

IDB Lab

BUSINESS PLAN

2022-2023

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EXECUTIVE SUMMARY

The Latin American and Caribbean region is battling a health and economic crisis without precedence. A sharp economic contraction amid the pandemic has left millions of people unemployed, exacerbating deep-rooted inequalities and structural weaknesses. The massive human and economic damages have disproportionately impacted the most vulnerable, pushing millions into poverty and reversing the gains made in the last two decades. Against this backdrop, the role of innovation and the work of IDB Lab have become more relevant than ever.

In the 2022-2023 period, IDB Lab will play a key part in the recovery efforts, unleashing innovations that accelerate social inclusion and help activate new and more sustainable engines of growth. Priority will be given to projects that benefit poor and vulnerable populations directly by improving their livelihoods, facilitating their access to essential products and services, enhancing their skills and economic opportunities, and/or reducing their vulnerability to climate change. A number of projects will foster knowledge-intensive and tech-enabled businesses that fuel sustainable growth, as well as ecosystem building initiatives that help shape new markets. Altogether, IDB Lab's portfolio will foster a recovery that is greener and more inclusive, while opening new windows of opportunity in high-productivity sectors. Innovation should also help the Region move into a more dynamic development path that leads to higher-quality jobs and more permanent reductions in poverty levels.

IDB Lab will sharpen its operational focus to maximize its impact. Projects will promote entrepreneurial innovations at early phases of maturity advancing one or both overarching development goals: empowering poor and vulnerable populations and activating new and sustainable engines of growth. They will fall under five specific priorities within the three thematic areas established in 2016: (i) agriculture and natural capital; (ii) essential infrastructure services including mobility, energy, water & sanitation, connectivity, and housing; (iii) financial inclusion; (iv) education, talent, and employment; and (v) health. IDB Lab will continue to pursue innovations that are relevant to all contexts, meeting the established targets for C&D and S&I countries. Gender, diversity, and climate and environmental sustainability will continue to be critical cross-cutting areas.

IDB Lab's operational model will be further refined. Reimbursable instruments will grow in relevance and financial returns will be optimized within the boundaries of the current mandate, in line with ongoing efforts to improve future sustainability. Financial and non-financial tools will be consolidated into six clearly defined categories. The sourcing model will be broadened and diversified to increase the pool of high-quality proposals. Knowledge management will be strengthened to better reflect the functions of an innovation lab. Open innovation networks will continue to be a primary vehicle to democratize access to resources and opportunities, while generating impact at scale and accelerating innovation adoption. The digital growth plan will be completed with an emphasis on improving portfolio management and client experience.

IDB Lab will move towards a more organic collaboration with the rest of the IDB Group, seeking opportunities for joint value creation. Building on existing initiatives, IDB Lab will work closely with IDB Invest to improve the continuum of product offerings to the private sector, and with IDB's public sector arm to test innovations that enhance the reach and impact of essential services and public policies. The IDB Group stands out as the only MDB with a dedicated arm for innovation

and experimentation, a unique asset to achieve the ambitious targets established in the Updated Institutional Strategy.

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ACRONYMS

CFF	: Core Funding Floor
CRF	: Corporate Results Framework
DIS	: Discovery Unit
ESG	: Environmental, Social and Governance
FIN	: Finance Department
IDB	: Inter-American Development Bank
INV	: Investment Unit
IT	: Information Technology
LAC	: Latin American and the Caribbean
KPI	: Key Performance Indicators
MDB	: Multilateral Development Bank
MSME	: Micro, Small, and Medium Size Enterprise
MVP	: Minimally Viable Product
OECD	: Organization of Economic Cooperation and Development
ORP	: Office of Outreach and Partnerships
R&D	: Research and Development
SEP	: Social Entrepreneurship Program
S&I	: Small and Island Countries
SLA	: Service Level Agreement
SME	: Small and Medium Size Enterprise
VPC	: Vice Presidency for Countries
VPS	: Vice Presidency of Sectors and Knowledge

I. OUR VISION

- 1.1 The Latin American and the Caribbean (LAC) region faces unprecedented development challenges.** A period of stagnant growth has been followed by a global health crisis and the largest economic contraction in modern history.¹ The COVID-19 pandemic has disproportionately impacted the most vulnerable, particularly informal workers, low-income population, and women,² pushing 45 million people into poverty and widening already high inequality levels. Deep-rooted structural economic weaknesses are also being exposed. The Region's lethargic growth and its inability to overcome poverty continues to be rooted in its overdependence on low-productivity industries, particularly extractive sectors and low-value services that generate little economic and social spillovers. Far from catching up with other regions and embracing the fourth industrial revolution, LAC's productivity gap has been widening and continues to be about half of its potential.³
- 1.2 Innovation can play a central role in LAC's recovery, unlocking its development potential and boosting inclusion.** Following the steps of most of today's developed economies, which moved up the income ladder and reduced poverty levels through innovation,⁴ LAC can also leverage innovation to address social demands, promote inclusion, and foster productive transformations. Even more so in the current context, in which recovery efforts need to identify new ways to close widening social gaps and reactivate local economies. New technologies and innovative business models can help increase the access of poor and vulnerable populations⁵ to essential and high-quality services, from health and education to housing and financial inclusion.⁶ Innovation can also ignite knowledge-based sectors that not only help reactivate economic activity in the short-term but also allow the Region to transition to high-productivity sectors and a more sustainable path out of poverty. Tech-enabled entrepreneurial innovations are also becoming more relevant to fight climate change, spark green economic sectors, and promote gender equality and diversity.
- 1.3 Innovation is beginning to flourish in LAC, representing a window of opportunity to activate new and sustainable engines of growth.** Accelerated by the pandemic and a growing pool of local entrepreneurial talent, the Region has seen an expansion of innovative businesses generating greater knowledge content, higher quality jobs, and

¹ The average GDP growth rate in LAC during the pre-pandemic period (2014-2019) was a mere 0.3% and the contraction in 2020 was more than 7% (World Economic Situation and Prospects 2021: Latin America & the Caribbean, CEPAL).

² Women in particular have been negatively affected, losing jobs or income sources at a faster rate, assuming the brunt of home responsibilities, and suffering from increased gender-based violence (Ripani L. 2021, "Job Action Framework with Gender Perspective, and UNWOMAN, 2021, "Violence against Women during Covid-19").

³ Fernandes Arias E., Rodriguez S. (2016) "The productivity Gap in Latin America: Lessons from 50 Years of Development" IDB WP-692.

⁴ D. Sainsbury (2020) "Windows of Opportunity: How Nations Create Wealth".

⁵ For the purposes of this document, we define poor population as those living below the poverty line; low-income population as those living above the poverty line but below the national median income; and vulnerable population as those with income between US\$4 and US\$10 dollars a day per capita at Purchasing Power Parity, many of which working in the informal economy due to the lack of formal job opportunities. These definitions are consistent with IDB Lab's impact measurement model (iDelta) as well as current literature on the subject (Lopez-Calva L, Ortiz-Juarez, E., 2013, "A Vulnerability Approach to the Definition of Middle Class" Journal of Economic Inequality).

⁶ Christensen C., Ojomo E., Dillon, K. (2019) "The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty" Harper Collins.

rapid scalability compared to more traditional sectors.⁷ Tech startups deploying digital solutions were also critical in cushioning the impacts of widespread lockdowns during the pandemic by enabling the continuity of many small businesses and essential government services. While the trend is still very incipient and geographically concentrated, the tech sector in LAC was among the few growing prior to the pandemic. There is nonetheless much work to do to overcome persisting gaps in innovation financing, which would have to more than double to converge to OECD levels.⁸ Moreover, many nascent markets still need to activate their entrepreneurial ecosystems while encouraging innovation in sectors of high development impact.

- 1.4 IDB Lab is uniquely positioned to play a major role in unleashing LAC's innovation to achieve lasting and inclusive prosperity.** As the only multilateral lab fully dedicated to innovation and early-stage investments, IDB Lab seeks to help LAC close its innovation gap⁹, overcoming key market failures and high-risk aversion¹⁰ and opening new paths for social inclusion and dynamic economic growth. Specifically, IDB Lab harnesses entrepreneurial talent to (i) empower poor and vulnerable populations (push effect out of poverty); and (ii) activate dynamic, more productive, and sustainable engines of growth (pull effect out of poverty). It prioritizes solutions that reach poor, vulnerable and excluded segments with essential products and services, capabilities, or income-generating opportunities, as well as those addressing gender inequality, diversity and climate change.¹¹ Cognizant of the heterogeneity in the Region, IDB Lab also seeks to close regional innovation gaps by fostering knowledge sharing across countries and by providing a differentiated approach in less mature markets, working with each beneficiary country to meet its own priorities.
- 1.5 In the wake of the crisis, IDB Lab has become even more relevant.** Leveraging its agility, flexibility, and tolerance for risk, IDB Lab is uniquely positioned to play a pivotal role in promoting digital inclusion and devising new ways to reactivate local economies through innovation. The response to the pandemic in 2020 illustrates this potential. As health and economic challenges mounted, IDB Lab quickly mobilized entrepreneurial networks to deploy innovative solutions that contributed to addressing the health emergency, preserving small and vulnerable businesses, reactivating the tourism sector, expanding financing to microenterprises, and developing new health and crisis

⁷ Tech-based companies originating from the Region, also known as “Tecnolatinas”, grew from \$7 to \$221 billion in market value during the last decade, adding more than 245,000 new direct jobs and hundreds of thousands of indirect jobs through their supply chains. In contrast the top 40 publicly listed companies in traditional sectors such as extractive industries, utilities and baking experienced a decline of nearly \$490 billion in value during the same period (Tecnolatinas: The LAC Startup Ecosystem Comes of Age 2021”, IDB Lab and Surfing Tsunamis).

⁸ The Venture Capital (VC) industry in LAC has grown from US\$500 million in total investments in 2016 to US\$4.6 billion in 2019, a nearly ten-fold increase. However, according to IDB Lab’s calculations, the dollar amount of new venture investment needed in LAC per year to reach the average venture investment as a share of GDP in a typical OECD country would be US\$ 9.4 billion. VC funding in the Region is also highly concentrated in a few countries and sectors. Nearly 88% of VC deals are in Brazil, Mexico, and Argentina, and 50% of startups worth US\$1 billion or more are developing payment systems or marketplaces (LAVCA and Nazca Ventures).

⁹ As share of GDP, LAC invests less than 0.5% in R&D and less than 0.1% in Venture Capital. By comparison, Israel invests 10 times more in R&D and 117 times more in VC (Global Innovation Index 2020). No country from LAC is represented in the top 50 places of the Global Innovation Index, and none is listed in the top ten even when adjusting by income levels (Global Innovation Index 2020).

¹⁰ Private markets often produce suboptimal levels of innovation due to risk aversion and limited appropriability. Given that the economic and social returns of innovation are far greater than the private returns, public resources play a critical role in encouraging innovation (Sandalow D. “Why the Government Needs to Play a Role in Innovation” GreenBiz).

¹¹ Addressing the climate crisis and achieving the targets under the Paris Agreement targets will require extensive support to the private sector and the adoption of innovative technologies. Success will depend on the pace at which businesses across all sectors decarbonize and adopt resiliency measures, most of which are enabled by fit-for-purpose technologies. Businesses, particularly MSMEs, will also need access to green finance and climate risk assessment tools that are appropriate to the needs.

management models using analytics and deep tech. Demand for IDB Lab financing is only expected to increase in the following years as the Region moves into a recovery phase.¹²

- 1.6 **A compelling tool to meet institutional goals.** The IDB Group stands out as the only MDB with a dedicated arm for innovation and experimentation. This unique asset can help the IDB Group achieve its future goals while increasing its competitive advantage. The Updated Institutional Strategy (UIS) (AB-3190-2) already establishes that “promoting technology adoption and innovation” is a critical area of emphasis in the context of the ongoing technological revolution, which offers “immense potential for tackling the Region’s development challenges, particularly reducing poverty”. The UIS also warns of “serious risks if countries do not adapt adequately to the rapid technological change” (AB-3190-2). More specifically, IDB Lab is highly relevant for supporting and accelerating the recovery of micro, small and medium enterprises (MSMEs) and entrepreneurs, fostering regional integration, enabling digital transformation¹³, addressing climate change challenges with green solutions, and advancing the adoption of gender and diversity considerations, all central tenets in the UIS, and also priorities of the IDB Group’s Vision 2025. With a long track record supporting innovation, an appetite for risk, and the ability to structure experimental projects, IDB Lab is highly complementary and enhances the work of other parts of the IDB Group.
- 1.7 **Consistency with the current mandate.** The strategic goals laid out in this document are consistent with the mandate established for IDB Lab in the 2017 replenishment, which is to “promote development through the private sector by identifying, supporting, testing and piloting new solutions to development challenges and seeking to create opportunities for the poor and vulnerable populations in the LAC region”. The proposed Business Plan also reaffirms the six principles established to guide IDB Lab activities: (i) scalability; (ii) mobilization of resources; (iii) replicability; (iv) development impact; (v) knowledge creation; and (vi) tight alignment with the IDB Group’s strategic and operational priorities”.¹⁴
- 1.8 **IDB Lab’s evolving business model to achieve higher impact and a more sustainable financing.** Alongside the growing relevance of innovation as a driver of development and inclusion in LAC, IDB Lab has made key advancements in its business model which further increased the value it creates for every dollar of funding and its financial sustainability. Comparing data from the 2016-2018 business plan period to those of 2019-2021,¹⁵ total mobilization per dollar approved went up from 3.8 to 6.1;

¹² The analysis being conducted by the working groups addressing the Barranquilla Resolution has estimated the demand for IDB Lab disbursements to be in the order of US\$103-108 million a year for the 2022-2031 period, increasing to US\$129-144 million a year during the last years of the forecast horizon. This is greater than the US\$65.1 million a year disbursed during 2019-2021, and higher than the US\$67.2 million a year projected for 2022-2023, which reflects a strong and unmet demand for IDB Lab financing in the Region.

¹³ IDB Lab’s efforts related to digital transformation are consistent with IDB Group’s LAC Digital Transformation Action Framework. Moreover, IDB Lab follows IDB’s endorsement to [Digital Development Principles](#).

¹⁴ Final Report on the Future and Financing of the Multilateral Investment Fund (CA-581, CA-581-1).

¹⁵ For strategic alignment indicators—including poverty and vulnerability, climate, gender, and diversity—the comparison presented is based on 2016-2018 data compared with 2019-2020 data. For scaled projects, project results—households with improved living conditions, jobs created, and companies with improved business performance—as well as mobilization results, the comparison presented is based on 2017-2018 data compared with 2019-2020 data. This difference in data treatment is due to a limitation of data comparability for select variables prior to 2017.

scaling of closed projects increased from 22% to 32%; the percentage of reimbursable projects (with reflows that can be reinvested) grew from 40% to 51%; and the VC fund portfolio (vintages between 2011 and 2020) achieved financial break-even for the first time (Total Value to Paid-in Capital of 1). Without compromising its impact-orientation, IDB Lab also increased the use of recovery instruments when feasible, therefore providing incentives for grants to become more outcome-driven and financial sustainable. Most importantly, this evolution has amplified IDB Lab's impact on inclusion: IDB Lab projects benefitted more than 1.3 million households in 2019-2020, compared to only 400 thousand during the 2017-2018 period; and 61% of approved projects targeted poor and vulnerable populations compared to 55% in the previous business plan period. These data reflect how IDB Lab's evolving business model harmonizes sustainability with impact. This business evolution will be further enhanced in the following two years.

II. OUR FOCUS

- 2.1 **IDB Lab will sharpen its strategic focus to maximize its impact.** In the past three years, IDB Lab became an innovation laboratory with increased emphasis on supporting novel solutions to address key development challenges. This phase was characterized by ample experimentation across a wide number of areas, financing instruments, and partners. Having identified key strengths, the next phase requires greater focus to maximize impact and to allow a deepening of expertise. To this end, greater focus will be defined around four key dimensions: (i) type of innovation; (ii) innovation maturity; (iii) intended impact; and (iv) specific thematic priorities. Increased focus around clearly defined dimensions and a more proactive portfolio management approach will also help reconcile certain tensions that may arise across multiple goals.¹⁶
- 2.2 **Type of innovation: IDB Lab will focus on entrepreneurial solutions.** These are innovations created by entrepreneurs or impact-driven businesses launching novel products or services that help address development challenges. IDB Lab can provide support either directly or through intermediaries such as venture capital funds, business accelerators, academic institutions, or non-profit organizations among others. IDB Lab will not finance interventions that do not have a market-based model or a clear path to scale or replicability. It may partner with public entities, nonprofit and academic organizations or large corporations around initiatives that foster innovation or promote the environment for entrepreneurship to flourish and scale.¹⁷
- 2.3 **Innovation maturity: IDB Lab will focus on the early phases of innovation along the entrepreneurship cycle.** This comprises four distinct stages: (i) the pre-seed stage when entrepreneurs begin identifying an idea and testing a prototype; (ii) the seed stage

¹⁶ The most recent OVE evaluation on IDB Lab's strategic relevance concludes that the current mandate "is vague and presents tensions and contradictions" particularly around the type of innovation, the focus on lower-income segments, risk appetite, and financial sustainability (MIF/RE-5-6).

¹⁷ Examples include govtech and corporate venturing. Govtech is the application of emerging technologies developed or provided by entrepreneurs to improve the provision of public services or the functioning of government organizations. Corporate venture involves the support of large corporations to entrepreneurs/startups that can help advance innovation goals.

when a minimal viable product (MVP) is developed and launched; (iii) the early stage when a revenue stream is created and the innovation is improved through iteration (roughly equivalent to series A or B); and (iv) the early scaling stage when the customer or user base begins to grow and break-even is nearly reached or surpassed (equivalent roughly to a mature Series B or C¹⁸). Except for select cases of follow-on investments that may still require IDB Lab's risk tolerance, IDB Lab will not finance innovations in the growth or maturity stages (equivalent to more mature Series C and Series D and beyond), where businesses are fully consolidated, have stable revenues and matured products, and therefore could be considered for IDB Invest financing. Overall risk along the entrepreneurship cycle remains high, although declines progressively as innovations mature. Therefore, IDB Lab will use blended finance tools that can absorb the most risk in the initial phases, including non-reimbursable financing. Market investment products (equity, quasi-equity, and debt-instruments) will be used when innovations are investment-ready and can begin scaling across the Region while allowing IDB Lab to generate a financial upside, an increasingly relevant goal in the context of future sustainability (see section III.1). On a selective basis and prioritizing less mature markets, IDB Lab will provide non-reimbursable funding for building ecosystem conditions and/or stimulating entrepreneurial activity at the very early stages of the innovation cycle.

- 2.4 Intended impact: as an impact-oriented institution, IDB Lab will leverage entrepreneurial innovation to empower poor and vulnerable populations and to activate new and sustainable engines of growth.** All innovations supported by IDB Lab should advance development goals, particularly around social inclusion, economic recovery and growth, and climate. To better define the scope of intervention amid other potential uses of innovation, IDB Lab's projects and initiatives will pursue either or both of two overarching development goals. A primary development goal will be to directly benefit poor and vulnerable populations in at least three ways: (i) by broadening or facilitating their access to products or services offered at a higher quality or more affordable prices¹⁹; (ii) by enhancing their capabilities to generate income or economic opportunities; and/or (iii) by reducing their vulnerability to climate change through adaptation or mitigation and/or enhanced environmental sustainability. A secondary development goal will be to activate new and sustainable engines of growth. Such pursuit centers on fostering innovations that can lead LAC economies towards higher standards of productivity and/or environmental sustainability. It involves advancing novel knowledge-intensive business models, shaping nascent tech or digitally enabled sectors, and developing tomorrow's solutions to address climate change and the environment. Supporting these new engines will not only help LAC's economic recovery but also accelerate its transition to a more dynamic development model with increased economic opportunities, higher quality jobs, and a structural path out of poverty and low-income levels. IDB Lab will defer to other projects that involve subsistence-level

¹⁸ The series of an investment vary according to a firm's particular history of previous capital raising rounds and the ecosystem where the firm is located. The series included in this paragraph are presented as a reference only; however, the phase of development of the innovations should be considered. A series-C round, for example, may still present significant business or technology risk, and still be venture in nature, and thereby may be included within IDB Lab's mandate.

¹⁹ These are products and/or services that contribute to improving the quality of life such as health, education, financing, housing, mobility, clean energy, asset generating technologies, etc.

enterprises or business models that are already mature relative to their respective markets.

- 2.5 **IDB Lab will sharpen its thematic focus by concentrating on specific thematic priorities (verticals) within the existing three thematic areas.** With the objective of further honing its focus within the three thematic areas established under the MIF III Agreement (Knowledge Economy, Climate-Smart Agriculture, and Inclusive Cities), which are broadly defined and include a myriad of potential topics of work²⁰, IDB Lab now defines specific thematic priorities (verticals) to be the focus of its operations and reporting in further advancing its mandate. Using specific verticals as the basis of IDB Lab's thematic focus also facilitates communication and collaboration within IDB Group and with entrepreneurial ecosystems, for which the language of three thematic areas often leads to a lack of clarity.
- 2.6 **The thematic priorities were defined to further amplify IDB Lab's impact under its mandate.** The selection of IDB Lab's verticals for the next two years followed a layered process to determine where innovation and the work of IDB Lab can be most impactful. The first layer identified the most critical development challenges in LAC preventing inclusion of poor and vulnerable populations, within the three thematic pillars defined in the MIF III Agreement. The second layer identified the specific areas where entrepreneurial solutions are most relevant to address the critical challenges, and the extent to which they demand IDB Lab's support and capital to fulfill their impact potential. Finally, the third layer pinpointed the specific areas where IDB Lab, working with the rest of the IDB Group, have greater comparative advantages in terms of expertise and experience. These verticals are also consistent with IDB's main areas of expertise and aligned with IDB Invest's priorities in the technology and digital sectors, thus paving the way for expanding scalability paths for successful innovations through IDB Invest.
- 2.7 **Representing a subset of the three thematic areas, five thematic priorities will guide IDB Lab's future operations.** During the next two years, IDB Lab will define five thematic priorities (verticals) where innovation can play a pivotal role in addressing critical bottlenecks in the Region: (i) agriculture and natural capital; (ii) essential infrastructure services including mobility, energy, water/sanitation, connectivity, and housing; (iii) financial inclusion; (iv) education, talent, and employment; and (v) health (see Annex A for a general description of each vertical and the intervention rationale). A small portion of projects (less than 10%) will be reserved for frontier or experimental themes that may fall outside the selected verticals. The selected verticals are also aligned with the priorities under Vision 2025 and therefore will facilitate closer collaboration with other parts of the IDB Group.
- 2.8 **Cross-cutting topics will continue being a key line of work across the portfolio and through specific activities.** Climate change and environmental sustainability, gender, and diversity will remain key cross-cutting priorities across the portfolio level. Specific projects to drive green innovation will be pursued across all verticals, with

²⁰ The most recent OVE evaluation on IDB Lab's strategic relevance concluded that taken together, the three thematic priorities "cover too many different and broad areas to provide effective operational guidance and void a disperse portfolio with limited impact in any one area" (MIF/RE-5-6).

particular emphasis on the first two, which provide greater opportunities. IDB Lab will also deploy projects and initiatives that directly advance gender and diversity goals in addition to mainstreaming these approaches across projects and the portfolio, seeking to promote more inclusive and diverse entrepreneurship activity in LAC and emphasize underrepresented populations both as leaders and beneficiaries of IDB Lab's projects

- 2.9 **IDB Lab will follow a portfolio approach in the pursuit of its development objectives and cross-cutting priorities.** IDB Lab will build a portfolio of projects that collectively advance the two overarching development goals – including a number of projects that simultaneously advance both – and that span across the five specific verticals according to the best opportunities for impact identified. At least 60% of projects in the newly approved portfolio will focus on benefitting poor and vulnerable populations. While this target was also established in the prior Business Plan, IDB Lab will now use a more precise definition, considering projects that have direct and measurable results for this target group. The remainder of the portfolio will not be required to have direct and measurable results on poor and vulnerable populations but will, in turn, pursue the activation of new and sustainable engines of growth (as described in 2.4). To provide IDB Lab with the operational flexibility needed to adequately meet regional demand in each context and in alignment with Country Strategies, no specific targets will be set for each thematic vertical. IDB Lab will seek to build each vertical according to the quality of deal sourcing and pipeline.
- 2.10 **Criteria for de-emphasizing themes.** As a laboratory of innovation, IDB Lab intervenes at the initial formation of nascent industries and de-emphasize its role as they mature, given that there are other organizations that can support subsequent stages. That means the selection of thematic verticals is a rather dynamic exercise subject to continuous review. As they evolve, IDB Lab may choose to support only the most cutting-edge models within each vertical or to focus on geographies where these sectors are still less developed. As greater maturity and market success is reached, IDB Lab may choose to exit a vertical entirely. Key considerations for determining sector maturity will include: (i) a significant growth in the share of private/commercial investment in the sector; (ii) convergence of key industry variables with more developed markets; and/or (iii) widespread adoption by public entities, other parts of the IDB Group or external development partners, denoting a decrease in overall risk. IDB Lab may also consider exiting a theme when innovations fail to develop and therefore are less likely to transform into new dynamic industries.
- 2.11 **IDB Lab will pursue innovations that are relevant for all contexts.** Given the high heterogeneity across LAC, IDB Lab will identify solutions that are applicable to each country, independent of its size or level of innovation maturity. For smaller economies and those with less developed entrepreneurial activity, IDB Lab will have a broad interpretation of innovation beyond frontier technology, including non-tech business innovations and digital solutions that can be accessible to poor and vulnerable populations and in rural areas. IDB Lab will ensure that supported innovations respond to the characteristics and needs of each geography and that they are not an end but only a means to foster social inclusion and activate local engines of growth. IDB Lab's

broad presence in the Region and its decentralized sourcing model whereby solutions are identified locally in coordination with Country Representatives and through IDB Group's Country Strategies, will assure that projects are relevant for all contexts. IDB Lab will also encourage cross-fertilization between more mature and less mature markets to help close regional innovation gaps and will continue to meet its targets for approved projects in C&D countries and S&I countries as established in the Action Plan for these country groups (MIF/GN-236-1). The cumulative targets for the 2019-2023 period are 45% of approved operations in C&D countries and 17% of approved operations in S&I countries²¹.

III. OUR MODEL

- 3.1 **IDB Lab has a tested operational model to fulfill its mission.** Over the years, it has built and refined a variety of tools involving financing, knowledge, and connections to promote innovations that have a transformative impact. IDB Lab's model is unique among peers and has been proven effective in addressing complex barriers to entrepreneurship and innovation, and for driving scalable solutions that can reach poor and vulnerable populations and ignite new and sustainable engines of growth. Today, IDB Lab's mission is more relevant than ever for boosting the types of business models, industries and markets that can help LAC economies become more inclusive, dynamic, sustainable, and prosperous.
- 3.2 **IDB Lab will integrate its financing and non-financing tools to offer combined solutions.** An integrated offering of financing, knowledge and connections will allow IDB Lab to address three key obstacles to high-impact entrepreneurship: (i) the limited supply of capital to high-risk endeavors and nascent markets, technologies or areas of entrepreneurship; (ii) the lack of coordination of entrepreneurial ecosystems actors, particularly forging partnerships and connections among actors on which effective entrepreneurial activity depends; (iii) absence of key actionable knowledge, in the forms of key insights and lessons learned. The latter is vital to help guide IDB Lab, the IDB Group and the entrepreneurial ecosystems in their efforts to leverage innovation to address development goals. IDB Lab recent experience shows that these challenges are mutually reinforcing and increasingly require combined solutions. IDB Lab will better integrate its financing and non-financing tools, by embedding connections and knowledge activities as a core part of IDB Lab's value proposition to its partners and investees. The provision, for example, of key insights deriving from IDB Lab experiences and opportunities to access vital networks (such as global innovation centers and investors) will be strengthened as an integral part of supervision activities.

²¹ Besides meeting its operational goals for S&I countries, IDB Lab will continue launching initiatives that are particularly relevant for these countries, building on successful experiences. The 'Beyond Tourism Challenge' is a recent example of IDB Lab's relevant work in S&I countries. Launched in June 2020 in collaboration with IDB Invest, CSD, and the United Nations World Tourism Organization, the challenge identified novel solutions to enhance digital skills and facilitate the recovery and sustainability of the tourism sector in 15 countries in Central America and the Caribbean. Solutions range from coral reef protection through sustainable marine tourism, indigenous-led ecotourism and conservation, a career accelerator to fast-track tourism workforce career development, and upskilling of ecotourism workforce to comply with healthy and safety protocols. To date, seven projects have been already approved by the Donors Committee in Barbados, Belize, Dominican Republic, Guyana, Haiti, Panama and Trinidad and Tobago.

III.1 Financing Instruments

- 3.3 **IDB Lab will continue using a wide range of risk-tolerant instruments to support innovation.** The ability to absorb risk and tailor financing to the specific needs of a project is the basis of IDB Lab's proven business model. A combination of non-reimbursable and reimbursable instruments will continue to be used to finance innovations at early stages of maturity. IDB Lab will also consolidate, standardize, and define criteria for when to apply each instrument.²² Overall, non-reimbursable technical cooperation and technical cooperation with reimbursable triggers, such as contingency recovery grants, are used to fund projects that are non-profit in nature and to test models at their initial stages of business model development, that have not reached investment-readiness yet and thus do not attract private investors. Investment products, such as equity, quasi-equity and loans are designed to financing impactful innovative businesses that are investment-ready and can attract private co-investors, following best market practices and looking for market returns on the investment according to their financial risk.
- 3.4 **Reimbursable projects will grow in relevance.** As IDB Lab balances its goal of supporting impactful innovations with the need to generate greater income, it will begin to deploy a larger share of reimbursable instruments, carefully ensuring that risk appetite and the prevailing mandate are preserved.²³ To this end, an indicative target of 60% of new approved amounts will be set for reimbursable instruments, which includes both investment products (equity, loans and quasi-equity – such as convertible notes and SAFEs) and technical cooperation and investment grant projects with reimbursable features (such as Contingency Recovery Grants).²⁴ This will be achieved primarily through a more systematic inclusion of reimbursable features in TCs (when feasible) and the renewed direct investment approach that envisions the possibility of follow-on investments in the most promising companies of the portfolio in terms of both impact and financial returns.
- 3.5 **IDB Lab's financing tools will be consolidated into six categories.** This will help better manage a diverse set of financing products that have been tested, iterated, and improved over the past years, but which need a level of standardization to be cost-effective. IDB Lab's financial products are designed to meet different stages of development along the entrepreneurship cycle, from ideation to initial scale, and also different profiles of clients, including those that are best suited to take non-reimbursable, partially reimbursable, equity, or debt financing. Also, it includes the "Ecosystem Builder" product, which is intended to create or improve the conditions for entrepreneurship in a particular region or industry, rather than advancing a particular innovation or thematic area. Prototype, Spark, and Ecosystem Builder products are particularly relevant in less

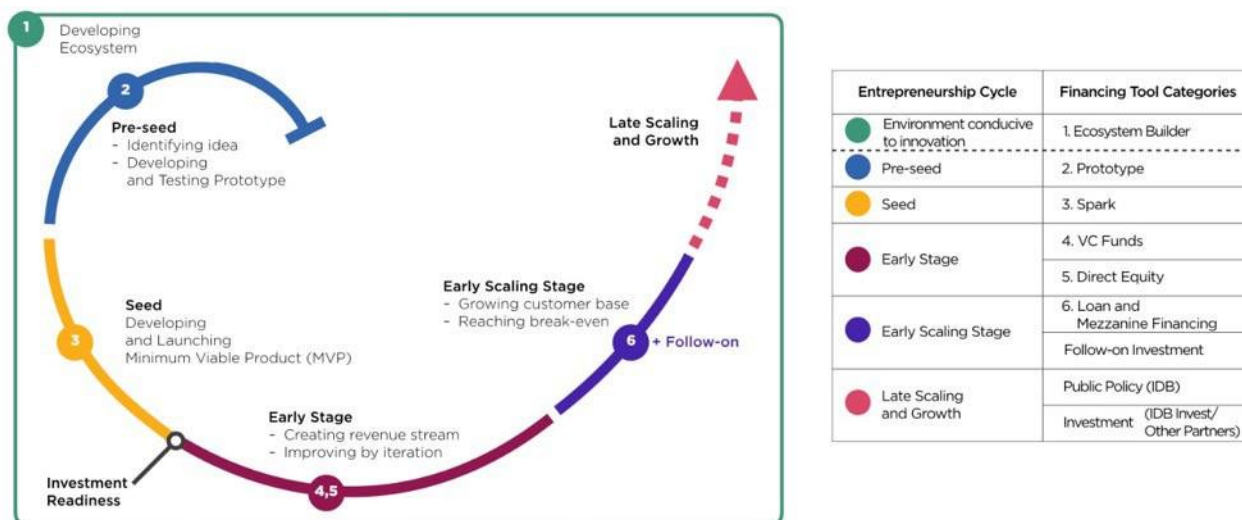
²² The most recent OVE evaluation on IDB Lab's strategic relevance stresses the importance of better defining criteria for when and at what stages to use different instruments, particularly grants (MIF/RE-5-6).

²³ As mandated in the 2017 replenishment, IDB Lab in coordination with the rest of the IDB Group and through informal discussions with the Donors Committee, is assessing different options to sustain future operations and reduce long-term dependency on donor contributions. A new and more diversified funding model is being developed where donor contributions will be complemented by: (i) increased self-generated income; (ii) greater mobilization of third-party resources; and (iii) possible transfers from the IDB Group (See MIF/GN-253 and MIF/GN-260).

²⁴ During the 2019-2020 period, the share of reimbursable instruments was 49% of total approved amounts. This allowed to increase the outstanding balance of the loan and equity portfolio to US\$182.7 million.

mature entrepreneurial ecosystems, such as S&I countries, given their increased flexibility to support the very initial stages of entrepreneurial innovations. IDB Lab products are presented in the illustration below.

Chart 1 – From ideation to initial scale: IDB Lab’s financing products along the entrepreneurship cycle



*This is a simplified scheme as the use IDB Lab's financing products can vary according to specific client profiles and innovation development can take different trajectories including scaling through the public sector after any point in the cycle.

- 3.6 **1 – Ecosystem builder (around US\$1 million per project):** Non-reimbursable financing for broad-based initiatives addressing critical bottlenecks for impact-oriented entrepreneurial activity, selectively deployed and particularly in less developed markets or emerging industries. Typically, these projects will involve multiple stakeholders from the private, public, and academic sectors.
- 3.7 **2 – Prototype (up to US\$150,000 per project):** Non-reimbursable financing to test innovations in a proof-of-concept stage (pre-seed), typically developing a new product, service, or technology prototype. In some cases, and when determined viable, prototype financing may include a reimbursable trigger. Duration of projects is up to 18 months to allow agile implementation.
- 3.8 **3 – Spark (between US\$150,000 and US\$700,000 per project).** A combination of non-reimbursable and reimbursable financing to support innovations that have successfully proved their concepts and deployed prototypes but are not yet investment ready. Typically, these structures will have a “reimbursable trigger” linked to revenues or market growth that allows IDB Lab to recover a portion or the full amount should these innovations achieve market success in the future.
- 3.9 **4 – Venture Capital (VC) Funds (between US\$2 and US\$5 million per project).** Continuing the renewed approach for investment in VC funds,²⁵ IDB Lab will invest in

²⁵ Investments in VC funds and direct investments will be made following the renewed technical approach established in the Technical Briefing MIF/GN-255, presented to Donors in 2020.

VC funds to expand the frontiers of VC markets to nascent ecosystems, new sectors, regionalizing VC investing, and foster impact-oriented venture investments. This represents a “horizontal” approach whereby IDB Lab can promote a wide array of entrepreneurs and sectors which focus on impact as well as reach more impact-oriented entrepreneurs.

- 3.10 **5 – Direct Equity (between US\$700,000²⁶ and US\$3 million per project).** Investing in specific businesses to support entrepreneurs with a proven concept and already building a revenue stream (early stage), but who are not fully served by traditional investors and/or need IDB Lab support to advance its impact model. This represents a “vertical” approach whereby IDB Lab can selectively pick promising innovations with the potential to generate transformational impact. Financing for this type of project can take the form of pure equity or quasi-equity structures, such as convertible notes and Simple Agreements for Future Equity (SAFE). With follow-on investments (described in 3.12), maximum ticket size per investee could reach a maximum of US\$ 5 million.
- 3.11 **6 – Loan and Mezzanine financing (between US\$ 1 and US\$3 million per project):** Reimbursable financing to support innovations that have a growing customer base and are close to or at break-even, but which are still underserved by commercial lenders or investors.²⁷ On top of senior or subordinated loans, IDB Lab will emphasize the use of mezzanine structures, allowing for greater financial upside, including debt with revenue-sharing, warrants, and/or conversion to equity options, following a number of projects that were introduced in 2020 with those features.
- 3.12 **IDB Lab will consider boosting its impact via sequential (follow-on) direct equity investments in its most promising innovations.** The Line of Activity for Innovation Prototypes (approved in June 2019, MIF/AT-1965) and the Emergency Financing Line for Startups ‘LIFESS’ (approved in April 2020, MIF/AT-1619) were key to allow IDB Lab to pursue projects that had high-impact profiles but demanded quick deployment of resources under a simplified approval by delegation procedure. Building on such learning, IDB Lab will consider a ‘Follow-on Facility’ to pursue sequential investments within its direct and indirect portfolio in 2022-2023. Such facility could be key to allow IDB Lab approval times to match the timing of follow-on rounds, currently not feasible, and provide key sequential support to companies that are already in the portfolio and can generate disproportional impact in the Region. To further amplify its impact by leveraging its privileged access to follow-on opportunities, IDB Lab will also explore the use of new financial products²⁸ and other financial mechanisms that allow institutional investors to co-invest alongside IDB Lab.²⁹
- 3.13 **The Social Entrepreneurship Program (SEP) will continue to be a relevant and highly complementary tool.** The SEP is a line of financing for social businesses

²⁶ For C&D and S&I countries, smaller ticket sizes may be considered for IDB Lab’s financing products.

²⁷ IDB Lab’s loans are intended to finance companies which are on their way towards financial sustainability and initiating their scaling up path but are still too risky to have access to commercial loans from private banks or from IDB Invest.

²⁸ Such as investing and exiting venture investments through SPACs – Special Purpose Acquisition Companies, a financial instrument that may represent, specifically for venture investments, an additional channel to increase liquidity to underfinanced high-impact startups across LAC.

²⁹ A formal proposal of such Facility may be discussed and considered after and separately from the approval of the Business Plan. When follow-on opportunities have gone beyond IDB Lab’s stages of investments, such opportunities could also be presented to IDB Invest for their independent consideration, helping create scaling up ‘continuum’ within the IDB Group.

funded by IDB and selected trust funds, and administered by IDB Lab. Under IDB Lab's umbrella, the program has been enhanced and aligned with other priorities to maximize its impact. Projects can be structured in the areas of rural finance, rural businesses, and basic services, and are aligned with IDB Lab's five thematic priorities. SEP projects are particularly relevant for reaching poor and vulnerable populations, a core impact goal for IDB Lab.

III.2 Operational Excellence

- 3.14 **IDB Lab will harness digital tools to further optimize its processes.** The ongoing Digital Growth Plan (DGP)³⁰ will continue being rolled out in the next two years, replacing inefficient and analogic processes with digitally enhanced tools. A digital project management model will speed up project design times, automate non-essential activities, and enhance decision making, freeing up valuable time for more complex activities.³¹ The priorities for the next two years will be: (i) to launch a new digital tool for managing and enhancing project sourcing; (ii) digitalize supervision and reporting tools as well as portfolio management functions, including interface with clients; and (iii) develop new tools for collecting and disseminating information. The DGP is being coordinated with the IDB Group's digitalization strategy and the 2022-2026 IT Strategy and is consistent with the IDB's Digital Transformation Readiness Assessment. The details of the DGP will be presented in the annual work plan and budget for the discussion.
- 3.15 **Sources for identifying projects will be broadened and processes streamlined.** As IDB Lab increases its focus through greater selectivity across several dimensions (See section II), it will need to further expand the pool of project ideas from which to select the most promising. A key measure to broaden the funnel of projects will involve launching innovation calls jointly with other parts of the IDB Group, particularly VPS and VPC, building on successful experiences such as "Better Together", "Beyond Tourism" and "Blue Tech Challenge", as well as with qualified external partners, such as leveraging World Economic Forum's "Uplink Platform". For investment prospects, IDB Lab will deepen existing networks and seek to refine and replicate the open call for venture capital funds, which in 2021 yielded more than 130 proposals until August, and the unified funnel for direct equities, which since its implementation in 2021 yielded more than 275 investment opportunities. A wider and more competitive sourcing model will be supported by a standardized and digitally enhanced screening tool capable of filtering proposals with the best strategic fit as well as making IDB Lab's sourcing channels more accessible to diverse groups of entrepreneurs, including underrepresented demographic groups and entrepreneurs in rural and remote areas.
- 3.16 **Portfolio management will be strengthened.** With the introduction of digitally enhanced processes, the portfolio management function will evolve beyond monitoring

³⁰ IDB Lab will provide an update on the roll out of its Digital Growth Plan in the upcoming work program and budget.

³¹ IDB Lab has been updating the Donors Committee about its digitalization efforts at different instances, including the 2019-2021 Business Plan, annual Work Program and Budget documents, and more specifically the 2020 report "Towards a Digital Growth Plan" (MIF/GN-253-1).

and reporting tasks, adding more sophisticated activities such as portfolio analysis. For instance, deep-dive analyses by project groups will enable a better understanding of success and failure factors in thematic verticals and specific instruments, which can lead to better future project selection and design in the future.³² IDB Lab will also consolidate a new function dedicated to managing “special assets” seeking to minimize financial losses, create liquidity, and workload burden in underperforming investment operations.³³

3.17 Financial returns will be optimized within the boundaries of the current mandate.

IDB Lab’s reimbursable portfolio has been evolving positively in line with maturing local markets and an increased understanding of new sectors and financing tools. For example, the Total Value to Paid-in (TVPI)³⁴ multiple for equity investments in VC funds, a measure of expected returns in equity investments, has been increasing by vintage, moving from 0.47 for investments made between 1995 and 2000, to 0.76 for investments made between 2001 and 2010, to 1.00 for investments made between 2011 and 2020, achieving break-even TVPI for the first time. This indicates that the most recent investments are on track to recovering capital and generating financial upside. With a revised investment approach, IDB Lab will seek to further accelerate this trend. A higher TVPI, coupled with a greater use of reimbursable products, is expected to boost future portfolio reflows.

3.18 Risk Management Framework as a core function. IDB Lab will continue with the roll

out and refinement of the new Integrated Risk Management Framework introduced in 2020, including new methodologies and risk tools with the purpose of having a better and segregated management of the types of risks faced as an innovation laboratory. An IDB Lab Risk Committee is in place as part of the new Integrated Risk Management Framework (IRMF) implementation to oversee risk management activities at the entity. Starting in 2022, the risk framework will include a specific module for managing financial risk categories for the IDB Lab projects. In parallel, IDB Lab will implement a revised Environmental and Social Management System (ESMS) to enable a full and consistent implementation of its E&S policy requirements. IDB Lab will provide an implementation status through quarterly reports.

3.19 IDB Lab’s decentralized leadership model will be enhanced. For the past two years, IDB Lab has been testing an organizational model based on decentralized leadership. Personnel from different units have formed self-driven regional circles that meet regularly to deepen expertise, share knowledge and connections, and coordinate operational activities. Such structures will be enhanced to also serve as a conduit for

³² These measures will help address the need to “strengthen IDB Lab’s ability to track and report results and to learn from its activities”, as identify by the recent OVE evaluation.

³³ IDB Lab established in 2020 a dedicated “Special Assets” function that began to centralize the management of underperforming operations. These operations require different and highly specialized skills to turn them around or to identify quick opportunities for monetizing or exiting. The decision to create this function is also part of the efforts to optimize the allocation of human resources, allowing investment officers to free up time for other critical activities. When the special asset function was created, a total of 17 operations were classified as underperforming. Today, four of these operations have either closed or monetized a portion of remaining assets, preventing further risks or losses to IDB Lab.

³⁴ Total value to paid-in (TVPI) multiple = (cumulative distribution + net asset value) / disbursed amount. TVPI multiple provides insight into the investment’s performance and expected returns by showing the investment’s total value as a multiple of the invested amount.

coordinating activities with other parts of the IDB Group, including, VPC, Country Offices, VPS, and IDB Invest.³⁵

III.3 Knowledge Management and Connections

- 3.20 **Knowledge management and connections will continue to be key drivers to amplify IDB Lab's impact.** To fulfill its mandate, IDB Lab should finance projects and generate and disseminate key learnings that help guide future innovation with greater reach, even when experiments fail. Using its convening power, IDB Lab can also play the role of a connector, creating linkages across a constellation of actors that are not likely to form spontaneously. IDB Lab's efforts in knowledge have been key in multiplying the impact of its financing, and facilitating the development and transformation of verticals, and even the creation of new markets in the past. That helps IDB Lab identify more opportunities to promote scaling up impact and to mobilize more resources.
- 3.21 **IDB Lab will continue to implement a knowledge management function that is better suited for an innovation laboratory.** Recognizing that the dynamics of extracting learning from innovations are substantially different from the ones observed before its transition into an innovation lab, and building upon the Knowledge Framework presented to Donors (MIF/GN-257), IDB Lab will continue to adjust its knowledge management function placing emphasis on four main objectives: (i) to set learning priorities as a way to better manage IDB Lab's knowledge management activities while making them more targeted, relevant, and impactful; (ii) to improve the learning processes throughout the operations cycle, particularly through the tools used in project supervision; (iii) to glean insights from IDB Lab's portfolio by better understanding its composition and studying groups of projects sharing common themes of strategic importance; (iv) to share knowledge more strategically as to amplify IDB Lab's impacts, by tapping into IDB Lab's networks of strategic partners and by sharing experiences among IDB Group colleagues. See Annex E for more details.³⁶
- 3.22 **Specific goals will be established for activities involving connections.** Beyond the overarching goal of advancing entrepreneurial ecosystems, IDB Lab will pursue connections activities with three goals in mind: (i) seeking opportunities for mobilizing core and catalytic capital; (ii) sourcing qualified project proposals; and (iii) identifying partnerships that can help bring innovations to scale and/or bring key learning and insights. Connections will therefore become a strategic tool to pursue other goals relevant to IDB Lab's future sustainability and to amplify the impact of its operations.
- 3.23 **Open innovation networks will continue to be a primary vehicle to generate impact at scale and accelerate innovation adoption.** Leveraging its convening power, IDB Lab will seek to strengthen existing and forging new networks with regional reach and global links. As demonstrated by the successful experiences of LACChain, fAIrLAC and WeXchange, open innovation networks can become a powerful lever for advancing new areas and identifying scalability and/or replicability paths for IDB Lab innovations. With

³⁵ Public-Private Sector Coordinators have already begun participating in IDB Lab's Regional Circles.

³⁶ The most recent OVE evaluation on IDB Lab's strategic relevance stresses the importance of strengthening knowledge creation and learning and creating a "systematic approach to defining what kind of knowledge should be generated and disseminated" (MIF/RE-5-6).

greater focus, IDB Lab will also look for synergies across its different open innovation initiatives, and with flagship events such as IDB Lab Forum.

III.4 Joint Value Creation with the IDB Group

- 3.24 IDB Lab will move beyond synergies and towards a more organic collaboration model with the rest of the IDB Group.** IDB Lab will consolidate its role as the conduit between the entrepreneurial ecosystems and the needs of the IDB Group, also partnering up with other parts of the Bank to help boost experimentation in the design of IDB Group projects and initiatives and embed innovation to further increase the value proposition to its clients. To that end, while significant synergies are being created, the next phase will seek to establish a more organic model of collaboration. This would involve a better integration of programming efforts between IDB Lab and the rest of the IDB Group prior to strategic dialogues with each country, where specific goals can be defined ex-ante based on areas where IDB Lab can clearly add value in alignment with the IDB Group's Country Strategy. Such coordination would also facilitate a more coherent innovation framework that articulates how different areas of expertise across the IDB Group can work together along the innovation process.³⁷ IDB Lab's tracking and measurement of concrete results deriving from IDB Lab's cooperation with the rest of the IDB Group will be further refined (see paragraph 4.9).
- 3.25 With IDB Invest, IDB Lab will seek to expand the product offering to the private sector along a continuum of risk and client maturity.** By focusing on early-stage businesses and risk-tolerant financing, IDB Lab complements the offering of IDB Invest, which targets larger clients, more mature industries, or clients with a different risk profile. IDB Lab's focus on poverty, vulnerability and inclusion will also provide IDB Invest with a pipeline of impact-curated companies, with high social and environmental potential. This combination enriches the product offering to the private sector and allows the generation of internal synergies. For example, an increasing number of IDB Lab innovations are being scaled up by IDB Invest³⁸. These opportunities will continue to be encouraged through a more systematic sharing of pipelines and coordinated programming between both entities. Collaboration opportunities will also be sought in other areas such as digitalization, opening up relationships between entrepreneurs (IDB Lab clients) and corporates (including IDB Invest clients) through initiatives such as impact-oriented "corporate venturing", testing new financing tools, gleaning insights from emerging industries, sharing analytical efforts in sectors of common interest, and devising joint mobilization mechanisms. IDB Invest can also leverage technologies accelerated by IDB Lab, including blockchain through LACChain, which can advance multiple applications.
- 3.26 With the IDB's public sector arm, IDB Lab will seek to identify and harness entrepreneurial innovations that improve quality and access to public services.** This will involve expanding and/or launching joint challenges around areas of common

³⁷ The most recent OVE evaluation on IDB Lab's strategic relevance confirms that "IDB Lab has significantly increased its collaboration efforts with the rest of the IDB Group" but stresses the importance of establishing a clear overarching vision of how the functions of IDB Lab and the rest of the Group are supposed to complement and add value to each other (MIF/RE-5-6).

³⁸ At least 10 companies invested directly or indirectly (via VC funds) by IDB Lab were scaled up by IDB Invest. IDB Lab can provide more details on each of these cases upon request.

interest such as migration³⁹, silver economy, essential services, gender & diversity and climate change and fostering “govtech” as a path to scale up solutions through the public sector.⁴⁰ IDB Lab will also seek closer coordination with existing innovation initiatives led or supported by IDB’s public sector arm, where entrepreneurial solutions can be piloted and tested by IDB Lab in real life context.⁴¹ It will also keep a fluid dialogue with relevant IDB areas on regulatory or policy-related bottlenecks affecting entrepreneurship, as well as on how entrepreneurial innovation can boost sustained growth and poverty reduction in conjunction with IDB’s work in different sectors⁴² and how it can support enhanced transparency, institutional capacity and the rule of law. Likewise, it will strengthen the coordination with Country Managers and Representatives to: (i) further align IDB Lab’s project sourcing and pipeline with key country priorities, (ii) coordinate scaling and replicability opportunities within and across countries, (iii) disseminate knowledge deriving from projects and studies at the local level, as well (iv) identify joint resource mobilization opportunities and design joint initiatives that include an innovation component that can be implemented by IDB Lab.

IV. OUR IMPACT

- 4.1 IDB Lab has substantially met most of its targets for the 2019-2021 period.** Following the operational and strategic guidelines established in the 2019-2021 Business Plan (MIF/GN-235-3), IDB Lab approved a total of 216 projects during the first two years of the period, deploying nearly US\$163 million from its own funding and US\$42 million in core mobilization, twice as much as the average for the 2017-2018 period. IDB Lab also mobilized nearly one billion dollars in indirect (or catalytic) funds. IDB Lab performed well regarding its strategic alignment approval objectives: 61% of approved projects targeted poor and vulnerable populations; 29% addressed climate change; 57% addressed gender; and 28% addressed diversity. IDB Lab improved markedly in its capacity to scale, with 32% of projects scaled in 2019-2020, compared with 22% in 2017-2018. Portfolio projects generated the following direct results: improved the performance of 46,000 smallholder farmers, improved living conditions from 1.3 million households, and helped create a total of 220,000 new jobs.
- 4.2 IDB Lab had a central role in the IDB Group’s prompt response to the pandemic.** As the Region began to be ravaged by a health and economic emergency, IDB Lab took a sequence of agile responses. In April 2020, it launched an open innovation call for

³⁹ Migrant populations can benefit from IDB Lab’s work along the five thematic priorities. In fact, IDB Lab has worked hand in hand with the Migration Unit (SCL) developing a joint work approach that we have called [MIGnnovacion](#), which frames the profile of the projects that IDB Lab promotes in support of these populations.

⁴⁰ As of today, there are over 40 initiatives of collaboration between IDB Lab and other sectors, including SCL, INE, IFD, CSD, and RES.

⁴¹ In recent years, various IDB departments have launched theme-specific innovation initiatives, mostly focused on technical assistance and/or research projects geared towards informing public policy or complementing existing lending. IDB Lab could help boost such efforts through entrepreneurship and by testing market-based solutions with public sector applications, serving as the conduit between the entrepreneurial ecosystem and public sector needs.

⁴² IDB Lab’s work with VPS includes not only all five thematic priorities and cross-cutting themes, but also other topics of cooperation (such joint work to increase LAC’s knowledge-based services exports).

prototype solutions to address Covid-19, which yielded more than 500 proposals from IDB Lab's wide network of entrepreneurs, accelerators, and venture funds. A total of 20 health prototypes were approved and others disseminated for external support. IDB Lab also partnered with the corporate sector to launch INTEcGRA, a window to support digital and tech-enabled solutions for the continuity and resilience of vulnerable small businesses, which identified more than 90 ideas and approved six. A third initiative was BeyondTourism, which identified innovations to revitalize the tourism sector in the Caribbean and Central American region. IDB Lab also created a quick-deployment credit line to support businesses in its own portfolio affected by the pandemic (LIFESS), and partnered with Google to enhance LOCFUND Next, a platform for local currency lending focusing on micro and small businesses. IDB Lab also launched a major credit facility in Central America and invested in innovative health companies involved in both preventing contagion and improving medical treatment to Covid-19 patients. Other initiatives involved the use of deep tech and innovative analytics to enhance public health and crisis management systems, alongside other parts of the IDB Group.

- 4.3 **The pursue of IDB Lab's two overarching development goals will be monitored according to the currently established KPIs, with potential adjustments in the future.** For the remainder of MIF III, IDB Lab will retain the targets and key indicators (as detailed in the latest presentation on Indicators and Portfolio Results, MIF/GN-262), which are overall aligned with the impact narrative presented in section II. As in previous years, IDB Lab may consider proposing adjustments if required, including potentially revising selected KPIs to simplify IDB Lab's framework of indicators⁴³. IDB Lab will continue to maintain existing approval targets on climate, gender, diversity and poverty and vulnerability. It will also maintain its approvals commitment and approach to C&D and S&I countries.
- 4.4 **IDB Lab will consolidate an end-to-end impact management framework.** The current results architecture, developed together with the Development Effectiveness Division of IDB Invest (DVF), which has been initially rolled out in 2017, has four main objectives along the project cycle: (i) support the selection and preparation of highly innovative operations with the greatest potential for development impact, replication/scale, and resource mobilization; (ii) monitor results to facilitate decision-making both at the operation and portfolio levels; (iii) facilitate knowledge generation and dissemination; and (iv) ensure accountability and timely and transparent reporting to stakeholders. Along with DVF, IDB Lab will enhance the current approach to focus more heavily on capturing data during implementation to glean richer data on results and impact. This end-to-end framework continues to be highly relevant and will be bolstered with an emphasis on the following areas. Key improvements expected in the next two years are described below.
- 4.5 **Refinement of iDELTA in light of 2022-2023 Business Plan priorities.** IDB Lab will refine the iDELTA to the proposed areas of focus of the new business plan. In the next years IDB Lab will focus around four key dimensions: (i) type of innovation: focus on entrepreneurial solutions; (ii) innovation maturity: focus on the early phases of

⁴³ As suggested in the preliminary report presented by the Office of Evaluation and Oversight (OVE) to Donors Committee on June 16th, 21021 (Phase I of IDB Lab's 2021 evaluation), as in paragraphs 3.26 and 3.27.

innovation along the entrepreneurship cycle; (iii) intended impact: focus on leveraging entrepreneurial innovation to empower poor and vulnerable populations and to activate new and sustainable engines of growth; and (iv) five specific thematic priorities (verticals) and cross-cutting agenda. Most of these dimensions are included in the iDELTA and, the ones that are not, can be easily included with minor adjustments.

- 4.6 **Strengthening supervision instruments.** Data collection today leans heavily at the approval stage through the iDELTA, with portfolio supervision instruments focusing on tracking implementation and managing risk with limited measurement of results and knowledge during implementation. To strengthen data collection and management during supervision, the iDELTA will be integrated with the Project Status Report (PSR) and Project Status Update (PSU), which will update key metrics defined during design based on actual results achieved. This will also involve revamping the PSR/PSU and integrating other tools such as the annual client survey into a more systematic supervision process. Once the tracking of key dimensions, such as innovation, scalability/replicability, and results are integrated into the PSR/PSU, IDB Lab will be able to analyze scores and identify trends, bottlenecks, and key performance drivers, which will help to further strengthen portfolio management.⁴⁴
- 4.7 **Increased focus on measuring development results.** To fully assess impact and gain deeper insights on organizational performance, IDB Lab will begin collecting more data on project outcomes during design, implementation and at closing, including scaled and replicated operations to the extent possible. Emphasis will be placed on measuring the two overarching development goals established for the next two years: (i) empowering poor and vulnerable populations, and (ii) activating new and sustainable engines of growth. This will entail extracting more granular data on poverty and vulnerability, adjusting supervision instruments to better verify direct and indirect pathways to reach these target populations, and generating evidence on how projects are contributing to improve productivity, reactivate the private sector, and/or address climate change and the environment.
- 4.8 **Piloting depth of impact assessment.** IDB Lab will pilot a depth of impact assessment to identify and measure social, environmental, and economic benefits that are longer term or broader in scope than those captured by IDB Lab's normal supervision instruments. These assessments will go beyond the outputs and results typically related to the improved access to good and services for groups targeted, focusing on results such as reduced poverty, improved earnings, climate resilience, improved health and education status, or other impacts related to IDB Lab's mission. To gain experience in this area, IDB Lab's depth of impact will be assessed ex-post initially on a small sample of operations that have reached early scaling stage and/or confirmed a strong potential for scaling or replication during supervision. The methodological approach to these assessments will vary depending both on the characteristics of the specific operations and the available evidence of effectiveness in the relevant topic area.

⁴⁴ The most recent OVE evaluation on IDB Lab's strategic relevance recommends strengthening results tracking, with an emphasis on tools and systems that can consistently aggregate and communicate information on implementation progress and results, as well as the drivers behind success and failure of the types of operations IDB Lab supports (MIF/RE-5-6).

- 4.9 **Continue using the IDB Group's Corporate Results Framework to highlight IDB Lab's value added.** Communicating the direct and indirect IDB Lab's contributions to the IDB Group's strategic priorities is fundamental to fully understand IDB Lab's value. Beyond specific joint projects, IDB Lab often generates deal flow for IDB Invest, and/or enhances initiatives implemented by IDB's public side. This value is not fully captured by IDB Lab's KPIs, even though they are aligned with the IDB Group's CRF. Moving forward, IDB Lab will seek to reflect its distinctive role within the IDB Group and in the Region in the CRF. This will add greater context to the "rolling-up" approach, in which IDB, IDB Invest, and IDB Lab report to a common CRF. In some instances, such as scaling, IDB Lab will continue to develop separate sets of indicators, to measure the specific nature of the Lab. IDB Lab will also develop new ways to capture the degree of synergies between IDB Lab and the other parts of the IDB Group. These measurements will expand from the current approach of "deployment of funds jointly with IDB and IDB Invest", to include the number of IDB and IDB Invest projects and initiatives to which IDB Lab has contributed, through both its portfolio of projects and companies, and through its own efforts on knowledge and connections.
- 4.10 **Digitization and integration of the impact management framework.** To be efficient and operational, the impact management framework needs to be comprehensive and end-to-end, with fully digital and user-friendly tools and data safely saved in a single repository. For this reason, the digitization and integration of the Impact Management Framework's tools will be prioritized in the Digital Growth Plan that will be rolled out in the next two years. This includes the digitization and integration of the iDELTA (ex-ante and during implementation), PSU and PSR, results matrices, and client data collection tools. This will allow for better management of the data collection process, improvement in the quality of the data, more timely data reporting, and a seamless experience for clients. Currently IDB Lab's data collection process is conducted annually with supervision reports taking between 4 and 5 months to complete, from the release of client surveys to the analysis and reporting of results. This limits IDB Lab's capacity to harness information for decision-making and to pivot innovations in a more agile way.
- 4.11 **Harnessing data to strengthen learning loops.** As an innovation laboratory, IDB Lab needs to have efficient learning loops that ensure lessons from both successful and failed innovations are fed into the design of new operations. By revamping the PSR/PSU and codifying information generated during supervision into a score (i.e., iDELTA in supervision), IDB Lab will be able to identify patterns during project implementation and glean valuable insights from the different dimensions assessed by the iDELTA. For example, what types of projects reach larger scale; which projects are most successful at replicating in other geographies; how technology helps projects reach target populations; what type of executing agencies are more successful at implementing innovations, etc. A richer set of data would also allow IDB Lab to carry out deep-dive analyses on specific project groups to identify key success or failure factors.