowest two quintiles (bottom 40%)

Productivity and Innovation^{17,18}

4.13 As stated in the UIS, the Region's internal sources of growth have had only limited impact in generating endogenous growth in a sustainable way; this is directly related to the Region's relatively low productivity and innovation. Over the last 50 years, the productivity gap with respect to advanced economies and other emerging regions has significantly widened—and the gap is even larger in rural areas. In terms of innovation, most LAC countries underperform with respect to other countries with comparable income levels, as measured by intensity of research and development (R&D). Operations will be considered to be strategically aligned to the UIS challenge of productivity and innovation if the general criteria described above in section A are met in addition to the specific criteria presented below.

4.14 The operation's vertical logic and theory of change must be related to at least one of the following:

¹⁷ The Imperative of Innovation. Policy Perspectives for Latin America and the Caribbean (Juan Carlos Navarro, Jose Miguel Benavente, Gustavo Crespi).

¹⁸ OP-2008 Support to SMEs and Financial Access/Supervision SFD. <http://manuals.iadb.org/go.cfm?do=Page.View&pid=2691>.

- Developing instruments and/or promoting investments that contribute to a more efficient use of factors of production and/or induce a faster rate of technological innovation that reaches the market
- Developing and adopting more efficient methods of production, transformation of products and/or services, as well as their marketing
- Increasing endogenous growth in a sustainable way such as the development of human capital and providing adequate knowledge
- Supporting the development of work-relevant skills throughout the life-cycle of the worker
- Promoting better matching of workers to vacancies through labor intermediation and information systems
- Establishing smart institutional frameworks¹⁹
- Providing innovation ecosystems
- Providing urban planning
- Providing adequate infrastructure and reliable and affordable public services
- Increasing productivity of private business, including MSMEs, promoting innovative products, enterprises, value chains and industries, or supporting technological development
- Facilitating productive sectors' access to finance
- Redrafting social policy to reduce incentives to informal employment

4.15 **Adopting or operationalizing a product, internal process, technology or financing structure that is new or not widely used in the domestic sector.**²⁰ Example areas of intervention:

- Increasing productivity of MSMEs by providing access to finance that enables: i) investments in new machinery; ii) more effective production or service provision; or iii) other productivity enhancing measures such as ICT or R&D
- Enabling an FI client to improve its internal processes to better identify, rate, access or serve MSMEs and thereby improving their productivity by reducing cost of capital, improving processes or enabling access to credit
- Investments in productive sectors (e.g. manufacturing, agribusiness) intending to reduce production costs per unit produced, produce goods/services with fewer inputs/less waste, and/or improve quality of products
- Investments in infrastructure services which increase productivity of the economy through improving transportation efficiency (e.g. time saving), improved information and communication technology and/or services
- Adopting or operationalizing a product, internal process, technology or financing structure that is new or not widely used in the domestic sector

4.16 **Development of human capital and providing adequate knowledge:** In recent years, policy in this area has evolved substantially. Worldwide, national talent acquisition strategies have become proactive. Traditionally, strategies focused on scholarship programs; however, this is now being complemented by a more deliberate and wider search for talent. Additional steps are also being taken to manage talent flows across borders by designing specific policies directed at preventing brain drain and attracting the scientific diaspora. “Brain circulation” has replaced the old concept of “brain drain”, thanks

¹⁹ <http://www.oecd.org/env/outreach/33947759.pdf>

²⁰ Note that “product” includes both physical goods as well as financial products while “domestic sector” can refer to the national market in small countries and regional markets in larger countries. This does not include innovations in supplier or client relationships (IFI indicator definition).

to the unprecedented mobility of people and ideas made possible by increased facility of transport and communication technology over the past couple of decades. Gradually, the notion that LAC countries must attract highly skilled human capital—not only scientists, but also engineers and entrepreneurs—is gaining traction. However, innovation systems require not only scientific researchers with advanced training, but also entrepreneurial talent, well-educated engineers and technicians, and a full array of professionals, such as technology and innovation managers, lawyers with expertise in intellectual property rights, knowledge brokers, and designers. Accelerated technology adoption in firms requires a minimum of complementary investments in scientific and technological capabilities. The level and specific design that complementary investments should take vary according to the level of sophistication and diversification of the economy, but as such they are an unavoidable component of successful STI policy. Example areas of intervention:

- Policy instruments for human capital for STI include undergraduate, graduate, and post-graduate scholarships
- Providing scholarships for doctoral and post-doctoral studies abroad
- Developing educational programs in technical areas
- Developing domestic graduate and research programs that will be able to accommodate new doctorates returning from abroad
- Supporting programs to insert researchers into industry by subsidizing the hiring of engineers and scientists with advanced degrees
- Developing university and public research centers with infrastructure in a variety of scientific disciplines and general-purpose technologies (specifically biotechnology, nanotechnology, and ICT) that underpin work in a wide range of more specific fields
- Providing support to scientific research, laboratory equipment, quality systems and metrology services

4.17 **Promoting better matching of workers to vacancies through labor intermediation and information systems:** A better match of workers and vacancies reduces the time required for firms and job seekers to make a match. Time spent looking for candidates/job opportunities generates a loss to the economy. A better assignment of vacancies to the best fit candidates promotes productivity of sectors and efficiency. Human Capital promotes productivity of firms as better trained individuals tend to be more efficient and produce more. Example area of intervention:

- Promoting a better assignment of job vacancies through information and intermediation services

4.18 **Supporting the development of work relevant skills throughout the life cycle of the worker:** work relevant skills increase the productivity of the worker and with it the productivity of the worker-firm match. As technological change accelerates, skills learned in the earlier part of life depreciate rapidly, requiring sustained lifelong upskilling to support firms and economy-wide innovation strategies. Example area of intervention:

- Promoting work-relevant skills through worker training

4.19 **Establishing smart institutional frameworks and innovation ecosystems:** Ongoing developments in innovation policy emphasize the need to build a cultural, regulatory, and institutional environment that breeds innovation. The innovation ecosystem, an expression once reserved for the financial framework needed for technology-based entrepreneurship (comprising seed capital, angel investors, and venture capital), is now being applied in a more comprehensive way to refer to efforts that include anything from

business accelerators and incubators to contests and prizes for outstanding innovators. In between lay the key institutions needed to solidify links among the main actors in the innovation systems. Intangible assets, such as personal relationships and trust, business and knowledge networks, global connections, entrepreneurial culture, legal and management awareness, and savvy, and other forms of know-how that consist primarily of tacit knowledge, are increasingly being identified as important innovation ingredients that can help make an innovation system function better. From the standpoint of a systemic notion of the innovation system, knowledge ends up being adapted, created, or traded in the context of interactions that resemble a market for ideas. Such a market (e.g., the market for patents or designs) involves inventors and firms willing or in need to try new approaches to processes, products, and business models and a variety of intermediate agents, which are in extremely short supply in LAC. Example areas of intervention:

- Developing capabilities in intellectual property rights management, technology transfer offices at universities, and science and entrepreneurship
- Promoting active productive development and innovation policies as well as the right environment for high-productivity companies to exist and prosper
- Adapting the financial system to be sophisticated enough to handle the needs of technology-based, rapid-growth new companies
- Creating value by involving experienced investors and managers in the growth and eventual success of a start-up
- Enhancing processes for quality certification, metrology, and a variety of technological services to industry
- Developing adequate intellectual property rights

4.20 **Providing adequate infrastructure and reliable and affordable public services:** The provision of infrastructure can impact productivity and innovation directly or indirectly. In the former case, infrastructure represents an input supporting productive activities, where availability and/or better quality of services may play a role in reducing constraints on firms' productivity. Infrastructure may also contribute to reduce fixed costs of intermediate inputs, therefore facilitating capital accumulation, technological upgrading and innovation. In the latter case, adequate infrastructure may contribute to enhancing productivity through its indirect effects on human capital accumulation. Availability of reliable services (be it electricity/gas provision; roads; water, sanitation services) can potentially affect educational and health outcomes, by allowing better lighting, reducing pollution, enabling transportation, easing adequate hygiene practices, etc. The availability of infrastructure has also shown to contribute to increased household income through development of domestic productive activities. Reliability and affordability are important dimensions in determining the effective use of available services. The availability of infrastructure may reduce the costs of providing complementary public services, such as education and health, further contributing to more productive human capital. Hence supporting adequate infrastructure enhances productivity. Depreciation or obsolescence of infrastructure may cause severe losses of quality in the provision of services. Similar losses may be expected from insufficient stock of infrastructure, which may lead to congestion effects, constraining productivity and restricting the economy from reaching high-growth equilibrium. Example areas of intervention:

- Improving infrastructure and/or planning capacity for urban mobility
- Increasing local capacity for logistics planning
- Providing potable water, sanitation and drainage services, at the urban or rural level
- Diversifying energy portfolios

- Increasing efficiency of infrastructure operation (e.g. reducing electricity or water losses)
- Investing in gas and electricity infrastructure
- Increasing access to high-quality and affordable modern energy sources
- Adopting improved agricultural technologies
- Easing connectivity of infrastructure at the national or regional level
- Increasing infrastructure's resilience to disaster and climate change risks

4.21 **Increasing productivity of private business and SMEs:** The low level of private investment in innovation in LAC is a key issue to be addressed if the Region's productivity gap in relation to other regions of the world is to be reduced. Adequate national innovation systems play a critical role in enhancing firm productivity and hence providing a solid base for growing competitiveness across LAC economies. Example areas of intervention:

- Promoting and supporting public policies that encourage firm innovation, particularly in SMEs
- Establishing an enabling environment for technology-based entrepreneurship
- Ensuring that complementary inputs and public goods indispensable for the success of the innovation system are in place (e.g., highly skilled human capital, scientific infrastructure, and research)
- Support to private sector investment through direct and indirect investment in firms or projects with innovative approaches that enhance productivity, increase market competition, improve environmental and social outcomes, and are financially sustainable, including technical assistance to support such firms and projects

4.22 **Promoting innovative products, enterprises, value chains and industries, or supporting technological development:** The business and innovation climate for private sector development and more intense firm innovation improves across the Region, as measured by consistent business climate and innovation indexes. In response to the ample room for improvement in the business climate and competitiveness-related regulation in most LAC countries, the IDB Group must focus on the innovation climate. This focus will help firms do business in a significantly new and more productive way using innovation and technology. Additionally, if the operation facilitates a country's productive sectors' access to finance, then it will aim to boost productivity in that economy. Example areas of intervention:

- Incorporating elements of innovation climate in reforms to competitiveness policy-based loans, aiming at producing systemic impacts through reforms in regulations affecting innovation in areas such as commercialization of intangible assets through intellectual property and venture financing
- Developing effective innovation ecosystems
- Expanding the frontier of finance for the productive sector and its penetration
- Developing capital markets and risk management instruments
- Implementing and strengthening rules and institutions for the effective management of macro-financial risks

4.23 **Redrafting social policy to reduce incentives to informal employment:** Well-intended but poorly conceived social policies can distort the allocation of resources towards non-participation and the informal economy.²¹ To that end, policies that reduce such

²¹ Pagés, 2010

distortions, while providing the population with high coverage health, old age pensions, unemployment insurance, or social protection policies can promote higher productivity growth. Example areas of intervention:

- Improving the design of social security and social protection mechanisms to reduce incentives to informality, non-participation or to remaining unemployed
- Building appropriate exit avenues from social protection to employment opportunities

Economic Integration

- 4.24 As stated in the UIS, LAC's economic integration process, which advanced considerably in the 1990s, has slowed in the last decade, hindering the contribution of integration to sustainable inclusive growth. This is due to five facts: first, LAC's integration architecture is based on a limited, heterogeneous, and complex set of recent and longstanding functional agreements based on political cooperation, which coexist with trade and market-based integration instruments that are not harmonized. Second, the Region's share of world merchandise trade is low and its exports are concentrated in a few volatile commodities or unsophisticated manufactures. Third, the net benefits of trade are asymmetrically distributed among and within countries. Fourth, participation in production-sharing schemes remains low. Fifth, in the current global environment, where commodity prices are declining, many LAC countries are being excluded from negotiations to form mega-regional trade blocs. Operations will be considered to be strategically aligned to the UIS challenge of economic integration if the general criteria described above in section A are met in addition to the specific criteria presented below.
- 4.25 An integration project typically falls under at least one of the following categories outlined in the Integration Strategy: i) Infrastructure (hardware): operations that enhance the connectivity of national infrastructure investments (in transport, energy and communications) with the goal of reducing cross-border transaction costs, boosting external competitiveness through productive integration and balanced territorial development; ii) Institutional Strengthening and Capacity Development (software): operations that support policy reforms, activities related to regulatory framework, institutional strengthening, and capacity development needed to facilitate the movement or transaction of goods, services, capital, direct investments, people and technology across borders, with the goal of promoting a better integration of country systems and private operators into the global economy; iii) Regional Public Goods (functional cooperation): operations that sustain formal regional initiatives and foster cooperation practices in areas in which collective action at the regional level adds value to national interventions; or iv) projects that support the inclusion of private business in value chains (including international markets) as well as increase trade or FDI.
- 4.26 The operation's vertical logic and theory of change must be related to at least one of the following:
- Promoting integration by facilitating market access and modernizing regulatory regimes
 - Fostering production sharing schemes
 - Inserting firms into regional or global value chains through trade and/or FDIs;
 - Improving regional infrastructure to promote greater cross-border connectivity
 - Facilitating the convergence of integration policies and instruments
 - Leveraging South-to-South and Triangular cooperation

- 4.27 Integration operations financed by the Bank can be national or regional. The Bank will strive to systematically supplement operations with policy dialogue and knowledge and capacity-building products, in order to be able to meet the integration and development goals, while creating the necessary incentives to promote integration in its client countries.
- 4.28 The Integration Strategy (GN-2565-4) ([ENG](#)) ([SPA](#)) identifies four main non-mutually exclusive criteria to define an integration operation: (i) cross-country focus; (ii) regional additionality; (iii) national subsidiarity; and (iv) compensation of coordination failures.
- 4.29 **Cross-country focus:** Projects that contribute directly or indirectly to a greater regional and/or global integration of LAC countries. Their goal is to support policy reforms or investments that contribute to the internationalization of the public and/or private sectors. These are typically national projects that do not involve a significant degree of international cooperation during execution. They contribute to integration because they support a unilateral national action or an investment undertaken at the national level with a view to meeting an objective related to the insertion of a specific country or business into the regional and/or global economy (thereby the cross-country focus). Example areas of intervention:
- Modernization of a trade ministry
 - Expansion or support of trade finance programs
 - Foreign direct investment in a manufacturing project with substantial impact on the country's integration into the global or regional economy
 - Expansion of the production capacity of a firm that exports the majority of its products
 - Upgrade of a road connected to an international port or airport
 - Investments in international ports or airports
 - Investment in electricity generation for export
- 4.30 **Regional additionality:** Projects that generate value added through the incorporation of objectives of internationalization and/or regional cooperation. Their goal is to support simultaneously in a group of countries national-level policy reforms or investments that are part of a specific supra-national (regional or global) plan, program or initiative. The regional additionality is determined by the participation in a supra-national coordination mechanism that the Bank supports with a mix of national and regional operations (loans or technical cooperation) executed simultaneously or in a coordinated manner in different countries. These projects imply a significant degree of international cooperation during their design and/or execution. They contribute to integration because they allow the incorporation of regional objectives into national development plans (regional additionality). Example areas of intervention:
- National investment in a customs facility designed in coordination with a neighboring country and supported by the Bank
 - Development of the national portion of a multinational power gridline supported by the Bank
 - Development of a national segment of an international transport corridor supported by the Bank
 - Application of common standards in several countries through the operation of a commercial bank
- 4.31 **National subsidiarity:** Projects that contribute to the alignment of domestic policy reforms and of national/sub-national investments with cross-border objectives. Their goal is to support unilaterally at the national level policy reforms or investments that are related to a

supra-national (regional or global) plan, program or initiative. However, in this class of projects, the Bank's role is limited to the intervention in only one country, and the Bank is not involved in the wider regional or global plan (hence the national subsidiarity). Example areas of intervention:

- Alignment of national health and safety standards to international codes
- Upgrade of a national feeder to an international transport corridor
- Local development of a border area
- National operation that is complementary to another integration project approved by the Bank in the past

4.32 **Compensation of coordination failures:** Projects that generate incentives that compensate market failures (cross-border externalities), coordination failures (costs of collective action) and other costs related with the complex execution of regional collective initiatives. This class of projects is currently underrepresented in the Bank's lending portfolio. Their goal is to provide incentives for countries to participate in a regional or global plan, program or initiative. They imply a high degree of international cooperation during the design and/or execution. They contribute to integration because they provide incentives and/or support formal mechanisms that allow countries to undertake policy reforms and investments that would not materialize in absence of the Bank's intervention. Example areas of intervention:

- Revenue sharing mechanisms for the management of an international toll road
- Development of a supra-national project planning institution
- Sharing of environmental costs of a joint watershed management project

4.33 Operations related to any IDBG program oriented to support regional initiatives, such as those developed under the umbrellas of the Mesoamerican Integration and Development Project (MIDP) (the former Puebla-Panama Plan), the Initiative for South American Regional Infrastructure Integration (IIRSA), or other formal integration initiatives of countries in the region, are expected to be strategically aligned with the economic integration challenge, at least under the criteria of National Subsidiary, given their contribution to a cross-border objective agreed at a regional level.

2. Cross-cutting themes

Gender Equality and Diversity

4.34 As stated in the UIS, a substantial fraction of the income inequality in LAC is determined by characteristics such as race, place of birth, the education levels of one's parents, gender, and sexual orientation. These deep inequalities in well-being mean that the focus on fairness must be increased to ensure that those underserved or excluded—primarily women and minorities, including the disabled—are given equal opportunities for growth.

4.35 Operations will be considered to be strategically aligned to the UIS cross-cutting theme of gender equality and diversity if the criteria described above in Section A are met in addition to the specific criteria below.²² While the CRF will report on the overall level of strategic alignment with the cross-cutting theme of gender equality and diversity, beginning in 2018, data will be gathered separately for each sub-component of this theme given that the assessment and validation of strategic alignment to gender equality and to diversity require separate analyses.

²² Note that the disaggregation of indicators by sex or ethnicity, per se, does not constitute a gender-related or diversity-related result.

- 4.36 For **gender equality**, the operation must include gender-specific issues, components, and/or actions that are either part of the central vertical logic of the project and/or contain the following three elements:²³
- a. Analysis of development gaps or specific issues affecting women and/or men
 - b. Proposed solutions/interventions for addressing the gaps or issues identified using promising practices or evidence-based approaches, when available
 - c. At least one outcome or output indicator in the results matrix that defines results related to gender equality or women's empowerment.
- 4.37 For **diversity**, the operation must include diversity-specific issues, components, and/or actions that are either part of the central vertical logic of the project and/or contain the following three elements:
- a. Analysis of development gaps or specific issues affecting indigenous peoples or African descendants
 - b. Proposed solutions/interventions for addressing the gaps or issues identified using promising practices or evidence-based approaches, when available
 - c. At least one outcome or output indicator in the results matrix that defines results related to development with identity, and/or social inclusion for indigenous peoples and/or African descendants
- 4.38 Examples of areas of action that could be pursued to strategically align with the gender equality and diversity cross-cutting theme include, but are not limited to:
- a. Expanding economic opportunities for women by supporting an increase in women's labor force participation and their access to more productive, better paying jobs, and closing gender wage gaps.
 - b. Increasing women's voice and agency by promoting women's leadership and representation (in the public and private sectors) and preventing or responding to violence against women and girls.
 - c. Improving the living standard of indigenous peoples and African descendants through increased access to quality public services that are culturally adapted.
 - d. Supporting the economic empowerment of indigenous peoples and African descendants through productive initiatives and the promotion of their access to higher quality jobs in the formal sector.
 - e. Strengthening the governance of indigenous peoples and African descendants through the sustainable management of their territories and natural resources, knowledge recovery, and training of traditional authorities.
 - f. Designing strategies for the Bank to promote the social inclusion of diverse populations such as LGBTI individuals and persons with disabilities.

Note: For IDB operations, SPD will review the assessment of gender equality and diversity strategic alignment as part of their DEM review. However, SPD will no longer *validate* this strategic alignment. SPD will involve GDI in the review of a project's gender and/or diversity strategic alignment only in those cases where there are significant questions about the actions and results proposed.

²³ In the case of IDB Invest, projects that score on the gender additionality criteria captured in the DELTA are also considered to be strategically aligned to gender equality.

Climate Change and Environmental Sustainability

- 4.39 As stated in the UIS, LAC is highly vulnerable to the detrimental effects of climate change in terms of physical damage and negative social impacts. In addition, climate impacts are likely to affect the most vulnerable groups disproportionately, especially the poor and indigenous.
- 4.40 While the CRF strategic alignment reporting will report on the cross-cutting theme of climate change and environmental sustainability in the aggregate, data will be captured separately for each sub-component of the theme given the differences in how they are classified as described below.
- 4.41 For **climate change**, the IDBG determines the volume of financing allocated to climate change adaptation and mitigation activities according to the Joint MDB Approach on Climate Finance Tracking and Reporting. Climate change mitigation and adaptation finance of the IDB Group may be national, sub-national or regional in scope, and may be public- or private-sector based through any of the available financial instruments, including loans, TC operations, grants, guarantees, and equity. Specifically, at IDB, subject matter experts in CSD/CCS review each operation according to the Joint MDB Approach. For SG loans, CCS (CF-Tracking@iadb.org) emails the project team as part of the QRR process with the percentage of the project's total approval amount that will be considered climate finance.²⁴ Project teams incorporate this information into the Proposal for Operation Development (and later the Draft Loan Proposal and Loan Proposal) and the operation will be marked as strategically aligned to climate change if the climate finance value is greater than 0. The climate finance value will be documented in the Climate Finance tab in Convergence by CCS. Reports on CRF progress will rely on climate finance data (volume in US\$) as registered in the Climate Finance Tab in Convergence. In the case of IDB Invest, subject matter experts review operations according to the Joint MDB Approach and propose values to teams (i.e., the percentage of the project's total approval amount that will be considered climate finance). CSD/CCS will produce the requisite reports on climate finance using data in IDBG systems for audiences within and beyond the IDBG.²⁵
- 4.42 The Joint MDB Approach for Tracking and Reporting Climate Finance is described in the latest Joint Report on MDBs' Climate Finance.²⁶ The methodology identifies climate finance as those components or elements of projects that contribute directly to mitigation and/or adaptation. Adaptation finance is a context- and location-specific approach while mitigation finance is that which promotes efforts to reduce or limit greenhouse gas emissions or enhance greenhouse gas sequestration. As the methodology is continuously evolving in order to capture new approaches or knowledge, the IDBG will adopt the most updated joint MDB approach by default, except when substantial, material changes occur which would be subject to internal review prior to adoption.
- 4.43 For **environmental sustainability**, the approach for determining strategic alignment is based on the general approach described in Section A above – that is, based on the vertical logic and theory of change of the project as well as the presence of a related indicator in the operation's results matrix.

²⁴ Additional details are available in the [Procedures for Processing Sovereign Guaranteed Operations](#).

²⁵ The Bahamas Resolution of the Board of Governors' established in April 2016 the target to increase climate finance to 30% of combined IDB and IDB Invest approvals by December 31, 2020.

²⁶ Available at: <https://publications.iadb.org/handle/11319/8505>

- 4.44 The operation's vertical logic and theory of change must target the protection, enhancement, or restoration of ecosystems and environmental services. Example areas of intervention include:
- Conservation and sustainable use of biodiversity and/or ecosystem services (including but not limited to the creation of/management of marine and terrestrial protected areas)
 - Integrated water resource management
 - Reduction of pollution
 - Support for new or improved environmental legislation and/or governance, including financial mechanisms and incentives targeted at promoting environmental sustainability

Institutional Capacity and Rule of Law

- 4.45 As stated in the UIS, institutions determine the volume, quality, timeliness, and accessibility of services that are provided to the population. Institutions also have the ability to remove constraints for business growth and productivity and provide certainty to transactions and dispute settlement. Furthermore, institutions may promote development of public sector capacity for more effective and efficient fiscal management with a view to raising productivity and economic efficiency. This efficiency includes transparency in public resource management which in turn enhances the impacts on equity. They are also crucial to the enforcement of the rule of law and the fight against corruption.
- 4.46 Institutional capacity and rule of law are important not only because they are crucial to project and policy implementation, but also because the functionality of democracies depend on the strength of them. Operations will be considered to be strategically aligned to institutional capacity and rule of law if the general criteria described above in section A are met in addition to the specific criteria below.
- 4.47 The operation's vertical logic and theory of change must be related to at least one of the following:
- Improving the volume, quality, timeliness and accessibility of services that are provided to the population
 - Removing constraints for business growth and productivity, and providing certainty to transactions and dispute settlement
 - Improving the enforcement of the rule of law and the fight against corruption
- 4.48 **Institutional Capacity** (Government Effectiveness) interventions contribute to improve the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Example areas of intervention:
- Building the capacity of national statistical systems
 - Civil service modernization
 - Public debt management
 - Strengthening Public Investment Systems
 - Decentralization and intergovernmental relations
 - e-Government
 - Public expenditure management

- Fiscal policy for sustainability and growth
- Strategic planning
- Management for development results
- Monitoring and evaluation systems
- Reform and public sector support (restructuring, modernization)
- Effective administrative organization (back-office modernization)
- Efficient services to citizens (front-office integration); citizen centered services
- Revenue administration
- Protection or enhancement of priority expenditures
- Strengthening subnational and local governments
- Building capacity of control and audit entities
- Transparency policies especially in high potential (high risk) sectors
- Building mechanisms for more interactive communications between governments and citizens
- Public asset management
- State-owned enterprises
- Public-private partnerships (PPP) / public service provision through private means
- Economic registries
- Civil registries
- Improve fiscal risk management instruments including contingent liabilities arising from PPPs
- Reinforce macroeconomic stability by strengthening countercyclical fiscal policy instruments
- Enhance the credibility of fiscal policy to facilitate access to and the cost of long-term financing with a view to promoting greater public and private instrument

4.49 **Rule of law** interventions help agents to have confidence in and abide by the rules of society, and, in particular, the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence. Example areas of intervention:

- Modernization of justice administration, judicial independence, timeliness of judicial decisions
- Enforcement of contracts and of court orders
- Land tenure, property rights (including intellectual property)
- Regulatory capacity of governments
- Legal framework for challenging regulation
- Addressing tax evasion
- Improving access to the criminal justice system, rationalizing the use of pretrial detention and supporting rehabilitation programs and alternatives to imprisonment
- Strengthening police professionalization to bring forces closer to citizens and help prevent and combat crime; reliability of police services
- Strengthening of congress (law-making procedure)

V. ELECTRONIC ANNEXES

[Annex I: Indicator Definitions](#)

[Annex II: Conditional Classification by Sub-Sector for Strategic Alignment](#)

[Annex III: Definitions for Climate Change Disaggregation of CRF Indicators](#)