PERFORMANCE AT A GLANCE

IDB Invest

JULY 2023

MOPAN

ABOUT IDB INVEST

The Inter-American Investment Corporation (IDB Invest) was established in 1986 pursuant to the Agreement Establishing the Inter-American Investment Corporation and began operations in 1989. On 30 March 2015, the Boards of Governors of IDB Invest and the Inter-American Development Bank (IDB) approved the transfer to IDB Invest, effective on 1 January 2016, of all operational and administrative functions associated with the IDB private sector and non-sovereign guaranteed activities to better serve clients and partners in the Region and to maximise developmental impact.

The IDB Group's Institutional Strategy, adopted in 2010 as part of the Ninth General Capital Increase (IDB-9), provides the overall context for IDB Invest's strategies. Its two overarching objectives are fostering sustainable growth and reducing poverty and inequality. The strategy has been updated twice, with the most recent update, in 2019, reformulating the development challenges as social inclusion and equality, productivity and innovation, and regional economic integration and also committing the IDB Group to address the cross-cutting issues of gender equality, inclusion and diversity; climate change and environmental sustainability; and institutional capacity and the rule of law.

IDB Invest's own strategy is based on a key 2015 Board of Governors resolution which implemented the Renewed Vision for the IDB Group private sector by mandating it to cover all activities which had previously been conducted through the non-sovereign guaranteed windows of the IDB Group (including with state-owned enterprises and excluding operations with sub-sovereign governments). The Renewed Vision focused on three principles/priorities, i.e. strengthening development effectiveness, development impact and additionality; maximising the efficient use of resources; and achieving synergies between the Group's public and private sector activities. This IDB Invest strategy is still under implementation. In March 2022, the IDB Invest Board of Governors mandated the preparation of a proposal for a new vision and business model for IDB Invest. Based on the proposal submitted by Management, in March 2023, the Board of Governors mandated the preparation of a capitalization proposal and implementation plan for the New Vision and Business Model for IDB Invest. This new model will focus on originating more impactful projects, de-risking private investment and crowding in finance through an "originate to share" model."

IDB Invest is owned by its 48 member countries of which 26 are regional developing member countries. It is a legally separate and distinct member of the Inter-American Development Bank Group (the IDB Group), which also includes the IDB and the Multilateral Investment Fund (commercially known as IDB Lab). IDB Invest has a separate governance structure, including a Board of Governors, a Board of Executive Directors, management and staff. However, some IDB units and positions provide services across the IDB Group. IDB Invest has almost 500 employees across 5 departments. About 30% are located in 24 of the 26 IDB Group offices in the Latin America and the Caribbean (LAC) region while the rest of the staff are located at the IDB Invest headquarters in Washington, DC.

IDB Invest currently manages a portfolio of more than USD 18.6 billion of development-related assets from over 490 clients. IDB Invest operates in all of its regional developing member countries across Latin America and the Caribbean.

KEY FINDINGS

Upon the completion of the third MOPAN Assessment of IDB, shareholders requested a focused assessment of IDB Invest to be undertaken within a compressed time period. This resulted in a selective application of the MOPAN Assessment Framework for Private Sector Operations to IDB Invest, with the assessment focusing on three key performance indicators (KPIs) (Box 2). The assessment also considered the manner in which IDB Invest adapted in response to the COVID-19 pandemic.

KEY PERFORMANCE INDICATORS INCLUDED IN THE IDB INVEST FOCUSED ASSESSMENT

KPI 2: Structures and mechanisms are in place and applied to support the implementation of global frameworks for cross-cutting issues at all levels, in line with the 2030 Sustainable Development Agenda principles.

KPI 5: Partnerships with clients and host governments support alignment to the strategic vision, including impact goals, financial sustainability and risk management.

KPI 7: The focus on results is strong, transparent and explicitly geared towards function.

This assessment relies on two lines of evidence: a document review and staff interviews and consultations. A survey was not conducted due to time constraints.

IDB Invest is rated satisfactory on KPI 2 based on the incorporation of cross-cutting issues in the Institutional Strategy; up-to-date strategies on cross-cutting issues; knowledge products and diagnostic tools; and mainstreaming of cross-cutting issues into operations. Notwithstanding the satisfactory performance, there are remaining challenges in interpreting how IDB Invest operations are contributing to development outcomes which need to be addressed.

The IDB Group's overarching goals are fostering sustainable growth and reducing poverty and inequality, which are in line with the Sustainable Development Goals. These goals include a focus on cross-cutting issues (gender and climate change) which have up-to-date Group-level strategies/action plans. The cross-cutting issues are explicitly considered during the preparation of investments, with appropriate diagnostics being undertaken with support from specialised staff. Further, project selection takes into account the potential impact on cross-cutting priorities (as part of both achieving development outcomes and assessing additionality).

Targets from these strategies are incorporated into the Corporate Reporting Framework (CRF) and utilised to monitor progress. Contributions to development outcomes and performance is monitored and reported for the Group and separately for IDB Invest. Performance is monitored largely through indicators which are input-oriented (i.e. measuring either the number of projects or financing volumes).

IDB Invest has been a leader in advancing the gender and diversity agenda in LAC through its key role in various global and regional initiatives, its flagship reports and well-developed diagnostic tools (i.e. gender lens investing) for its own use as well as for use by its clients. With regard to its own operations, progress is above expectations with regard to the targets for the proportion of new projects supporting gender and diversity. However, there are difficulties with interpreting how this performance is contributing to development outputs and outcomes since the current indicator combines projects that have specific gender equality and diversity components with projects where IDB Invest has provided additionality to activities in support of the cross-cutting issue. IDB Group's contribution to increasing the number of women entrepreneurs is now reported individually for each IDB Group institution, helping to present performance in this area more clearly.

IDB Invest should, in addition to the current headline indicator, introduce a more targeted sub-indicator that would include only operations for which gender equality is a key part of the development objective and where IDB Invest provides additionality.[1] This change would complement the current focus on mainstreaming by increasing attention to those operations where IDB Invest contributes to specific gender development outcomes and to additionality. IDB Invest should also continue its efforts to address the data limitations which have been a challenge for all multilateral development banks, given that support to women entrepreneurs is largely implemented indirectly through financial intermediaries.

IDB Invest is rated satisfactory on KPI 5. This rating is based on the presence of Group-wide country diagnostics and strategies that focus on private sector development and its systematic approach to considering country and institutional priorities during the selection of operations. Areas for improvement include: revising guidance on the preparation of country strategies to enhance IDB Invest's role in engaging with stakeholders on the private sector development agenda, strengthening the private sector content of the country diagnostics and playing a more central role for IDB Invest in the preparation of the diagnostics.

The IDB Group prepares Group-wide country diagnostics and country strategies for all regional developing member countries. Most country strategies contain a key priority or pillar focused on economic growth, productivity and/or private sector development providing the necessary entry point for designing and implementing suitable IDB Invest programmes. However, country strategies rarely identify any specifics of IDB Invest's future interventions or provide financial estimates of the scale of future IDB Invest investments. The alignment of individual IDB Invest operations with country strategies is validated through a Strategic Selectivity Scorecard. Alignment is one of the dimensions which increases the probability of investment selection.

There are three potential areas for strengthening country strategy development. After six years of implementation of the Renewed Vision and associated consolidation of IDB Invest business practices, it may be timely to review and potentially enhance the role that IDB Invest plays in country strategy formulation, particularly with regard to consultations and outreach with the private sector and governments on matters of interest to the private sector such as market deregulation and PPPs.[2] Second, while a joint diagnostic has merits in presenting a single Group-wide approach to clients, the private sector component of the diagnostic needs to be considerably strengthened. This is likely to require a larger and more central role for IDB Invest in the diagnostic process, including by co-leading the preparation of the country diagnostics. Finally, the Strategic Selectivity Scorecard may need to be revised based on the improved (private sector portion of the) diagnostic.

IDB Invest is rated satisfactory on KPI 7. This rating is based on IDB Group and IDB Invest strategic plans, progress monitoring through the Corporate Results Framework and annual Development Effectiveness Overviews, IDB Invest's Impact Management Framework, its close collaboration with the Office of Evaluation and Oversight, which has minimised differences in ratings assessments, and its ability to incorporate lessons learned into new operations. Areas for strengthening include: better integrating ex-ante, supervision and ex-post assessments of development impact; and systematising the role of client feedback into its Corporate Scorecard.

IDB Invest's results orientation is based on the strategic priorities defined in IDB Group Strategies and detailed through a series of Business Plans and Business Plan Updates since 2017 which have supported the implementation of the Renewed Vision. The CRF tracks progress in implementing the Institutional Strategy at three levels: regional performance, IDB Group contributions to development results and IDB Group performance. It also defines how the indicators at all three levels contribute to each of the 17 Sustainable Development Goals (SDGs). Measurement of

1. Since IDB Invest already assigns differential ratings for both dimensions, adopting this indicator would not require changes to existing systems and methodologies.
2. The guidelines pre-date the implementation of the Merge-Out and refer to the "New Corporation".

the Group's performance includes predominantly strategic alignment indicators[3] which are largely input-oriented (measuring the proportion of the number of projects and/or lending volumes contributing to specific strategic priorities). IDB Invest's contributions towards the Group's performance also heavily emphasise these input-oriented measures.[4]

The results-based management system could be further strengthened by systematically including client feedback from ongoing surveys of IDB Invest clients and including aggregated results in the Corporate Scorecard. There may also be benefits in further integrating the two tools within the Impact Management Framework – the Development Effectiveness, Learning, Tracking and Assessment (DELTA) tool focuses on ex-ante estimation and monitoring of development outcomes during supervision, and the Expanded Supervision Reports focus on the evaluation of development effectiveness when projects reach early operating maturity.

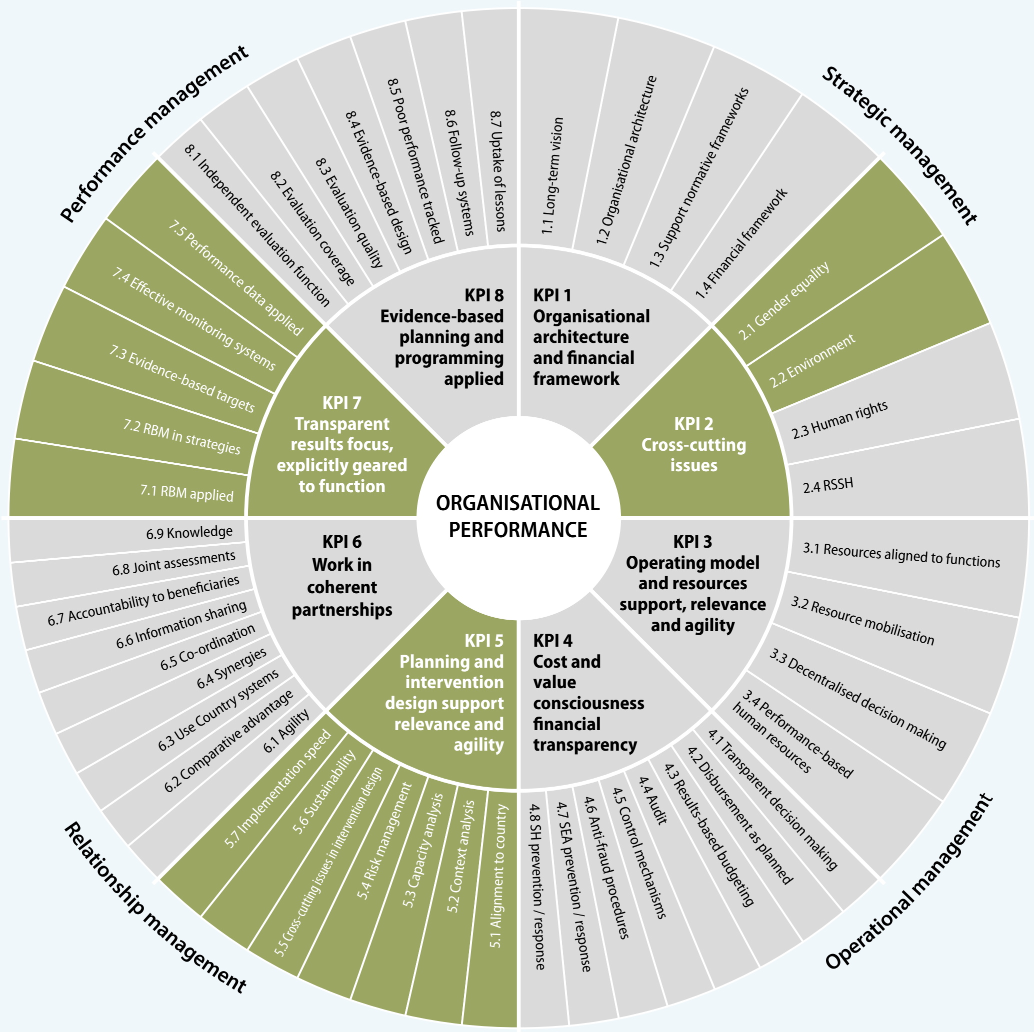
IDB Invest has responded appropriately to the COVID-19 pandemic by putting in place or scaling up financing arrangements as well as taking active measures to monitor and manage the impact of the pandemic on its portfolio. These have included: a USD 500 million crisis mitigation facility, USD 2 billion in additional financing under the Trade Finance Facilitation Program, the application of a COVID-19 lens, and procedural modifications to provide additional flexibility and agility during the crisis. The crisis has also required active management to mitigate the impact on its portfolio, particularly for financial intermediary operations.

MAIN STRENGTHS

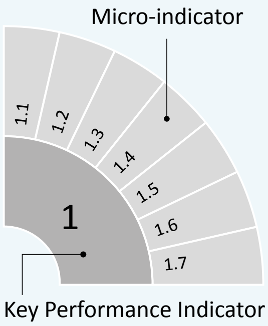
- **Strategic management**
  - Cross-cutting issues are incorporated into the Institutional Strategy.
  - There are up-to-date strategies on the cross-cutting issues.
  - Cross-cutting issues are mainstreamed into operations.
  - There are dedicated teams supporting cross-cutting areas and ratings.
- **Relationship management**
  - There are Group-wide country diagnostics and country strategies which help facilitate public-private approaches.
  - There is a Group-wide Country representative position.
- **Results-based management**
  - The Impact Management Framework has evolved to improve technical content and address staff behavioural incentives.
  - There is a feedback loop from lessons learned to new projects and close collaboration with OVE.

3. Ten out of 29 Group Performance indicators and within that 10 out of 11 strategic alignment indicators use a proportion of projects and/or lending volumes.
4. Nine out of 16 IDB Invest-specific indicators use a proportion of projects and/or lending volumes.

FIGURE 1: IDB INVEST'S PERFORMANCE RATING SUMMARY



How to read these charts



Highly satisfactory (3.51-4.00)

Satisfactory (2.51-3.50)

Unsatisfactory (1.51-2.50)

Highly unsatisfactory (0-1.50)

No evidence / Not applicable

AREAS FOR IMPROVEMENT

- **Strategic management**
  - The current indicator should be complemented by a more targeted sub-indicator that only includes projects having gender equality as a key part of the development objective and having significant additionality.
  - Client support for improving the reliability of the Women's Economic Empowerment indicator, particularly for FIs, should continue to be strengthened.
- **Relationship management**
  - Country strategy guidance should be updated to increase IDB Invest's role in consultations and outreach with the private sector and governments on matters of interest to the private sector such as market deregulation and public-private partnerships.
  - The private sector component of country diagnostics should be strengthened, and IDB Invest should co-lead preparation of the country diagnostics.
  - The Strategic Selectivity Scorecard should be improved, based in part on better country private sector diagnostics.
- **Results-based management**
  - IDB Invest business plans and updates should separately document IDB Invest's contributions to Level 2 CRF indicators.
  - The Results-Based Management System should systematically consider client feedback from surveys and should include aggregated results in the Corporate Scorecard.

The potential for integrating the two impact management tools, i.e. DELTA and XSRs, should be reviewed.

ABOUT THE ASSESSMENT OF IDB INVEST

This report provides a diagnostic assessment and snapshot of the Inter-American Investment Corporation (IDB Invest) and tells the story of its performance, within its mandate. It is the first MOPAN assessment conducted for IDB Invest and is a selective application of the MOPAN Assessment Framework for Private Sector Operations to IDB Invest. Specifically, it focuses on three key performance indicators: 2, 5 and 7. This assessment covers the period from 2016 through 2022.

The assessment of IDB Invest was conducted through a rigorous process and took a collaborative approach, by integrating the perspectives of a wide range of stakeholders. This collaborative approach provides multilateral organisations and Network members with a robust source of evidence-based guidance on the areas for improvement to achieve enhanced organisational performance.

The assessment draws on two lines of evidence (a documentary review and interviews) to validate and triangulate findings across three key performance indicators which are further broken down into micro-indicators and elements. The standard assessment framework has been developed based on international best practice and further customised taking into account the specific mandate and priorities of IDB Invest. Moreover, the assessment framework has also been revisited to capture the COVID-19 impact on IDB Invest's mandate and operations, as well as to gauge to what extent IDB Invest has been able to adapt and leverage its internal processes responding to COVID-19 in an agile manner.

The following operating principles guided the implementation of this assessment. MOPAN's Methodology Manual[5] describes in detail how these principles are realised.

THE ASSESSMENT APPROACH

The approach to MOPAN assessments has evolved over time to adjust to the needs of the multilateral system. The MOPAN 3.1 methodology, applied in this assessment, is the latest iteration.

Starting in 2020, all assessments have used the MOPAN 3.1 methodology, which was endorsed by MOPAN members in early 2020. The framework draws on international standards and reference points, as described in the MOPAN Methodology Manual. The approach differs from the previous methodology, 3.0 (used in assessments since 2015), in the following ways of relevance to this assessment:

- Integration of the 2030 Sustainable Development Agenda into the framework.
- A reshaped relationship management performance area, with updated and clearer Key Performance Indicator (KPI) 5, which better reflects coherence. KPI 5 focuses on how partnerships operate on the ground in support of partner countries.
- A change to how ratings (and their corresponding colours) are applied, based on scores defined for indicators. Compared to the previous cycles conducted under MOPAN 3.0, the threshold for a rating has been raised to reflect the increasing demands for organisational performance in the multilateral system. The underlying scores and approach to scoring are unaffected. This approach was already implemented in MOPAN 3.0* (2019 cycle).

In applying the MOPAN Framework, COVID-19 is also considered from three perspectives:

- how the organisation has leveraged its internal processes to respond to COVID-19 in an agile and flexible way
- the extent to which risk management frameworks contributed to a multilateral organisation's preparedness to respond to the crisis
- how COVID-19 has been reflected in the organisation's strategies, operations and results targets.

The MOPAN Framework was adapted for private sector-oriented institutions during the 2021 assessment cycle. The MOPAN Secretariat adapted the framework with the support of a senior evaluator with a strong private sector background. Adaptations were implemented in collaboration with the management and staff of the International Finance Corporation and the European Bank for Reconstruction and Development.

The broad performance areas of the MOPAN Framework (strategic, operational, relationship, performance management and results) were maintained, but the elements underneath the KPIs and micro-indicators (MIs) were adapted. The main adaptations arose from the unique nature of private sector operations that differ from the operations of other multilateral organisations. One of the most important issues is that International Financial Institutions (IFIs) work mainly with private sector companies rather than governments, and private sector operations are expected to earn a positive financial return. Investors – and the IFIs working with them – also take on substantial investment risks if a project underperforms, and the financial performance of the portfolio and the institution is thus also typically of greater importance than for public sector multilateral development banks. Hence, for example, the performance area of relationship management had to be adapted to consider the different types of partnerships developed by private sector-oriented institutions (KPI 5).

5. MOPAN 3.1 Methodology Manual, www.mopanonline.org/ourwork/themopanapproach/MOPAN_3.1_Methodology.pdf

ABOUT MOPAN

The Multilateral Organisation Performance Assessment Network (MOPAN) comprises 22 members[6] that share a common interest in assessing the performance of the major multilateral organisations (MOs) they fund.

Through its assessments and analytical work, MOPAN provides comprehensive, independent and credible information on the effectiveness of MOs. On the one hand, this knowledge base contributes to organisational learning within and among the MOs, their direct beneficiaries and partners, and other stakeholders. On the other hand, MOPAN's work helps Network members meet their own accountability needs and informs their policies and strategic decision making regarding the wider multilateral system.

6. Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Qatar, Spain, Sweden, Switzerland, United Kingdom, United States. Türkiye and New Zealand are observers.