

President's

Report

2023



THE IDB MOVES FORWARD - AT FULL STEAM

ILAN GOLDFAJN



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2023 PRESIDENT'S REPORT¹

The IDB Moves Forward - at Full Steam

This was quite a year. I came to the IDB Group² to make a difference, and what a difference a year makes. Looking back, much was achieved, but there is still quite a lot to do.

We have a purpose to improve lives - on a large scale - and the IDB Group is where this happens. Our vision is to ensure that we are the preferred development partner for Latin America and the Caribbean (LAC) - for the millions of people whom we may never meet, but for whom we work every day. And in doing so, we will make our Boards of Executive Directors and our employees proud of the institution they serve.

And there are means to achieve this vision. We need to embed a renewed focus on effectiveness throughout the IDB Group, where we measure our success not by the dollar amount we lend or by the number of projects we approve, but by the concrete, measurable, large-scale impact we have on countries and lives - and by extension, the world.

That means reinforcing our role as knowledge partners - the source of evidence-based, innovative solutions to help our region better address challenges and capitalize on critical opportunities. And, importantly, it means embracing a culture of dialogue, of openness to reconsidering one's views when the evidence changes, and a place of work in which employees feel empowered to speak up, innovate and advance within an inclusive meritocracy.

I was clear-eyed when I walked into our headquarters last December. I knew we had ground to make up on all fronts. Working closely with our Boards, our countries and clients, and our extraordinary people, I have endeavored to set us on a solid trajectory toward the institution that I - and, I believe, all of us - envision: one that is a true global reference for development solutions.

¹ Delivered by President Ilan Goldfajn to the joint meeting of the IDB and IDB Invest Boards of Executive Directors on December 13, 2023. Updated in January 2024 to reflect year-end figures.

² The IDB Group is composed of the Inter-American Development Bank (IDB) and the Inter-American Investment Corporation (IDB Invest), each a public international organization, and the Multilateral Investment Fund (IDB Lab), which is a trust fund administered by the IDB.



1

LISTENING
TO STAKEHOLDERS

Our commitment is to our stakeholders – our region, our Boards and Donors Committee, the broader international community, and our people. Here is what we heard and how we are responding:

1.1 From Our Region, Latin America and the Caribbean

The region currently faces what I call a “triple challenge”: Citizens are increasingly impatient, demanding better public services and less inequality and poverty. However, those demands are harder to meet because governments do not have enough resources.

And, in general, the region has not been able to create additional resources, following decades of modest growth that stems from low investment and productivity. This is all in addition to more frequent, more devastating impacts of climate change, which exacerbate other problems.

Leaders and experts from across the region, including from governments, the private sector, academia, think tanks and civil society organizations, as well as in my bilateral meetings with presidents and ministers of our borrowing member countries, have shared their perspectives with me throughout the year on the many manifestations of these dynamics. These discussions, and the guidance of our Boards and the IDB Lab Donors Committee, have informed my approach on how to best leverage the IDB Group’s financial and non-financial resources.

I sought to tackle this “triple challenge” by focusing on three strategic priorities, embodied in our draft Institutional Strategy:

1. *Reducing poverty and inequality* – including by investing in food security, gender equality and inclusion of diverse population groups, and social protection and the development of human capital (through education, health, etc.).
2. *Addressing climate change* – including by working towards zero deforestation in the Amazon, reducing greenhouse-gas emissions, preserving nature and biodiversity, and strengthening countries’ climate resilience and adaptation.
3. *Bolstering sustainable growth* – aiming to significantly boost the region’s real GDP per capita, including through sustainable, resilient and inclusive physical and digital infrastructure, productivity and innovation led by the private sector, and initiatives to boost regional integration.

Alongside these priorities, I identified cross-cutting lines of work: climate; gender, diversity and inclusion (GDI); and institutional capacity, citizen security and the rule of law.

Listening to our member countries individually, while also applying a regional and global perspective, has helped us develop this set of priorities to guide the IDB Group toward meeting demand and operationalizing these goals. See more below.

1.2 From the Boards of Governors

At the beginning of this year, there were outstanding mandates from our governors agreed at the 2022 Annual Meeting. During that meeting, nine months before my term started, governors requested proposals to address the reforms identified in the Washington Resolution³, including finalizing the New Vision and Business Model for IDB Invest 2.0 and a proposal for the Future and Financing of IDB Lab after MIF III. When I began my term in December 2022, we had just a few weeks to prepare these materials and bring them to Panama for our 2023 Annual Meeting.

Through the dedication of everyone involved from management, our IDB and IDB Invest Boards of Executive Directors, and the IDB Lab Donors Committee, we managed to deliver. Our governors unanimously supported our proposal to redirect the unmet mandates of the Washington Resolution to a new IDB Group Institutional Strategy, where no reforms would be left behind. The Boards also enthusiastically backed a vision for the future of IDB Invest and IDB Lab. More details on the results of this effort and the work to come are available below.

1.3 From the International Community

When I joined the IDB Group, the international community expected us to play an active role in reforming the international development finance architecture, helping to make multilateral development banks (MDBs) bigger, bolder and better institutions.

Other expectations were for us to improve the use of our capital, mobilizing private-sector resources and maximizing the impact of our operations. We have been working hard – and successfully – to implement the G20 recommendations of the Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks (CAF). Throughout 2023, management worked closely with the IDB Board of Executive Directors to understand the options and develop an action plan to further stretch the Bank's balance sheet.

The MDB reform process aims to not only maximize lending capacity, but to generate stronger incentives and more effective, larger-scale investments to reduce poverty, enhance prosperity and address global challenges, such as climate and other risks. My administration began in this exciting context, and we have since embraced this reform agenda – with much more to come next year, as the IDB assumes the presidency of both the MDB and Regional Development Bank (RDB) Heads Groups. See more below.

International stakeholders also reacted with enthusiasm to my vision for the region – that is, for LAC to help solve some of the world's biggest shared challenges. For decades, we have tended to view the region through the lens of its needs – its need for financing, its need to reduce debt, its poverty and inequality. But today, LAC also has what the world needs, especially in three areas:

³ Resolution AG-7/22 and CII/AG-3/22

1. *Nature and biodiversity* - The Amazon Rainforest alone accounts for one-fourth of all the CO₂ absorbed by land on Earth, mitigating climate change and housing vast natural capital and biodiversity for the whole world.
2. *Food security* - LAC produces enough food to feed 1.3 billion people, and the region has stepped up as supply chains faltered in other parts of the world. With the right reforms, it could do much more to alleviate global food insecurity.
3. *Clean energy* - Today, almost 30% of LAC's energy comes from renewable sources, double the world average. The region is also home to most of the world's lithium and 38% of its copper, both of which are crucial to the green transition.

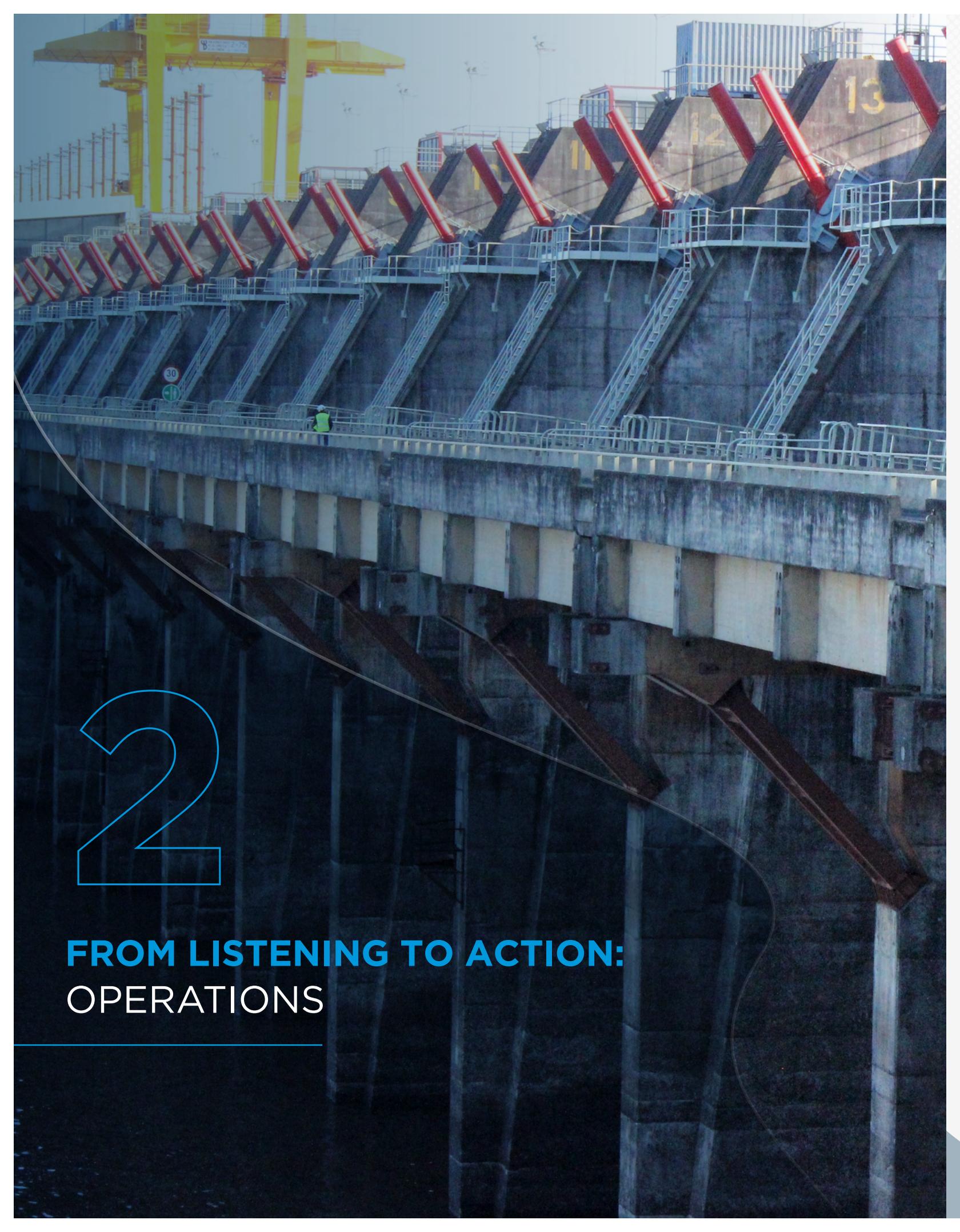
In short, local and regional goods in LAC have the potential to become global public goods, addressing some of the most pressing global challenges.

1.4 From Our People

I made it a professional and personal priority to enhance dialogue and build bridges at the Bank. Therefore, it was natural to listen more to our employees, and the message was clear: they wanted a healthy work culture in which differing views can be expressed, respect and fairness prevail, and where merit and innovation are rewarded.

The IDB Group has some of the best minds in the international development world, but only when we nurture our biggest asset - our people - can our institution realize its full potential. In other words, this was never just a human resources issue, but rather, an operational imperative.

Throughout the year, I have emphasized candor, working with management and employees to promote an atmosphere where different perspectives are not only heard, but valued. This is predicated on a commitment to ethics and diversity at all levels. We launched the IDB Group's 2023-2028 Diversity, Equity, Inclusion and Belonging (DEIB) Framework, improved transparency and meritocracy in our more-competitive hiring and recruitment, and navigated the return to more in-person work with a focus on empathy and engagement. As I will expand upon below, there is room for improvement, but we have decisively embraced dialogue, openness and integrity.



2

**FROM LISTENING TO ACTION:
OPERATIONS**

In response to LAC's short- and longer-term needs, amid the "triple challenge" and the threat multiplier of climate change, the IDB's approvals in 2023 consolidated our position as the main source of multilateral development financing for the region.

In sections 2.1 to 2.6, I will present a numerical snapshot of our operations. But before we go to the numbers, let me emphasize that what is truly important is not how much we lend, but how many lives we improve. What is important is impact. It is not about the dollars – it is about the results. More on this in sections 2.7 and 2.8.

2.1 Sovereign-Guaranteed Financing

The Bank approved 92 sovereign-guaranteed projects for a total of \$12.7 billion. The approval program included 74 investment projects, totaling \$7.8 billion, and 18 policy-reform projects, for \$4.9 billion. Approvals for our most vulnerable borrowers (C and D countries) represented 38% of total approvals, three percentage points above the target set in the Corporate Results Framework.⁴

Of the sovereign-guaranteed total, 41% of financing was directed to the countries of the Southern Cone (CSC), 29% to the countries of the Andean Group (CAN), 21% to the countries of Central America, Mexico, Panama, the Dominican Republic and Haiti (CID), 8% to the countries of the Caribbean, and 1% to regional projects.

In terms of sectors, 36% of the sovereign-guaranteed total was channeled through the Infrastructure and Energy Sector (INE), 33% was channeled through the Institutions for Development Sector (IFD), 18% through the Social Sector (SCL), 12% through the Climate Change and Sustainable Development Sector (CSD), and 1% through the Integration and Trade Sector (INT).

In 2023, the Bank disbursed \$10.7 billion for sovereign-guaranteed projects. This amount is in line with the amount disbursed in 2022, but 17% higher than the annual average disbursed in the pre-pandemic period (2016-2019).

The year's disbursements, unlike the 2020-2022 period, are driven by investment projects. They reached \$6 billion in 2023, 19% higher than in 2022, and represented 56% of the total. The remaining 44% was for policy-reform projects and reached \$4.7 billion.

2.2 IDB Concessional and Non-Reimbursable Financing

The resources managed and mobilized by the Bank finance reimbursable loan operations, guarantees and equity investments, as well as non-reimbursable investment grants (IGRs) and non-reimbursable technical cooperation operations (TCs). While some instruments, such as IGRs, are financed exclusively from donor resources, TCs are also supported by the

⁴ Monetary amounts are in U.S. dollars.

Bank's internal resources, from the net income of the Ordinary Capital through the Strategic Development Program (OC SDP), reviewed and approved annually by the Board.

In 2023, the Bank managed 66 funds for concessional and non-reimbursable financing operations, in addition to the OC SDP. The number of approved TC operations has steadily increased during the past five years, and this year, the total approved amount of the active TC portfolio reached its highest point in this period. In doing so, it surpassed pre-COVID-19 values for the first time since the pandemic began.

With respect to financing sources specifically for TC operations, 41% of 2023 approvals were financed with Bank resources through the OC SDP, while donor resources provided funding for the remaining 59%. TC operations financed with both donor resources and the OC SDP are critical for supporting the Bank's operational program, responding to clients' needs and financing knowledge products. To better meet those needs and jumpstart key lines of action expected to feature in the new Institutional Strategy, management proposed a record \$149 million in financing for technical assistance from the OC net income for 2024, which was supported by the Board. This 46% increase, the first of its kind in more than a decade, is a recognition of the pivotal role that TCs play in enhancing the Bank's value proposition.

While the number of active IGRs continued an upward trend in 2023, the overall volume of the portfolio dipped by 3% compared to 2022. Nevertheless, the portfolio remains healthy and above \$900 million, after dropping significantly in 2019. The outstanding IGR balance of \$577 million is stable, at 4.3% higher than 2022.

This year, management submitted its proposal for the allocation of concessional resources for the biennial period 2023-2024. The Board supported the proposal, which means that Haiti, the poorest and most fragile country in our region, can continue to access grant resources for this period, in addition to the resources from General Capital Increase 9 that are still available to the country. Coupled with a differentiated approach to respond to Haiti's fragility and challenges due to conflict and violence, this will help the IDB Group remain relevant and improve its effectiveness in a complex environment.

2.3 Resource Mobilization

Reaching the right scale of mobilization is fundamental to help close LAC's large development-financing gap, and more ambitious efforts to mobilize resources from the public and private sectors will be a core endeavor for the foreseeable future.

In 2023, the IDB mobilized \$6.22 billion⁵ in financial resources, as well as knowledge and innovation resources, from its diverse network of partners. This total includes resources leveraged from private sources as a result of sovereign-guaranteed operations.⁶

⁵ Includes co-financing linked to operations from public or private partners, co-financing from other MDBs, contributions to trust funds, project-specific and parallel grants, and leverage from private sources.

⁶ Private third-party financing in sovereign guaranteed projects reached \$3.55 billion in 2023.

At IDB Invest, core mobilization reached \$5.37 billion, including A-loan participations, B-loan participations, B bonds, debt securities, unfunded credit protection, unfunded risk participations and co-financing. IDB Lab's core mobilization approved across its portfolio was \$28.9 million. See more on IDB Invest and IDB Lab below.

2.4 IDB Invest

IDB Invest, the private-sector arm of the IDB Group, attained its operational targets for the year. Total commitments, including its own account and mobilizations, reached \$10.6 billion.

Of the total, 44% of financing was directed to the countries of the Southern Cone (CSC), 37% to the countries of Central America, Mexico, Panama, the Dominican Republic and Haiti (CID), 18% to the countries of the Andean Group (CAN) and 1% to the countries of the Caribbean. In total, 10% of financing was directed to small and island countries.

In terms of industries, 36% of total aggregated activity was channeled to infrastructure and energy projects, 33% to corporates (agribusiness, tourism, manufacturing and digital economy), and 31% to financial intermediaries.

Disbursement levels reached \$6.7 billion.

By the end of 2023, IDB Invest administered a combined portfolio of \$19.4 billion, including development-related assets of the IDB Group, B loans and third-party resources. The combined outstanding portfolio of non-sovereign-guaranteed operations grew by 19% compared to last year.

Since its merge-out in 2016, IDB Invest has grown its commitments, disbursements and portfolio levels, becoming a leading multilateral partner for development through the private sector in LAC. In 2023, 14 individual transactions received awards. IDB Invest was named Multilateral Development Bank of the Year by Latin Finance and Bond House of the Year for Bonds and Loans by a leading media group. This trajectory confirms the strategic importance of a future capitalization.

2.5 IDB Lab

IDB Lab, the innovation and venture laboratory of the IDB Group, met nearly all of its programmatic and strategic-alignment objectives for the year, attaining total approvals of \$93.4 million across 102 operations.

Among them, 33 operations totaling \$26 million were funded with IDB Lab's own resources; 40 Social Entrepreneurship Program (SEP) operations were approved (with \$31 million from expanded SEP resources and \$7.4 million from pre-existing SEP resources); and 29 operations were funded with core mobilization (\$28.9 million).

2.6 Total IDB Group Financing Support

Overall, the IDB Group closed the year with nearly \$24.295 billion in financing support for LAC, including mobilizations.⁷

IDB, IDB Invest and IDB Lab Financing Support (US\$ billions)	
	2023
Sovereign-guaranteed	\$13.507
Private Sector	\$10.788
Total	\$24.295

2.7 Selected Projects

The numbers above are an important indication of the scale and variety of our operational work. However, as I will continue to emphasize, the effectiveness and impact of the projects behind the numbers – the real lives improved and the measurable gains achieved – are paramount. That ranges from how much we have reduced poverty, to how many tons of CO₂ we have removed from the air, to how many women we have helped enter the workforce, to what percentage increase in productivity we have enabled. The projects summarized below, selected from across our portfolio, offer a more telling look into the value of our work in 2023.

- Modernization Program of the Salto Grande Binational Hydropower Complex - Phase II-a:** This program will contribute to decarbonizing the interconnected electricity system between Argentina and Uruguay and help foster regional sustainable development, which is crucial for both countries to advance their climate commitments. It will benefit more than 17 million users of the interconnected electricity system. Additionally, residents of Salto and Concordia, the cities surrounding the hydropower complex, will benefit from coastal-protection works in public spaces.
- Program to Strengthen Social Services in Barbados:** This program aims to address various challenges in social protection, including administrative inefficiencies, regulatory limitations and sustainability issues within the social security system. By focusing on enhancing the social security system and improving the regulatory framework for gender equality and vulnerable groups, the program seeks to improve the overall efficiency and long-term sustainability of the system. Additionally, work to accelerate digital transformation and strengthen technology is expected to significantly enhance institutional efficiency.

⁷ The following table aggregates amounts based on whether the respective approvals are sovereign-guaranteed or private-sector operations. Therefore, they do not reflect the amounts as reported in sections 2.1 to 2.5, which are provided by the respective parts of the IDB Group.

- **Program for the Expansion of Mi Teleférico for Sustainable and Inclusive Electric Mobility for La Paz:** This program improves the coverage and efficiency of service of Mi Teleférico, the cable-car system that serves the cities of La Paz and El Alto in Bolivia. It will extend the brown line to serve a population where poverty rates reach 40%. Almost 70,000 people will be served, directly benefiting from a 29% reduction in travel times, as well as the improved access to social services. The use of photovoltaic solar power will reduce CO₂ emissions, benefiting the population as a whole.
- **Decarbonize Pará:** Through this policy-based loan (PBL), the government of Brazil's Pará State is committing to significant policy changes to reduce greenhouse-gas emissions and deforestation and to promote sustainable, inclusive development. The resulting structural reforms are expected to help reduce deforestation by about 1,600 square kilometers by 2027 and enable the state's transition toward net-zero greenhouse emissions by 2050.
- **Shock Responsive Social Protection in El Salvador:** This program will increase the resilience of households affected by adverse events, including those caused by climate change, in several ways: the creation of an integrated social-protection system responsive to shocks; the delivery of temporary monetary transfers; and strengthening early-childhood development resources. It aims to reduce the incidence of food insecurity among households impacted by shocks by 14% and increase the early-childhood education rate from 5.7% to 15.5%.
- **Skills for the Future in Belize:** This program aims to equip Belize's youth with the competencies demanded by a labor market that is marked by increased automation and climate-change risks. It will support the development of fourth-industrial-revolution skills that are key for the country's economic development, such as cloud computing and cybersecurity. This program will benefit 48% of Belize's primary, secondary, and technical and vocational education and training institutions, 19% of the students at these levels of education, and 13% of the country's teachers.
- **Cubo: Driving Financial Inclusion of Micro, Small and Medium-Sized Enterprises (MSMEs) in Central America through Digital Payments:** To promote financial inclusion, IDB Lab is funding the expansion of a Salvadorian digital-payments platform that is expected to benefit more than 70,000 MSMEs by 2025.
- **AES Warehouse Facility for Renewable Projects:** IDB Invest is supporting the design, construction, operation and maintenance of three new solar-energy projects. Together, they are expected to displace an average of 441,000 tons of CO₂ per year.
- **Sal de Vida:** Argentina has the potential to become a major player in the global lithium market. This IDB Invest project in the northwestern province of Catamarca involves the construction and operation of a lithium plant with a capacity representing about 50% of the country's current lithium. It will increase value-added production and exports, creating jobs and on-the-job training, and contribute to domestic supply-chain growth and renewable-energy generation.

2.8 New Focus on Development Effectiveness and Impact

We are focused on maximizing scale and impact. But let's be clear: scale and impact are different things. Scale is related to the amount we can lend. Impact is about the results we achieve. Scale must be complemented by impact.

As I mentioned, what is truly important is not how much we lend, but our impact – how many lives we improve. Development effectiveness is about using evidence and knowledge to deliver measurable impact.

This approach must be operationalized and, since it requires a cultural transformation, it will not happen overnight. While we are still working on precise targets, the broad focus of the next Institutional Strategy will be on development effectiveness and impact. And this year, we began by placing new focus on project-preparation quality. I have personally met with team leaders and reviewed the presentations of most projects that have gone to the IDB and IDB Invest Boards for approval. And, of course, I listened carefully to the Boards' concerns. And although programming for 2023 was agreed upon a year ago, we started making some changes.

I made an effort to enhance project presentations at the Board, focusing on impact. We also encouraged debates on systemic concerns, sometimes in separate, focused meetings. Doing so led to important conversations on alignment with the Paris Agreement, PBLs and macroeconomic safeguards. This new level of focus became truly Bank-wide. This year, for the first time, our Vice Presidency for Countries (VPC) led a collaborative effort with our Vice Presidency for Sectors and Knowledge (VPS) to jointly identify the best possible projects for 2024 that could be discussed with our borrowers during country dialogues. Our Executive Vice President (EVP) presided over a series of strategic discussions with our country managers and members of senior management, including from IDB Invest and IDB Lab, ahead of those dialogues.

Going beyond project-level discussions, the overarching goal is to achieve a new development-effectiveness approach to programming. This means thinking first about the development results we want to achieve and then considering the best project, instrument and amount needed to get there in each context. This programming exercise concluded earlier in 2023 than in any other year, with programming agreements with countries signed at the country manager or VPC level and with the identification of the best projects VPS can prepare next year.

However, this is just a start. In the proposed Institutional Strategy, and in a reform proposal to be developed alongside, we will lay out the details on how to achieve a new level of effectiveness. That will include (i) setting up an enhanced delta for sovereign-guaranteed operations that will become a framework for tracking and evaluating results, value for money, ownership and evaluability; and (ii) other measures throughout the project cycle, including those related to Bank-management processes.

We will build capacity among our borrowers and at the IDB Group to measure, assess and act to improve project and program effectiveness. We will establish and deploy methodology to assess IDB Group performance at the sectoral and portfolio level as well. And we will redefine and measure development effectiveness in our partnerships. In all, we will focus on our people, their roles in making the system work better and more transparently for development effectiveness, and the culture, incentives, and checks and balances that will focus us on the real bottom line – impact for improving lives.

This year, we began setting the stage for these fundamental changes by embarking on a major internal push to convey the message to employees that quality and results are more important than financing totals. We do not want teams to shy away from innovation or difficult projects, and management's challenge ahead is to provide them with clear, practical guidance on what we expect.

In December, management held an event called “Bare Talks,” where team leaders shared lessons learned from projects that did not work out as planned. This is a very good example of the changes in culture we expect to continue promoting in order to improve the development effectiveness of our operations, learning from both our successes and failures.

Another sign that we are going in the right direction is the Office of Evaluation and Oversight's (OVE's) most recent evaluation of IDB Project Completion Reports (PCRs). Out of 92 operations validated by OVE in 2023, 59% were rated as achieving a positive overall outcome. While this rate falls short of the 70% target included in the 2020-2023 Corporate Results Framework, it is higher than the rates of the previous three years (around 52%).

Let me also note that in a year marked by so many strategic discussions at the Boards, my administration was also asked to reduce the accumulation of project approvals towards the end of the year, otherwise known as “bunching.” We are ending the year with the lowest “bunching” in a decade, excluding the pandemic period, thanks to measures we started implementing in June. Under the leadership of our EVP, senior management met regularly to monitor our pipeline and make decisions to achieve the desired result.

2.9 A Regional Approach

Supporting regional cooperation and integration in LAC is an essential part of the IDB's mandate. It is in our DNA and is an area of clear competitive advantage. Today, there is a new level of willingness to work at the regional level, recognizing that countries face common challenges that require coordinated efforts. In the past year, we launched several initiatives that promise to maximize the value of a regional approach and the Bank's potential to set regional solutions in motion.



2.9.1 Amazonia Forever

In June 2023, with the support of eight Amazonian countries, the IDB launched the Amazonia Forever regional program. I am sure this will become a landmark in our Bank's rich history. This holistic umbrella program aims to scale up financing, share strategic knowledge for decision-makers, and enhance regional coordination to accelerate the sustainable, inclusive and resilient development of the irreplaceable Amazon region. Doing so means creating local, regional and global public goods.

Launched this summer, Amazonia Forever has already made strides in addressing the following priority areas:

- a. Combating deforestation and strengthening environmental control and security in the context of national governments
- b. The bioeconomy, promoting alternative and sustainable economic activities
- c. People, aiming for adequate access to quality education, healthcare and employment
- d. Sustainable cities and infrastructure and connectivity
- e. Sustainable, low-carbon agriculture, livestock and forestry.

In addition, the program focuses on promoting the inclusion of women, Indigenous Peoples, Afro-descendants and local communities; climate and forest conservation; and strengthening institutional capacities and the rule of law.

Work across all of these areas involves:

- a. *Financing* - upscaling through better use of the Bank's balance sheet, promoting the use of innovative instruments, increasing allocation of blended financing, co-financing and other resources
- b. *Projects* - strengthening planning and execution, the creation of an Amazon Regional Partners Platform, developing an Amazon project preparation facility, and more
- c. *Networks* - sharing knowledge and evidence-based innovation, establishing a Network of Ministers of Financing and Planning, supporting a Green Coalition of public development banks of the Amazon, and more.

After less than half a year, we financed projects that will help fight deforestation in Colombia, finance bio-businesses in Ecuador, and advance the Brazilian State of Pará's comprehensive agenda to decarbonize and eradicate illegal deforestation. Our 2024 project pipeline for the Brazilian Amazon alone exceeds \$1 billion.

The Green Coalition of Amazonian development banks that we helped launch is aspiring to mobilize up to \$20 billion; we have partnered with the World Bank on deforestation efforts in the Amazon; and we announced a landmark guarantee instrument with Sweden that aims to significantly expand the financing power of Amazonia Forever. Find more details on all of these highlights in the sections below.

At COP28, IDB Invest and the International Finance Corporation launched the Amazon Finance Network, an alliance that brings together financial institutions from 10 countries with the aim of increasing investment flows, mobilizing capital, promoting financial inclusion, sharing knowledge on innovative financial solutions, and generating synergies with the public sector - all for sustainable impact across the Amazon region.

Among many pledges this year, Italy and Spain announced substantial contributions during COP28 to boost Amazonia Forever, supporting our Amazon Bioeconomy and Forest Management Fund and our Amazon bonds initiative, respectively.

Earlier in the year, we joined mayors from Amazonian cities to launch the Amazon Cities Forum, devoted to building a new vision of sustainable development. This permanent platform will allow mayors to collaborate, exchange best practices and experiences, and jointly address the social and environmental challenges faced by cities and territories, while ensuring peoples' rights and leadership.

This is just a sample - and it is just the beginning.

2.9.2 One Caribbean

The IDB is currently finalizing another flagship regional program, One Caribbean - Partnership for Caribbean Development Framework (PCDF), which aims to promote the sustainable

development of the Caribbean with a sharpened focus on high-impact activities. Caribbean countries are among the most vulnerable to the adverse impacts of climate change, such as rising sea levels, threats to agriculture and biodiversity, and more intense and frequent hurricanes and tropical storms.

The program will focus on delivering impact across four interrelated pillars: food security; climate adaptation and disaster resilience; citizen security and business security; and private-sector development. Also, institutional strengthening and digital transformation are cross-cutting areas of work.

One Caribbean, which we expect to begin implementing next year, is being designed to promote integration and resilience across the region through projects and partnerships that can have a regional impact. It will include a project preparation facility, along with a strategy for partnerships and resource mobilization, with financial innovation at its core. Additionally, it seeks to generate investment scans that will lead to national plans for digital and resilient investment.

At COP28, the IDB, IDB Invest and the Caribbean Development Bank (CDB) strengthened their collaboration by signing a new agreement and action plan, emphasizing joint steps aligned with One Caribbean, including for climate-resilient physical and digital infrastructure, project preparation and execution in priority areas, private-sector productivity and development, exposure-exchange agreements and other financial products.

2.10 Climate Ambition

Among the priorities, financing and regional initiatives I have described above, there is a recurring topic that is one of the main challenges the region and the world face today: climate change. During this year, climate action has been, and will continue to be, at the center of our work.

2.10.1 Climate Financing

The need to boost financing for adaptation and mitigation is acute, as is the need to better leverage that financing to mobilize private-sector resources.

Climate-related financing at the IDB has continued to increase – from 30% in 2021, to 43% in 2022, to 45% in 2023. This year IDB Invest has surpassed its target of 30% climate financing by lending 32% – the equivalent of \$1.7 billion in investments – to avoid regional CO₂-equivalent emissions and increase resiliency. At IDB Lab this year, 48% of projects are aligned with climate-change action and 31% of approved amounts are for climate financing.

In perhaps our biggest announcement of the year, we told the world at COP28 that the IDB

Group is planning to triple our direct and mobilized climate financing to \$150 billion over the next decade, with the support of our member countries, including through the anticipated capitalization of IDB Invest. This would make us one of the first MDBs to fulfill the G20's tripling recommendation.

Some of the operational work I am most excited about from 2023 involves innovative financial tools to address climate change. In fact, my goal – and an explicit ask by our international partners and stakeholders – is to promote the adoption and expansion of these tools and others like them beyond LAC. That is why I have included more information in the relevant section below.

2.10.2 Paris Alignment

As of January 1, 2023, all new operations are being assessed for alignment with the goals of the Paris Agreement on climate change. This would not have been possible without the approval of our IDB Group Paris Alignment Implementation Approach (PAIA), which operationalizes a methodology jointly developed in partnership with other MDBs.

The IDB Group is a leader in engaging with countries in LAC for Paris alignment and the first MDB to disclose the results of its alignment exercise publicly. And through the PAIA, we are not just assessing alignment of operations, but actively seeking innovative ways to foster the transition to a low-emission, climate-resilient economy for our borrowing member countries. In 2023, 100% of IDB Group-approved operations under PAIA were determined aligned with the Paris Agreement.

2.10.3 Office of the Special Advisor on Climate Change

As another result of the pressing need to address climate change, the Office of the Special Advisor on Climate Change was created in September through an adjustment to the basic organizational structure of the Bank. This office is a stand-alone unit that reports to me, led by an executive selected through a competitive process. In December, we announced that Avinash Persaud, a citizen of the United Kingdom and Barbados and a renowned academic and policymaker, will assume this role.

The office will enhance our coordination internally, but also externally, with activities under the UNFCCC, the COPs, and through G20 and MDB collaborations related to climate change. It will help the IDB influence crucial global discussions – including to help position our renewables-rich, mineral-rich region as a major part of the solution.

2.11 Gender and Diversity Ambition

The IDB Group has long worked to promote equity, with a focus on narrowing gaps in social and economic outcomes. Despite important advances in financing for gender and diversity,

progress has been uneven across the IDB Group and across diverse groups in the region. That is particularly the case for Afro-descendants, where operational approvals have consistently lagged below average diversity targets.

2.11.1 Office of the Special Advisor on Gender and Diversity

Earlier, I mentioned GDI as transversal to be elevated in all areas of our work. As in the case of climate, our corporate structure should mirror our development priorities. And so, in September, the Board approved the creation of the Office of the Special Advisor on Gender and Diversity. Doing so highlights the urgency of making improvements in this area to enable the region to promote inclusive and sustainable development in all areas. This office will help us do just that, especially in the context of the new Institutional Strategy, while strengthening coordination across the IDB Group and with external partners.

2.11.2 GDI Financing

There is a strong need to prioritize gender results and boost financing for diversity to improve coverage across diverse population groups. Gender financing at the IDB has continued to increase – from 86% in 2022, to 95% in 2023. The IDB Group will prioritize development impact and gender-results indicators to maintain the highest standards. This year, IDB Invest exceeded its target of 25% gender financing, by lending 41% for gender equality. At IDB Lab, 58% of projects were aligned with gender.

IDB diversity financing in 2023 increased to 77% from 53% in 2022. However, only 16% of operations specifically supported Afro-descendants. While this represents an increase of eight percentage points from last year, it is still below the 20% target. IDB targets have been met or exceeded for other diverse groups, with 58% of operations providing financing for persons with disabilities, 33% for Indigenous Peoples and 14% for LGBTQ+ persons.

Let me highlight a milestone we achieved this November, with the approval of a \$500 million PBL to strengthen equality for women, Indigenous Peoples, Afro-descendants and LGBTQ+ persons in Colombia. This is one of the Bank's first PBLs with reforms aimed at LGBTQ+ inclusion and was designed in close coordination with the German development bank, Kreditanstalt für Wiederaufbau (KfW).

2.12 Knowledge Fueling Development

The IDB's role as not just a lending bank, but a bank for knowledge-based solutions, sets us apart. In 2023, our Knowledge Week gathered more than 36,000 participants from more than 124 countries, with the objective of building bridges between the global frontier of knowledge and LAC. The 46% increase in viewership compared to the previous edition proves not only a growing hunger for knowledge-based solutions in our region and elsewhere, but also the centrality of this part of our work.

Along the same lines, the Regional Policy Dialogues we organize continue to be a critical platform for policymakers to interact with Bank staff and obtain cutting-edge knowledge. This year, we organized 30 meetings in Washington, D.C., and in LAC. Topics were diverse, ranging from the links between the climate agenda and fiscal policy, to getting more value out of investments toward universal health coverage, to strengthening digital government.

Our research, which fuels these dialogues, has value that goes beyond dollars and cents – but can positively affect budgets, too, and in critical ways. This year, our insignia report series, “Development in the Americas,” offered recommendations to policymakers to ensure debt is used wisely – a knowledge product that is critical for the region’s current circumstances. And we are pushing the envelope with the kind of research needed to effectively address emerging challenges; in our most-downloaded report of 2023, our experts analyzed the role that existing cash-transfer schemes may have in alleviating the distributional effects of carbon pricing in 16 LAC countries.



BID
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FROM LISTENING TO ACTION:
GOVERNORS' MANDATES

In March, the IDB Group held its first in-person Annual Meeting since the pandemic. A record number of our governors attended, and, as mentioned, they unanimously supported our proposal to redirect the unmet mandates of the Washington Resolution to a new Institutional Strategy. They tasked us with presenting a proposal for a new Strategy to the Boards of Executive Directors in less than eight months, a significantly shorter timeframe than for previous Institutional Strategies. Under the guidance of the Boards and in consultation with civil society, we succeeded in delivering our proposal on time.

After having endorsed our vision for the future of IDB Invest and IDB Lab, the governors urged us to bring a capitalization proposal to the IDB Invest Board before the end of September. We did just that. Presentation of a proposal on IDB Lab to its Donors Committee soon followed.

3.1 Institutional Strategy Proposal

My goal was for the IDB Group to craft a Strategy proposal that would steer our transformation to meet today's unprecedented challenges and anticipate emerging trends. The proposal, titled "Transforming for Scale and Impact," focuses on how to achieve the scale and impact that our development goals in the region require. As I said before, our objective is to seek impact on a large scale.

It has been informed by a robust consultation process with internal and external stakeholders. Internally, six focus groups, including more than 40 members of IDB Group leadership, helped shape a vision for the future. Externally, a public consultation process convened more than 1,800 representatives of governments, the private sector and civil society to provide input. Management also engaged with an expert panel as a sounding board.

The proposed Strategy considers all of the reforms outlined in the Washington Resolution, the proposals for IDB Invest 2.0 and the replenishment of IDB Lab, as well as global discussions on the MDBs system. It covers the 2024-2030 period, which aligns with global development commitments under the U.N. Sustainable Development Goals (SDGs).

The Strategy proposes as its core objectives to reduce poverty and inequality, address climate change and bolster sustainable regional growth. The IDB Group's operational focus and organizational resources will aim to advance these three pivotal goals.

The proposal is currently being discussed with the IDB and IDB Invest Boards and, if endorsed, will be submitted for governors' approval at the 2024 Annual Meeting. The new Institutional Strategy will be complemented by a Corporate Results Framework that will include quantitative targets to reflect the Group's increased ambition and measure progress.

Let me also emphasize that in setting the course for the IDB, IDB Invest and IDB Lab in the years ahead, the Strategy should also help ramp up synergies between the three. In 2023, the IDB Group management team comprehensively reexamined our current approach and developed a framework to identify, incentivize and prioritize these public-private synergies in the making.

3.2 IDB Invest 2.0 and Capitalization Proposal

A sound capitalization proposal and new business model that will allow IDB Invest to scale its impact in each borrowing member country is also expected to be presented for governors' approval at the next Annual Meeting.

Private-sector financing has significantly increased in recent decades across the major MDBs, including at IDB Invest, where commitments reached \$42 billion between the 2016 merge-out and 2022. Since the merge-out, IDB Invest has also transformed from a mono-product, mono-currency institution into a solutions bank, with specialized and integrated financial products, advisory services and mobilization services. A significant and increasing portion of its total commitments has come through core mobilization.

The proposal and business model, which were developed in close consultations with the IDB Invest Board, will increase the development effectiveness of operations, ensuring that financing flows to projects with the highest opportunity for impact. They will also increase the volume of investments directed to projects in the region through the "originate-to-share" business model. New targets will empower IDB Invest to better address the heterogeneous needs of the region, with greater emphasis on the social agenda.

This will also enable IDB Invest to strengthen its position as a climate-smart and GDI-smart entity, adopt a more assertive approach to risk that will push the boundaries of its development financing, and yield various other positive outcomes. It will also strengthen IDB Invest's relationship with the rest of the IDB Group, one of its core comparative advantages.

3.3 IDB Lab Replenishment Proposal

The IDB Group stands out as the only MDB with an innovation and venture laboratory, providing a distinct advantage in fostering development. During the past five years, IDB Lab has curated a portfolio of groundbreaking projects that are addressing critical needs through creative and inclusive approaches – which are increasingly relevant at a time of overlapping challenges. As such, IDB Lab's synergies with the IDB proper and IDB Invest continue to increase.

However, IDB Lab is approaching an inflection point at the end of its current MIF III funding cycle. A proposal for a multi-source funding model is currently being discussed with the IDB Lab Donors Committee and, subsequently, with the IDB and IDB Invest Boards, so that it can be brought to governors at the forthcoming Annual Meeting.

This multi-source funding model would allow IDB Lab to reduce its dependency on periodic donor funding, gradually but consistently, enhancing its financial sustainability. The replenishment would allow IDB Lab to continue driving innovation within the region and help it become a stronger asset for the IDB Group, particularly in ramping up its work on climate and gender and diversity.



United Nations
Climate Change

COP28 UAE

DUBAI

4

FROM LISTENING TO ACTION:
ON THE INTERNATIONAL STAGE

4.1 Globally Positioning LAC and the IDB Group

LAC is increasingly being recognized on the international stage as a source of solutions to shared global challenges. That is due in no small part to the efforts of the IDB to promote the ways in which the region, with the right reforms, can be a lynchpin for tackling them – climate change and the biodiversity crisis, including through a sustainable Amazon; food insecurity; and the need for a just energy transition across borders. Moreover, the Bank is uniquely positioned to serve as a bridge between diverse actors worldwide, spanning the public, private, academic and philanthropic sectors, to help realize this potential.

4.1.1 International Forums

In 2023, we have taken a more active, agenda-setting role at major global events, including, among others, the World Economic Forum Annual Meeting; the IMF-World Bank Spring and Annual Meetings; the Summit for a New Global Financing Pact, organized by President Macron in Paris; the European Union's Ministerial Meeting on Economic and Financial Affairs (ECOFIN); the U.N. General Assembly; and most recently, COP28. Our focus at each was to highlight how the IDB Group and its borrowing member countries are leading the way, and are ripe for new partnerships, in areas such as innovative financial instruments, the energy transition, regional integration and biodiversity.

Strategically positioning the Bank in contexts beyond LAC has been essential. In particular, we have seized the opportunity to elevate the IDB's profile in Europe. The Bank co-organized the ECOFIN in Spain, where we highlighted the progress of initiatives such as Amazonia Forever. We also took a leading role in the European Union-Latin America and the Caribbean Business Roundtable, held in Brussels. Leaders including European Commission President Ursula von der Leyen, Brazilian President Luiz Inácio Lula da Silva and Spanish President Pedro Sánchez featured in the event. A significant milestone was an invitation from Germany, where the IDB engaged with a key Bundestag committee, presenting priorities and fostering connections with representatives from the public and private sectors.

Recently, in partnership with the U.S. government, we hosted the Americas Partnership-IDB Responsible Investment Forum at our headquarters, which gathered Treasury Secretary Janet Yellen, six heads of state from LAC, other high-level officials, investors, business leaders, and representatives of academia and think tanks. The event promoted stronger economic relations between the region and the United States and was followed by President Biden's announcement of new U.S. agreements with the IDB and IDB Invest on migration, private-sector investments in infrastructure, and biodiversity.

We presented our BID for the Americas initiative at this event. Launched in September, it facilitates opportunities for U.S. and global businesses to participate in the \$4 billion in government contracts financed annually by the IDB. Going beyond procurement, the initiative seeks to cultivate business connections between global and regional firms to support trade and investment, while encouraging private-sector mobilization for Bank projects.

The Americas Partnership-IDB Responsible Investment Forum also helped shape the public conversation; it became the Bank's best-performing event of the year in terms of media mentions. Indeed, the resonance of our public messaging surrounding not only these initiatives, but throughout the year, is another important part of positioning the Bank and the region on the global stage.

I am referring to mentions that matter, when our vision is amplified by influential voices and outlets. This has consistently been the case in 2023, reinforcing our efforts in strategic areas. For example, our progress in increasing the climate ambitions of our Bank and the region – including our aim to triple climate financing over the next decade – has made headlines in the Financial Times, Reuters, CNN Brasil, El País and The New York Times. Strategic communication will continue to help us move the needle.

4.1.2 Strategic Partnerships

Actively positioning the IDB and LAC on the global stage – and backing it up with substance – also leads to new and deepened partnerships, as well as new opportunities for co-financing, programmatic synergies and mobilizations. We signed 63 institutional agreements with partners this year to strengthen our priorities.

In terms of our work with other MDBs, several examples stand out. In June, IMF Managing Director Kristalina Georgieva and I announced a new collaboration between our institutions focusing on climate-related reforms and private financing in LAC. The joint commitments include Resiliency and Sustainability Facility (RSF) loans with a country platform approach, macro-level surveillance for countries, and the establishment of a facility dedicated to green and resilient infrastructure projects. The overarching goal is to accelerate climate financing through a combination of diverse mechanisms, including policy reform and capacity development.

I am particularly proud of our groundbreaking, four-year partnership with the World Bank, which President Ajay Banga and I launched in August. It has three defined priorities and action plans ready to be implemented. The joint goals include innovating and promoting Amazon bonds, fortifying the Caribbean's resilience to natural disasters, and bridging the digital-access gap across LAC. We also set a collaboration in motion between IDB Invest and MIGA, the political-risk insurance arm of the World Bank Group, to mitigate political risk in the region. A testament to the strengthened ties between our institutions, and to the IDB as the region's leading development bank, is that President Banga's first official mission in his role was a joint mission with me to Peru and Jamaica.

In one of the first fruits of this partnership, the IDB and the World Bank announced in October that we will coordinate activities to accelerate learning in LAC by enhancing the digital transformation of education systems. This includes co-creating public goods, such as platforms to map and expand connected schools and assess teachers' digital skills. Together, we intend to connect 3.5 million students and train more than 265,000 instructors. This is

a great example of the kind of joint work that will propel a more efficient and coordinated international development finance architecture. More on MDB reform below.

Another example is the IDB's partnership with the Bank for International Settlements (BIS) to boost innovation and financial inclusion in LAC. Beyond technology, it includes providing technical assistance and training to regional authorities, leveraging the IDB's strong regional relationships. Notably, Luxembourg, a non-member country, is providing financial support for the first time to back an IDB initiative.

As mentioned above, the IDB, IDB Invest and the Caribbean Development Bank (CDB) also strengthened our collaboration in 2023 by signing a new agreement and a detailed action plan, emphasizing collaborative actions aligned with our One Caribbean program.

Of course, our international partnerships go far beyond MDBs, and we are constantly growing them with the public and private sectors, academia, philanthropic institutions and others to advance our agenda.

For example, among various grants and partnership projects we announced at COP28, we embarked on an innovative guarantee collaboration with the Swedish International Development Cooperation Agency (Sida) that aims to increase the lending capacity of Amazonia Forever by \$450 million.

This year, the U.S. government pledged \$25 million to support the Bank's efforts to address migration challenges. When combined with contributions from Canada, Korea and Spain, as well as matching funds from the IDB's Ordinary Capital, this amounts to a total of \$89 million in additional resources to help transform these challenges into opportunities.

Other diverse examples from the year range from work with the Green Climate Fund (GCF) toward a more sustainable Caribbean, to IDB Lab's work with The Coca-Cola Foundation on innovations in water, to a collaboration with the University of Cambridge to analyze LAC's crypto-asset ecosystem.

4.2 MDB Reform

4.2.1 Leadership among MDB Peers

A special type of positioning of the IDB and of LAC on the international stage is our role within the MDB reform process. As mentioned, a concerted push for reform began in earnest this year, predicated not only on maximizing lending capacity, but on generating impact, with stronger incentives to achieve more operational effectiveness, and undertaking initiatives to tackle development challenges, including globally shared ones, such as climate change. The reform agenda also calls for the creation and scaling of new financial instruments to mobilize public and private capital – an area in which we have positioned ourselves as a global leader. Perhaps most crucially, it also envisions the MDBs producing better results by working as a coordinated system.

The IDB is at the forefront of this process. Our work has helped us secure the presidencies of the MDBs and RDBs Heads Groups for 2024. By working closely with Brazil's G20 presidency and the COP30 in Belém, Brazil, the IDB has a unique opportunity to advance the reform process.

At the World Bank-IMF Annual Meetings, we proposed a concrete agenda for MDBs to work better as a system, to employ new financial instruments, and to shift to greater focus on development effectiveness and impact. We will push for harmonization of indicators and standards – starting with procurement – that could enable greater efficiency and larger-scale impact support to our borrowing member countries, including on climate and biodiversity. We will also move toward operationalizing country platforms and continue to set an example by developing, deploying and looking to inspire the adoption of more innovative financial tools. More information on this is available below.

4.2.2 Balance-Sheet Optimization and CAF Review

The G20 finance ministers have strongly encouraged MDBs to maximize their lending capacity. Indeed, reforming our capital adequacy frameworks is essential if we are to bridge the enormous gap between the billions in financing we offer and the trillion-dollar challenges our borrowing countries face.

In the last few years, the IDB has worked intensively to increase its lending capacity. The pursuit of new exposure-exchange agreements for our sovereign-guaranteed lending operations, including the development of a new framework to work with non-triple-A organizations, is an example of the progress we have made in implementing CAF recommendations. Our interaction with credit-rating agencies has resulted in some concrete improvements in credit-rating criteria, such as enhanced recognition of credit-risk insurance. Another example is sovereign-guaranteed risk-transfer mechanisms, such as the support we have secured from Sida, which will greatly expand our lending under the Amazonia Forever program.

Let me also emphasize the pace-setting work that IDB Invest has done in this area. It has already implemented multiple CAF review recommendations to optimize its capital efficiency, significantly increasing its operational capacity to help overcome the limitations of its balance sheet. By enhancing risk governance, introducing new financial products, forming strategic agreements and engaging with credit agencies, IDB Invest has achieved considerable capital savings.

Throughout 2023, management worked closely with the IDB's Board to consider the prospects for each of the 17 recommendations included in the CAF review. The result was an action plan in six volumes and a roadmap to implement management's commitment to increase the Bank's lending envelope by \$20 billion in the next 10 years. We became the first MDB to make a commitment of this kind. This number could reach \$50 billion with the help of our stakeholders.

IDB Invest also designed, and plans to implement, the new business model for IDB Invest 2.0, consistent with the CAF recommendations. Under the minimum-viable scenario for IDB Invest 2.0, these capital-efficiency strategies can boost operational capacity by \$62 billion over the next decade. When considering the whole IDB Group, and including mobilization and additional shareholder support, the forecast is to increase lending capacity by \$112 billion.

However, we have much more to do. We will continue to push the envelope by expanding our framework for exposure-exchange agreements to include non-triple-A organizations, exploring structured or bundled transactions, and looking for other innovative ways to stretch our balance sheet. We recently partnered with the African Development Bank to provide for a financially efficient, win-win solution to re-channel the IMF's Special Drawing Rights (SDRs) through MDBs, an instrument that leverages SDRs at no incremental fiscal cost for donor countries. The IDB is also pursuing balance-sheet optimization through credit-risk-insurance transactions to scale up the transfer of risks embedded in the Bank's loan portfolio to private-sector counterparties, thereby reducing portfolio concentration.

I am gratified to see that we have inspired these reforms, and we will continue to promote them in our presidency of the MDBs and RDBs Heads Groups.

4.3 Innovative Financial Instruments

I have mentioned our leadership and positioning in creating new and innovative tools, including to finance climate-change mitigation and adaptation, provide incentives, generate impact and unlock critical private-sector resources. This cutting edge of our work must be scaled up and out - not only at the IDB, but across the international development finance architecture.

That is, as we continue to test and grow these tools ourselves, we are actively promoting them, and innovations like them, among our fellow MDBs and public- and private-sector financing entities.

4.3.1 IDB CLIMA and Indicator-Based Instruments

When we launched our Biodiversity and Climate-Linked Mechanism for Ambition, or IDB CLIMA, this September, we became the first MDB to approve a financing tool that rewards countries for achieving nature and climate objectives. At COP28, we announced the first nine countries to pilot it. The full list of countries and projects will be announced at our next Annual Meeting.

Here is how the tool works: When indicator goals for nature and climate are met and verified, the borrower gets a discount that reduces the cost of the loan. That discount is provided in the form of a grant in the amount of 5% of the loan's principal - essentially, reducing its debt service.

Perhaps even more important, however, the loan project is only eligible if it includes financing for the country to build the capacity of its environmental monitoring, verification and results system, and goals in this area must also be met. Strengthening these systems and defining clear and verifiable indicators is essential for LAC to access green and thematic debt markets, which countries need to mobilize capital at the scale required to adequately tackle sustainability challenges. In other words, this tool rewards achievements that create systemic impact beyond the loan itself.

Other forms of sustainability- or ESG-linked financing, with objectives measured by key performance indicators, that help unlock private-sector resource mobilization, are in our future. After supporting Uruguay to issue the first sovereign sustainability-linked bond with a reward feature, we are aiming to scale up this kind of instrument, including through work with fellow MDBs.

4.3.2 Debt-for-Nature Conversions

Another innovative financial tool that the IDB has pioneered is debt-for-nature conversions. These structures consist of a financial and legal structure that allows a country to obtain financing in the international capital markets at favorable economic terms and use it to repurchase more-expensive outstanding debt, while committing to channel a substantial portion of the savings toward development priorities, including climate- or nature-related financing. The more-favorable economic terms of the new financing are obtained by means of credit enhancements, such as an IDB guarantee.

Using our policy-based guarantee instrument, we supported an initial transaction in Barbados in 2022, and this year, we helped enable the largest such transaction in history. It will allow Ecuador to generate savings and mobilize an estimated \$450 million for conservation activities in the Galápagos Islands.

These operations marked the first time the IDB combined its guarantee instrument with coverage provided by third parties: The Nature Conservancy in the case of Barbados and the U.S. International Development Finance Corporation (DFC) in Ecuador. This highlights the key role that the IDB and other MDBs can play – not only as financiers, but also as honest brokers among multiple parties. With so many of our borrowing member countries saddled by high debt, but also rich in natural capital, these transactions are important models to replicate. In fact, we anticipate a growing number of similar projects in the pipeline, reflecting increasing demand in the region.

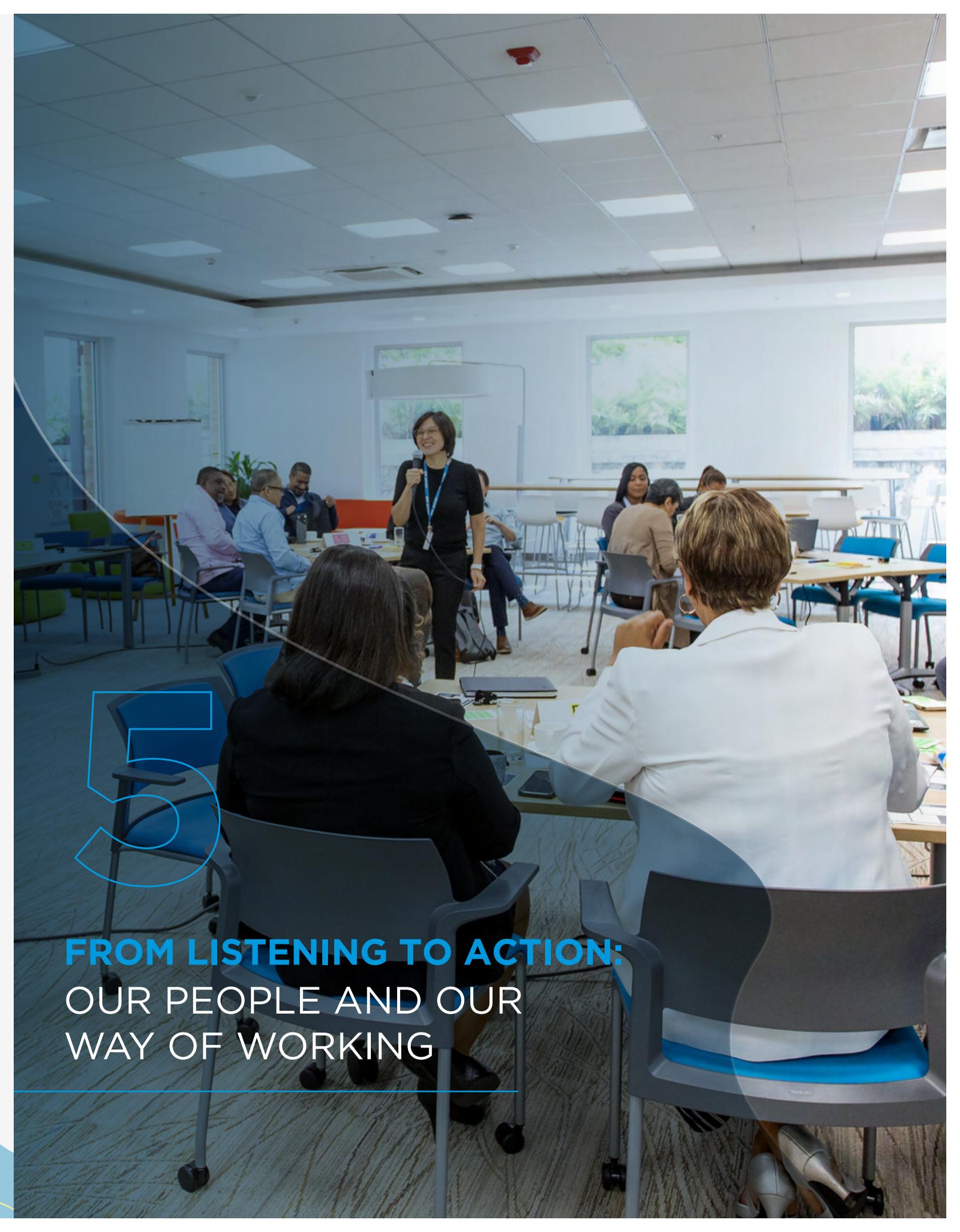
At COP28, the IDB and seven other international finance institutions launched a new global effort to enhance results-based instruments for sovereign financing linked to climate and nature. The IDB and DFC will lead a task force to increase the effectiveness, efficiency, affordability, accessibility and scalability of debt conversions, indicators-based bonds and other instruments. At the heart of this effort is the use of data-based indicators to provide incentives, monitor the impact of our climate financing and help mobilize private-sector resources.

4.3.3 Other Financial Innovations

Climate-resilient debt clauses (CRDCs or “catastrophe clauses”) are another way in which the Bank is leading in this area on the international stage. Included in eligible IDB loans, they allow borrowing countries to postpone principal payments for up to two years when they are hit by a qualifying natural disaster. The goal is to help mitigate the impact of shocks on economies. The IDB was the first MDB to offer this product, and our efforts are helping mainstream their use. This year, we surpassed \$1 billion worth of loans that are protected by these clauses. We have valuable lessons to share with fellow MDBs that are preparing to offer similar clauses.

Also, we are working on developing a CRDC 2.0 to substantially increase the scope of the instrument, with more countries, more climate-risk coverage and including additional perils. That means expanding the coverage of natural disasters to include less-common events, such as wildfires or droughts. Additionally, we are working on enhancing other aspects of the CRDC instrument, such as allowing countries to transfer those risks to the market. This insurance-like feature will provide better protection against climate-related disasters, making the instrument more robust.

Financial innovation is an area in which the Bank shines, but we have no time to be satisfied. More creativity is needed for more solutions, including potential ones we are considering, such as credit-enhanced instruments, improved conditions for climate-resilient clauses and catastrophe clauses with the insurance sector, catastrophe bonds, and Amazon bonds. And the best of these solutions must be leveraged to help transform our region, our Bank and beyond.



5

FROM LISTENING TO ACTION:
OUR PEOPLE AND OUR
WAY OF WORKING

5.1 Our Talent

Fostering a work environment in which employees feel empowered, heard and treated fairly means fostering a work environment that is conducive to healthy risk-taking, open exchange of ideas and creative solutions.

Institutional steps can have a big impact. Over the past year, there has been a significant increase in open, competitive processes for executive positions, including manager of the Infrastructure and Energy Sector, manager of the Institutions for Development Sector, special advisor on climate change, and special advisor on gender and diversity. I recently announced a new competitive, meritocratic process for the selection of country representatives. This will make sure that those considered for these roles, both internal and external candidates, have the required skills and competencies, while we provide guidance to our employees for career development, should they aspire to these roles. Furthermore, I worked with executive-search firms this year to identify, interview and select highly qualified candidates for vice president positions. By bolstering our recruitment practices, we are not only attracting top-tier talent, but also fostering a corporate culture that values merit and achievement.

In June, the IDB Group launched the 2023-2028 Diversity, Equity, Inclusion and Belonging (DEIB) Framework, which provides specific targets. Our ambition is that by 2028, our employees will be composed of 50% women in grades 4/C+ and higher, 10% Afro-descendants, 5% Indigenous persons, 8% persons with disabilities, and 8% LGBTQ+ individuals. These internal goals align with our efforts to improve mainstreaming of diversity and inclusion in operations. This Framework has helped the IDB and IDB Invest successfully recertify their EDGE Move status, which recognizes workplace gender and intersectional equity.

Also, we implemented several key actions proposed in the IDB Group People Strategy this year, including revision of rewards and compensation frameworks, so that incentives effectively attract, cultivate and retain the best talent.

The Office of Ethics regained momentum on its project to update the Codes of Ethics of the IDB and IDB Invest. Results from phase one highlighted positive areas, but also areas that need improvement, particularly employees' views on speaking up, reporting misconduct, trust in the organizational justice system and transparency. Phase two of the project began with establishing a diverse, IDB Group-wide working group, and it will factor in these findings. Completion of the refreshed Codes is anticipated in 2024.

In July, the IDB Group launched the Employee Engagement Survey, and 92% of our colleagues participated. The overall engagement score was 7.9 on a ten-point scale, and the Employee Net Promoter Score ranked our organization seven points above the middle of the financial-industry benchmark. This is a good indication of where we stand culturally, and I am committed to implementing further steps to improve this rating. I have enlisted managers to help strengthen engagement and build community across the IDB Group.

As I mentioned, our new focus on development effectiveness and results also requires a cultural transformation at the Bank. Fostering a culture of impact, rather than of amounts lent, requires changing incentives and processes – an overall transformation. Next year will be an important one for progress on the changes that will help us toward this end.

5.2 Finance and Risk Management

We had a series of discussions this year on the use of OC resources to support strategic priorities. The management team has mainstreamed financial analysis into all requests for the use of OC resources to show tradeoffs in terms of risk-adjusted capital, lending capacity and lending spread on sovereign-guaranteed operations.

On the international capital-markets stage in 2023, the IDB issued bonds for a nominal value of \$18.822 billion, resulting in net proceeds of \$18.818 billion, with an average maturity of 5.8 years and an average variable rate equivalent to 0.397% over the U.S. dollar SOFR variable rate (after hedging). This represented an average cost increase of 0.10% compared to the nominal amount of \$16.998 billion recorded in 2022 (net proceeds of \$16.991 billion). The three main currencies of issuance were the U.S. dollar, the pound sterling and the Australian dollar.

The combined OC portfolios generated investment income of \$1.888 billion, representing a yield of 5.63%.

The IDB remained sufficiently capitalized throughout 2023, despite a decrease in the Capital Coverage Ratios (CCR) due to credit-rating downgrades in our sovereign-guaranteed portfolio. With part of that portfolio on negative outlook by at least one rating agency, we continue to closely monitor and assess the impact of potential rating downgrades on capital adequacy.

Libor transition was substantially completed in 2023. The Bank also completed the implementation of a new Asset Liability Management (ALM) strategy, aimed at mitigating income volatility while operating under the Board-approved policy of four to six years of equity duration. During the year, the Asset Liability Management Committee (ALCO) approved risk boundaries for the ongoing maintenance of the ALM strategy.

By further integrating climate change, disaster, environmental, social and governance risks within existing risk-management processes, the Bank continued to strengthen socio-environmental risk management. Management also updated our Risk Taxonomy, which identifies the Bank's wide-ranging risk dimensions, as well as how the risks are managed and which areas are responsible for their oversight.

5.3 Budget and Administrative Services

As the Bank becomes more effective, efficient and digital, so too should our budget processes. To this end, Management committed to a \$17 million cost-absorption strategy, despite the significant challenges posed by higher-than-anticipated inflation. Management took key steps to achieve a more efficient use of resources and an optimal level of execution through better planning and reallocation of resources. Additionally, to continue fostering innovation, the Budget Analytics Dashboard was enhanced to promote transparency and strengthen the decision-making process for executing the budget.

A new Corporate Procurement Policy was approved in November, encompassing both corporate procurement and the contracting of consulting firms for Bank-executed operational work. It will provide for a more efficient and unified process and work to improve competition, transparency and quality, as well as align corporate procurement to the Bank's agenda on gender and diversity and sustainability.

5.4 Information Technology

The Information Technology Department's (ITE's) Tech Lab remains the Bank's main exploration center for emerging technologies. Its main thematic focus this year was generative AI, which will reduce time and effort in retrieving information and creating new content. It will also process information at a faster speed, which can lead to faster decision-making and process optimization.

ITE is leading a multidisciplinary task force to prepare the Bank for using and adopting this disruptive tool, including best practices and rules for applying the technology ethically and responsibly. In 2023, the task force prototyped and piloted several use cases of generative AI technology, in partnership with departments. The first results highlight the potentially transformative impacts of these technologies on the way we work and the positive impact on productivity, including possible efficiency gains in generating standard and generic documents.

Through continued implementation of the IT Strategy, ITE worked to position the IDB Group as a leader in security, agility, adaptability, innovation and use of technologies, with the objective of creating more value, results and impact for our region. This includes enhancements to corporate and operational systems and platforms geared to increase user productivity, as well as serving as a strategic partner to project teams. This year, ITE supported more than 150 operations in partnership with VPS.

Concurrently, the IDB Group Digital Transformation Program continued to make strides to enhance the use of technology and data assets, embrace new ways of working, and build an institutional culture adept at innovation to address evolving business needs.



6

LOOKING AHEAD



When I joined the IDB a year ago, I was presented with several requests from our different stakeholders that I sought to fulfill. To this already ambitious agenda, I added a new set of initiatives aligned with my vision for the IDB Group, the region and beyond.

As I have outlined in this report, we did make significant progress toward our goals during my first year – foremost among them, enshrining our pursuit of development effectiveness as above all to better help the region overcome multiple hurdles. We advanced in many other strategic areas as well – from positioning LAC as a major part of the solution to shared global challenges, to establishing the IDB Group as a source of innovation and leadership, both regionally and on the world stage. We set in motion programs, partnerships and new approaches that can have a transformative impact. And we embraced the value of open dialogue and transparent practices.

I did not do this alone. The support, guidance, hard work and dedication of our amazing management team and employees were essential. I would like to thank everyone who made the achievements of this year possible: our Boards of Executive Directors, our people, our member countries, our partners and all our stakeholders.

This year was about setting the IDB Group on a solid, reform-minded trajectory, with much work ahead of us. In the immediate future, our next milestone is the 2024 Annual Meeting. Our work in the years to come will be defined in large part by the decisions our governors may take in Punta Cana. If the new Institutional Strategy is approved, we will begin the detailed design and implementation of the full set of reforms. If our governors approve plans for IDB Invest 2.0 and its capitalization, as well as the replenishment proposal for IDB Lab, the next year will require us to prepare for an IDB Group that is not only bigger, but significantly better.

This is just the beginning. I am convinced that with patience and perseverance, there will be many other highlights to come in the next 12 months. I am looking forward to them – and I pledge to work toward them by listening, learning and taking ambitious action.



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