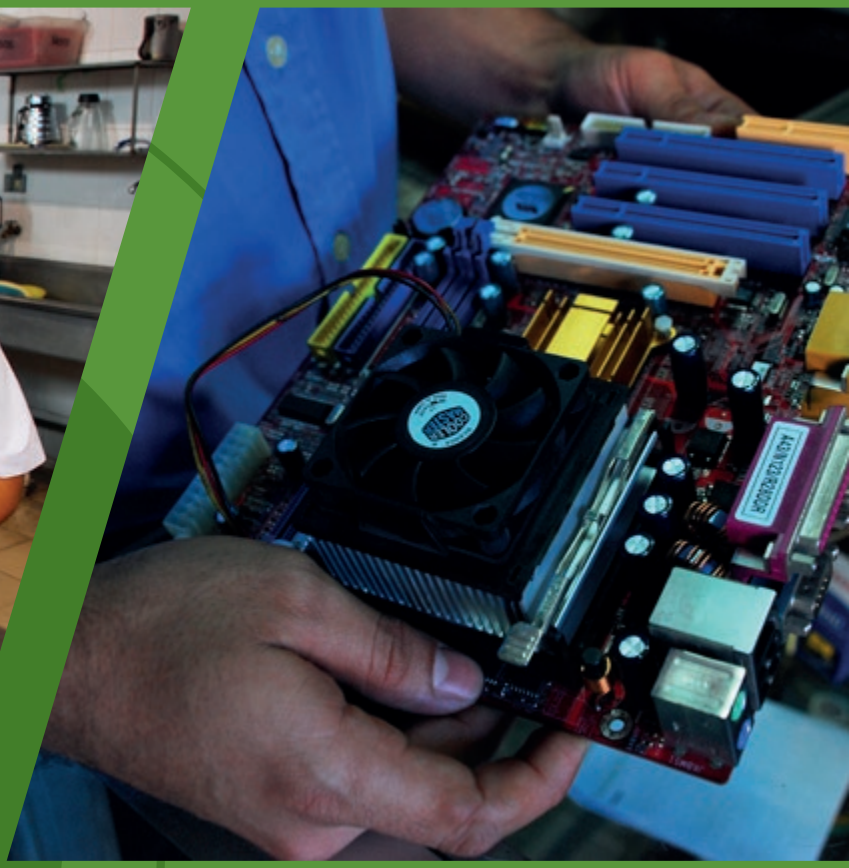
ove Office of Evaluation and Oversight



Corporate Evaluation

Evaluation of IDB Lab: Strategic Relevance

IDB IDB | LAB

© **Inter-American Development Bank, 2021**
Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

MIF/RE-5-5
June 2021

Corporate Evaluation

Evaluation of IDB Lab: Strategic Relevance

Office of Evaluation and Oversight

IDB Inter-American Development Bank

IDB | LAB

Contents

Acknowledgements

This document was prepared by a team composed of Ulrike Haarsager (Team Leader), Claudia Figueroa García-Huidobro, Chiaki Yamamoto, Fernando Barbosa, Anna Funaro Mortara, Galia Rabchinsky, Melanie Putic, Stefania De Santis, and the external consultants Frank Hoekman, María Cristhina Llerena, Luis Valenzuela, and Roland Michelitsch, under the overall supervision of Ivory Yong-Protzel (OVE Director) and Monika Huppi (Principal Advisor).

Acronyms and Abreviations

ADB	Asian Development Bank
CDF	Disruptive Technologies and Venture Capital Department of the IFC
COF	Country office
CRF	Corporate Results Framework
CS	Country Strategy
CSA	Climate-Smart Agriculture
CSD	Climate Change and Sustainable Development Division
CTI	Competitiveness Technology and Innovation Division
DIV	Development Innovation Ventures
EBRD	European Bank of Reconstruction and Development
GIF	Global Innovation Facility
HQ	Headquarters
ICI	Inclusive Cities
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IIC	Inter-American Investment Corporation (now IDB Invest)
IsDB	Islamic Development Bank
KEC	Knowledge Economy
KIC	Innovation and Communications Sector
KPI	Key Performance Indicators

LAC	Latin America and the Caribbean
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund (now IDB Lab)
ORP	Office of Outreach and Partnerships
OVE	Office of Evaluation and Oversight
R&D	Research and Development
SEP	Social Entrepreneurship Program
SPH	Social Protection and Health Division
TC	Technical Cooperation
UIS	Update to the Institutional Strategy
VC	Venture capital
VPS	Vice Presidency for Sectors

Preface

This report presents the findings of the first phase of an evaluation of IDB Lab, which until 2018 was known as the Multilateral Investment Fund (MIF).[1] The mandate for this independent evaluation stems from the second capital replenishment of the MIF (MIF III), which was approved by MIF Donors in April 2017 (document AB-3127) and became effective in March 2019. The Agreement Establishing the MIF III (document AB-3132-1) lays out the expected functions of the Fund and establishes that, any time after the first anniversary of the MIF III, IDB's Office of Evaluation and Oversight (OVE) is to conduct an independent evaluation to:

i. Review MIF results in light of the purpose and functions of the MIF III Agreement;

ii. Assess MIF operations for relevance, effectiveness, efficiency, innovation, sustainability, and additionality.

iii. Determine to what extent progress has been made on implementing the approved recommendations of OVE's 2013 evaluation of the MIF.[2]

Donors requested that OVE deliver an evaluation of IDB Lab in 2021 to inform discussions about the Lab's future and funding model. As a result, OVE included this evaluation in its 2020/2021 work program (document RE-543-2) and developed an Approach Paper (Annex V) issued in October 2020.

OVE is conducting the evaluation in two overlapping phases. The first phase, conducted from April 2020 to May 2021, evaluated the relevance of IDB Lab's mandate, strategic focus, and corporate setup. Its findings are presented in this report. A second phase of the evaluation, currently ongoing, evaluates IDB Lab operations. Conducting the evaluation in two phases enables OVE to offer, in a timely manner, findings to inform the 2021 discussions. The main

1 Throughout this evaluation, the terms MIF and IDB Lab are used interchangeably.

2 The language of the Agreement states: "Any time after the first anniversary of the MIF III Effective Date, and at least every five years thereafter, the Donors Committee shall request an independent evaluation by the Bank's Office of Evaluation and Oversight, payable with resources of the Fund, to review Fund results in light of the purpose and functions of this MIF III Agreement; this evaluation shall continue to include an assessment of the results of project groups, based on benchmarks and indicators, for aspects such as relevance, effectiveness, efficiency, innovation, sustainability and additionality, and progress with regard to the implementation of recommendations approved by the Donors Committee." (document AB-3132-1, Article IV, Section 5).

disadvantage of this approach is that the first report has not fully assessed to what extent the Lab's strategic focus and corporate setup allow it to meet its mandates through its operations.

In the first phase, OVE conducted an analysis based on a desk review of relevant documents; interviews with IDB Lab, IDB, and IDB Invest staff and Management, and with peer organizations; surveys of Donors and IDB Group staff, including Country Representatives; as well as interviews and surveys with external innovation ecosystem actors in Latin America and the Caribbean (LAC). In this first phase, OVE did not contact IDB Lab clients, as this will be a part of evaluating operations in the second phase.

This is OVE's third independent corporate evaluation of the MIF requested by Donors. OVE's first evaluation, presented in 2004 (document MIF/GN-78-18), analyzed MIF activities since 1993. The evaluation found that the MIF's operations were relevant, and its activities most successful when they reached a critical mass of resources in the same line of action as opposed to being spread too thin across initiatives. Over 80% of evaluated projects introduced elements of innovation. Replicating and scaling, however, remained a challenge. The evaluation suggested that the MIF's key comparative advantages included its exclusive focus on private sector development, its focus on innovation, its tolerance for failure, and its network of key institutions. Based on these findings, OVE identified several strategic and operational opportunities for improvement. At the strategic level, OVE suggested that MIF strengthen its role as a laboratory, prioritize high-impact clusters, tailor instruments to market needs, align incentives to expected results, promote competition for MIF funds, and leverage partners. At the operational level, the MIF was advised to improve its identification of risks and its project preparation and implementation, and to better align the incentives for successfully preparing and executing projects.

The OVE's second evaluation of the MIF (document MIF/RE-2-4) was presented to the Donors Committee in 2013. Covering the period 2005–11, the evaluation found that the MIF's portfolio was on the one hand well-aligned with its mandate to promote growth but on the other hand had yet to find effective ways to meet its poverty reduction mandate; and any benefits beyond its immediate beneficiaries were mixed. The evaluation also noted that, while the MIF had strengthened its experimentation and knowledge functions, these were not yet integrated into the objective of scaling up interventions to produce a greater systemic impact. The MIF's early success with the microfinance industry was not replicated in other areas of MIF's engagement, although it was able to promote the market for venture capital and early-stage equity. The donors endorsed the evaluation's five recommendations for the MIF: (i)

implement a corporate results framework, ensuring that it preserves the MIF's flexibility to innovate; (ii) better define the MIF's strategy for targeting low-income beneficiaries and promoting poverty reduction; (iii) further specify and clarify the role of the public sector in scaling up innovation; (iv) strengthen the tracking of implementation and results; and (v) better define and strengthen the MIF's role as a knowledge broker.

This third evaluation analyzed the extent of progress toward implementing these recommendations.

Executive Summary

Background

This report presents the findings of the first phase of an IDB Lab evaluation. Known until 2018 as the Multilateral Investment Fund (MIF), IDB Lab is the main window through which the IDB Group supports private sector innovation, directing IDB grants, loans, and equity investments to firms and other entities in Latin America and the Caribbean (LAC) to support scalable innovations and provide opportunities for poor and vulnerable populations. It approves about 85 operations each year, with an average investment or grant size of US$1.2 million. Established in 1992, IDB Lab is a trust fund with its own governance system, including a Donors Committee comprising 40 donor country representatives. It is primarily funded through periodic replenishments of its capital by Donors. For the most recent replenishment (MIF III) Donors agreed to contribute US$311.7 million in fresh resources—about 50% (in real terms) of the previous replenishment—which are projected to be mostly depleted by 2023. The Agreement (document AB-3132-1), which became effective in 2019, also mandated this evaluation, the third OVE carries out on the MIF. Donors requested that OVE deliver its evaluation in 2021 to inform discussions about the future and funding model of IDB Lab currently taking place.

Evaluation approach and scope

To offer timely findings, OVE decided to conduct the evaluation in two overlapping phases. This first phase was conducted from April 2020 to May 2021. It covers the relevance of IDB Lab's strategic focus and corporate setup. Its analysis involved a desk review of relevant documents; surveys sent to Donors, IDB Group staff, including Country Representatives; and interviews with IDB Group staff and Management, as well as with peer organizations. In addition, OVE used findings of a paper on innovation ecosystems in Latin American and the Caribbean (LAC) commissioned for this evaluation, which included interviews with and surveys of external innovation ecosystem actors. The second phase of OVE's evaluation will evaluate IDB Lab operations. In this first-phase report, therefore, OVE does not assess to what extent IDB Lab's strategic focus and corporate setup have in fact resulted in operations that reflect the Lab's mandates, and which are relevant, efficient, effective, sustainable, innovative, and

additional. The final report, to be presented to Donors in the last quarter of 2021, will combine the findings of both phases to offer overarching conclusions and recommendations.

Main findings of the first evaluation phase

a) Mandates and focus

Public sector support for innovation in the LAC region is necessary if the region is to reach optimal levels of innovation. Despite funding from national and international sources, sizable financing gaps remain. Multilateral development institutions, such as the IDB Group, can support innovation that addresses development and poverty-reduction issues central to their mission. They can also nurture promising solutions before these are eligible for more traditional MDB financing. IDB Group support to innovation thus has the potential to add value.

IDB Lab's mandates allow for various, in some cases conflicting, interpretations of what IDB Lab's strategic focus and business model should be. The mandates established in the context of the MIF III replenishment are vague and present tensions and contradictions regarding what IDB Lab's business model should be. IDB Lab is expected to support scalable private sector innovations that create opportunities for poor and vulnerable populations despite the challenges that scaling innovations through the private sector have been shown to face when focusing on lower-income segments. IDB Lab is mandated to support and showcase innovations that can be scaled, even though its mission implies that it will intervene before any scale-up usually occurs. Innovations are supposed to scale through the IDB Group, despite the practical challenges and extensive coordination this scaling path entails. Tasked to experiment and take risks, the Lab is also supposed to be alert to financial sustainability. Taken together, these mandates can pull IDB Lab into too many conflicting directions for it to be effective unless Management establishes clear priorities to focus its interventions.

b) Corporate focus, setup, and resource use

Yet, IDB Lab has established a strategic focus that is too broad to offer effective operational guidance. IDB Lab has three thematic areas—inclusive cities, climate-smart agriculture, and knowledge economy—in addition to cross-cutting topics that pertain to gender, diversity, and environmental and social sustainability. Within these three thematic areas, IDB Lab Management recently prioritized technology-based and transformative innovation, as well as support to emerging ecosystems. It has not, however, provided clarity about lines of action to be phased out, nor elaborated guidance on how to overcome the digital divide to allow the poor and vulnerable to actually benefit from the technology-based innovations. The lines of

action proposed under the Lab's thematic areas are aligned with its mandates. Taken together, however, they cover too many different and broad areas to provide effective operational guidance and avoid a dispersed portfolio of limited impact in any one area—an issue also noted in OVE's prior evaluations. Moreover, adding to the already complex mandates issued by MIF III, IDB Lab has committed to additional targets concerning the geographic coverage of its operations, which are not clearly reconciled with some of its mandates and can further contribute to portfolio dispersion. Many areas of IDB Lab's strategic focus would benefit from more detail on how they address the heterogeneous needs of the region to ensure additionality and complementarity with other actors in the LAC innovation ecosystems.

IDB Lab needs to strengthen results tracking, knowledge creation, and learning. The defining characteristic of a lab is that it determines and demonstrates what works and what does not work. Yet, a majority of IDB Lab staff surveyed and Management interviewed believe the Lab is not organized to extract lessons from its operations in an effective and systematic way. IDB Lab prepares detailed ex-ante assessments of expectations which are not followed up on during implementation. It generates data on results indicators that do not meaningfully express the success or failure of the operations the Lab supports, at the stages during which it supports them. A new knowledge framework, presented in March 2021, intends to strengthen learning from operations but is still too broadly focused to guide decisions on the effective use of IDB Lab's limited resources for knowledge activities. While there are plans to improve IDB Lab's tools and systems, they are still ill-suited to aggregate and communicate information on implementation progress and results, or on the drivers behind success and failure of the types of operations IDB Lab supports.

IDB Lab's role within the IDB Group still requires better definition. IDB Lab has significantly increased its collaboration efforts with the rest of the IDB Group, for example, by coordinating at the management level, bringing other IDB Group specialists into IDB Lab operations, and creating opportunities for colleagues to network across specialties. IDB, IDB Invest and IDB Lab staff and Management highlight the beneficial aspects of collaboration. But not all collaboration efforts are perceived as equally efficient and effective, and the added value of, and incentives for, collaboration are constrained by insufficient clarity on IDB Lab's role and priorities. The creation of several other innovation laboratories by IDB furthermore prompts the need for the IDB Group to carefully examine to what extent the current organizational setup to innovation is adequate.

IDB Lab has cut its workforce and administrative spending, but it is difficult to determine whether current levels are optimal. In line with Donors' request that IDB Lab seek more efficiencies, the

Lab reduced its administrative budget by 22% compared with 2014; spending from additional funding sources was cut by 67%; and full-time equivalent (FTE) staff and consultant positions fell from 195 in 2015 to 91 in 2020. IDB Lab also sped up project preparation. Budget and staff cuts improved efficiency metrics, such as the number and amounts of operations per staff. Data limitations and the absence of relevant benchmarks, however, prevent an assessment of whether these metrics are adequate for optimal performance. Many Lab staff report workloads that prevent them from consistently performing their tasks well, although OVE has no data to put these results into context and to know if this issue is specific to IDB Lab. There are insufficient data to determine to what extent service provision through service agreements with the rest of the IDB Group has produced cost savings for IDB Lab. Albeit heterogeneous, satisfaction with the new service agreements is on average high.

The increased share of reimbursable operations raises expectations for higher future reflows, but their magnitude is uncertain. Loans and equity investment (L&E), classified as "reimbursable" products, have accounted for half the approvals since mid-2016. Any reflows from increased reimbursable operations allow the Lab to invest resources in more operations than providing grants alone, but generating them will take time and their magnitude is uncertain. In the short term, IDB Lab's ability to use its income for financing its expenses is also constrained by the need to provision for rising L&E disbursements, and L&E operations have historically generated negative (E) or low (L) returns. IDB Lab has made progress toward establishing a more comprehensive approach to understanding the risks it takes, but shortcomings in its systems and processes pose operational risks.

The efficiency and effectiveness of IDB Lab's governance structure merits further analysis. The Donors Committee comprises 40 chairs who approve almost every individual operation, either in meetings or by nonobjection, and oversee IDB Lab. Compared to most of its peers, IDB Lab's governing body is larger, more resource-intensive, and more involved in day-to-day operations. Despite some recent improvements, OVE interviews, surveys, and analysis suggest that a review is merited of whether and how the setup, responsibilities, and processes of the Donors Committee can be further streamlined to increase efficiency and enable Donors to better focus on strategic oversight.

c) Implementation of previous OVE recommendations

IDB Lab has made limited progress on the recommendations issued by OVE's previous evaluation of the MIF. Following the evaluation, Management identified a series of actions to address the issues raised by the recommendations, but their implementation was halted after 2015. This evaluation finds that OVE's recommendations have only

been partially addressed. OVE's first recommendation—to create a corporate results framework that preserves IDB Lab's ability to innovate—is implemented in the form of IDB Lab's system of key performance indicators (KPIs). Its usefulness, particularly for the reporting of meaningful results, is however limited. OVE's second recommendation—to better define IDB Lab's strategy for targeting low-income beneficiaries—is reflected in parts of its thematic focus areas which identify interventions that can potentially benefit low-income populations. There is, however, no formal guidance on how to select and design interventions that overcome the digital divide which can prevent technology-based innovations from reaching the poor and vulnerable. OVE's third recommendation—to further specify and clarify the role of the public sector in scaling up innovation—continues to apply as new innovation labs to address government innovation needs have been created within IDB and the public sector scaling path through IDB operations presents practical challenges. Most aspects of OVE's fourth recommendation—to strengthen the tracking of implementation and results—can only be assessed in the second evaluation phase, but IDB Lab's reporting of results at the aggregate level still presents significant weaknesses. Similarly, some aspects of OVE's fifth recommendation—to strengthen IDB Lab's role as a knowledge institution—can only be fully assessed when OVE reviews IDB Lab's knowledge products in more detail. At the strategic level, IDB Lab's knowledge activities still need further focusing to determine what activities to direct its limited resources to.

d) Next evaluation phase

OVE will combine the findings of both evaluation phases to offer overarching conclusions and recommendations. The second phase of the evaluation, now underway, aims to shed light on the extent to which the IDB Lab's operations reflect the Fund's mandates and its strategic priorities, and to present insights on their effectiveness, efficiency, additionality, sustainability, and innovativeness. The combined findings of both phases will allow OVE to offer conclusions and recommendations it its final report, expected to be presented to Donors in the last quarter of 2021.

01

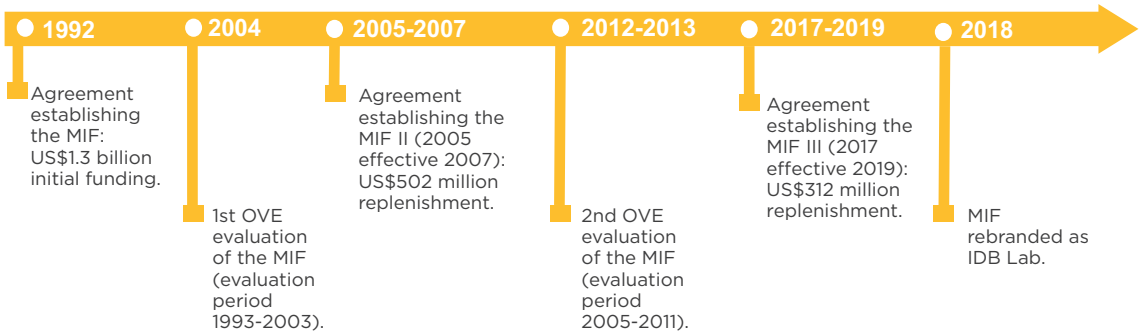
Background

1.1 The MIF, now called IDB Lab, is the main window through which the IDB Group supports private sector innovation. Originally established in 1992, the MIF is a trust fund with its own governance system[1] including a Donors Committee. Comprising 40 donor country representatives, the committee meets regularly to approve operations and discuss and decide on corporate and strategic matters. It is administered by a dedicated department of about 90 staff and consultants within the IDB and has approved an annual average of 85 operations with average investment or grant size of US$1.2 million[2] during recent years. IDB Lab can apply IDB and/or IDB Invest policies to its operations but is mandated to do so only "where appropriate."[3] Over the course of its two replenishments (Figure 1.1), IDB Lab's mandates have gradually shifted from private sector reform and micro- and small enterprises toward private sector innovation and providing opportunities for poor and vulnerable populations.[4] IDB Lab provides funding or other support either directly to innovative firms or solutions, or indirectly through intermediaries such as funds or financial institutions. It also aims at strengthening of support systems that allow innovations to flourish by financing, connecting, or otherwise supporting various actors within these ecosystems.

Figure 1.1

Key dates in MIF/IDB history

Source: OVE elaboration.



Note: The relevant documents are: Agreement Establishing the MIF (document CV-38), OVE's First Independent Evaluation of the MIF (document MIF/GN-78-18), Agreement Establishing the MIF II (document AB-2346-5), OVE's Second Independent Evaluation of the MIF (document MIF/RE-2-4), Agreement Establishing the MIF III (documents AB-3132 and AB-3132-1).

1 The MIF's member countries differ slightly from those of IDB and IDB Invest. While all MIF Donor countries are also members of IDB, some IDB and IDB Invest member countries are not IDB Lab Donors.

2 Amounts refer to operations financed with MIF capital only. The MIF has also administered the Social Entrepreneurship Program (SEP) funded by IDB ordinary capital, under which it has recently approved an annual average of nine operations for a total of US$4.8 million.

3 Agreement establishing the MIF III (document AB-3132-1, Article III, Section I).

4 For the evolution of the MIF's mandates, see the Approach Paper for this evaluation (Annex V).

A. Evaluation rationale and approach

1.2 The purpose of this evaluation is to provide Donors and IDB Lab Management with an assessment of the extent to which IDB Lab is on track to meeting its objectives as set out in the MIF III Agreement. While it has been only about two years since IDB Lab's last replenishment (MIF III) became effective, the Fund's current strategic direction was adopted in mid-2016 in anticipation MIF III, which was approved in 2017. Furthermore, strategic discussions about IDB Lab's future, scheduled for 2021, require taking stock of the Lab's direction. In order to release early findings on IDB Lab's strategic relevance—as requested by Donors and outlined in the Approach Paper for this evaluation (Annex V), OVE is conducting a two-phased evaluation. In the first phase, the findings of which are presented in this report, OVE focused on evaluating IDB Lab's mandates and assessing whether IDB Lab is organized and oriented in a way that guides and enables it to meet them. The second phase of the evaluation, which OVE expects to deliver before the end of 2021, assesses to what extent the operations approved under the MIF III strategic focus and their results to date reflect IDB Lab's mandates and put the organization on track to meeting its strategic objectives. Table 1.1 below describes which of the evaluation questions outlined by the Approach Paper will be addressed by the following chapters of this report.

Table 1.1. Report structure and evaluation questions

Report section	Evaluation questions
Chapter II	• To what extent do IDB Lab's mission and mandates respond to development needs of LAC? (Section II.A). • What organizational approaches have been taken by organizations with similar mandates? (Section II.B). • To what extent do IDB Lab's **mandates** (which guide its strategic focus) provide IDB Lab with the guidance to deliver activities and outputs in a way that will allow it to fulfill its mission to accelerate development through innovative private sector solutions that improve lives, especially those of the poor and vulnerable? (Section II.C).
Chapter III	To what extent does the **corporate setup** and strategic focus adopted by IDB Lab provide IDB Lab with the ability, guidance, and incentives to deliver activities and outputs in a way which will allow it to fulfill its mission to accelerate development through innovative private sector solutions that improve lives, especially those of the poor and vulnerable? Including: • To what extent does the strategic focus adopted by IDB Lab reflect IDB Lab's mission and theory of change? (several sections, Chapter III). • To what extent does IDB Lab's Development Effectiveness Approach (including its Results Framework, the iDELTA, and other related tools and documents) reflect IDB Lab's mission and theory of change? (Section III.B.1.c). • To what extent, and how, does IDB Lab align with and complement the activities and operations of the rest of the IDB Group? (Section III.B.1.e). • How does IDB Lab complement what other participants offer in the broader ecosystem of financing for innovation in LAC? (Section III.B.1.f). • To what extent is IDB Lab's organizational and incentive structure (in terms of governance, organization, processes, systems, and human and financial resources) conducive to IDB Lab reaching its mission through its theory of change? (Section III.B.2). • What approaches have been taken by organizations with similar mandates? (several sections, Chapter III).

Chapter III (Cont.)	To what extent does **IDB Lab's portfolio of operations** at the aggregate level reflect IDB Lab's mission and theory of change? How has it evolved over time? Including: • How have IDB Lab operations evolved (in terms of size, instrument mix, resource mobilization, thematic areas/sectors/topics supported, location, linkages to other parts of the IDB Group or external partners, etc.)? (several sections, chapter III). • What has been the financial performance of IDB Lab's reimbursable operations? (Section III.B.2).
Chapter IV	Conclusions

Source: OVE.
Note: In phase one, OVE is unable to answer the evaluation question regarding the aggregate operations performance in terms of timely implementation, milestones and results reached due to issues of data availability and quality.

1.3 To evaluate IDB Lab's strategic relevance in terms of its mandates and corporate setup, OVE employed a variety of methods (Box 1.1).

Box 1.1. Data collection methods for phase one of the evaluation of IDB Lab

To collect information to base its analysis on, OVE:

- Conducted a thorough desk review of relevant strategic and other corporate documents, as well as academic and industry literature;
- Held interviews, most of them semistructured, with 125 people, including:
  - Seven members of IDB Lab's management team and 31 IDB Lab staff,
  - 12 members of IDB management and 29 IDB staff,
  - Seven members of IDB Invest management and 14 IDB Invest staff,
  - One former member of IDB Lab management, and
  - 25 innovation specialists from 13 peer institutions;
- Designed and sent out four online surveys to:
  - 85 IDB Lab staff (all staff and consultants, excluding Management), response rate 81%;
  - 462 IDB and IDB Invest specialists (all staff specialists with potential to interact with IDB Lab based on their sector focus), response rate 51%;
  - All 25 Country Representatives, response rate 76%;
  - All Donors Committee members, response rate 84%;
- Performed an analysis of aggregate data on operations extracted from IDB Group databases and through lexicographic and other intelligent text search methods of IDB Lab and IDB Group operational documents.

  To capture information about the relevant markets IDB Lab operates in and collect outside perceptions about the role of IDB Lab, OVE commissioned a paper on innovation ecosystems in Latin America and the Caribbean (LAC) which included:
  - 89 semi-structured interviews; and
  - A survey among 202 representatives of key private and public sector actors within innovation ecosystems of 25 LAC countries.

Source: OVE.
Note: For more detail, see Annex II.

B. Innovation finance and stages

1.4 This evaluation employs terminology commonly used for the financing of young innovative enterprises when referring to the different stages of innovation. Private sector innovation, which is at the heart of IDB Lab's mandate, can originate in both established companies and new businesses, often called startups. Although the innovativeness of small companies, compared with large ones, can depend on many circumstances,[5] and recent initiatives by some corporates have started to blur the lines between corporate and startup-led innovation,[6] startups continue to be important drivers of innovation.

1.5 Innovations typically go through several stages which differ in terms of their activities and financing needs. Since most innovative ideas do not succeed,[7] financing startups is considered high risk and thus the domain of specialized investors. A risk-mitigating strategy by such investors is to finance innovations in several rounds (Figure 1.2 below), with each additional round of financing being contingent on relevant progress since the previous round. While startups are varied, the innovation's initial idea, research and development (R&D), and design stage fall into a "pre-seed" stage. A "minimum viable product" (MVP) is piloted and tested in the seed stage, then further adapted and market tested in the early stages (late seed and series A stages), before growing (series B and C) and expanding/scaling (series C and D). Estimates[8] suggest that the minority of innovations that survive their first few years take, on average, around 10 years to scale, although there are wide variations depending on the type of solution and other circumstances. As each innovation stage has different characteristics and thus requires different expertise to evaluate a startup's potential, investors often specialize on specific stages, or rounds. Most startups do not go through all financing rounds.[9] Moreover, entrepreneurs promising high development impact but limited earning potential may fail to

5 See, for example, Acs and Audretsch (1988).

6 To harness the innovation potential of startups, some large corporations have turned to supporting them through incubator or accelerator programs, as well as corporate venture capital or other startup acquisition strategies. See, for example, Weiblen and Chesbrough (2015); Kohler (2016) and KPMG (2015).

7 There is a range of estimates for how many innovative startups fail. One frequently cited statistic based on U.S. data is that 75% of venture-capital-backed startups (which, according to another estimate, amount to only 0.05% of all startups) fail to generate the expected returns, and 30-40% fail to return the investment to their investors. See Gage (2012) and Kotashev (2021).

8 See, for example, Deloitte and THNK (2015) and Hartmann and Linn (2007).

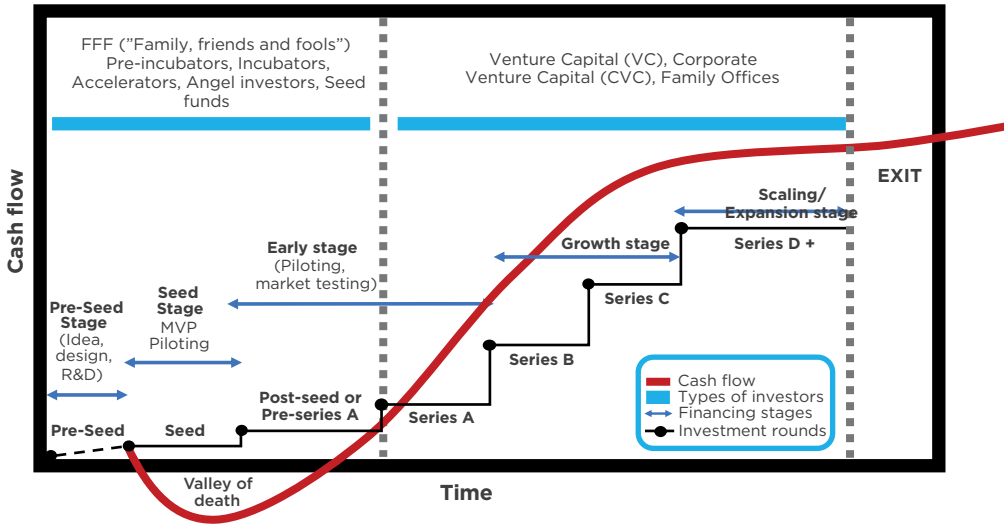
9 Most startups either fail or are acquired during this process, or they start to generate enough revenue to avoid the need for additional external financing rounds.

raise private sector funding altogether. Instead, they focus on governments, impact investors, or multi- or bilateral development institutions for funding.

Figure 1.2

The financial lifecycle of innovative startups

Source: OVE adaptation from startupeable.com and CMD Innovation Lab.



02

External Relevance, Organization, and Mandates

2.1 The following sections outline considerations that help determine IDB Lab's relevance as an institution. First, the evaluation assesses to what extent support for innovation is in itself a relevant activity for MDBs such as the IDB Group (section II.A). Another question is how, if relevant, such support activities should be organized. Whereas this analysis is complicated by the absence of clear best practices, the evaluation describes approaches that IDB and other MDBs have taken and discusses relevant literature (section II.B). Finally, it is important to understand whether IDB Lab's mandates are suitable guides toward relevant activity (section II.C).

A. Rationale for public support for innovation

2.2 Overall, LAC countries lag in investment in innovation, but the region is highly heterogeneous in terms of innovative activity, and access to finance is still considered one of the major barriers. In terms of proxy indicators for innovation—spending on R&D, new product introductions, share of engineers in the population, and patents granted, the LAC region lags OECD and Asian countries with similar income levels.[10] Innovation financing through venture capital has soared in recent years. Yet virtually all these investments are concentrated in only a few countries.[11] Apart from legal and regulatory barriers and other limitations within innovation ecosystems at the country level, a paper commissioned by OVE in the context of this evaluation also points to the small size of the domestic market and barriers to internationalization as an impediment to more successful innovative activity in many LAC countries. Despite the increase in overall financing amounts recorded in recent years, the same paper highlights considerable heterogeneity among ecosystems and in the availability of financing for innovation throughout the region (Box 2.1). Significant financing gaps persist[12] not only but especially in the post-seed stages during which public support by relevant national entities is much less prevalent. Venture capital financing is moreover highly concentrated in solutions from only a few sectors, with financial technology (fintech), marketplaces, logistics and distribution, and transportation accounting for 70% of invested amounts in Latin America in 2019 (LAVCA, 2020).

10 See, for example, Lederman et al. (2014).

11 According to data by LAVCA (2020), the amount of venture capital invested in the region has grown more than ninefold since 2016, from US$500 million (2016) to US$4.6 billion (2019). 99% of the invested amounts in 2019 went to companies in Brazil (54%), Colombia (24%), Mexico (14%), Argentina (6%), and Chile (1%).

12 For example, 71% of survey respondents in the paper commissioned for this evaluation highlighted the need for increased risk capital investments.

Box 2.1. Ecosystem development and availability of innovation financing in LAC

The LAC region has highly heterogeneous ecosystems for innovation in addition to available financing for startups.

With their numerous private and public sector actors, Argentina, Brazil, Chile, Colombia, and Mexico, for example, have dynamic ecosystem for innovation, and financing is more available than in the rest of the region. But financing gaps persist, especially in post-seed stages, even in these most developed ecosystems.

Certain other countries (Costa Rica, Peru, Ecuador, Uruguay, Dominican Republic and Jamaica) have less-developed ecosystems for innovative enterprises, but over the past ten years, these countries have seen both innovative entrepreneurial activity and public sector support to it. These ecosystems are connecting more and more entrepreneurs and investors, but financing remains relatively scarce and limited to the pre-seed and seed stages.

A third group of countries (Panama, Paraguay, Guatemala, Bolivia, El Salvador, Honduras, Nicaragua and Trinidad and Tobago) have very incipient ecosystems for innovative activity. But there is scant support from the public and local private sector and structural barriers to their development. Financing for innovative enterprises in these countries is sporadic, limited to competitive pre-seed and seed-stage grants from international foundations, multilateral development banks, and embassies.

Bahamas, Barbados, Belize, Guyana, Haiti, and Suriname have no ecosystem for innovative entrepreneurship as such, with the general development of small and medium-sized enterprises (SMEs) a higher priority. Many of these countries possess structural barriers to entrepreneurial activity, and any financing to young innovative companies tends to come from international sources.

Source: OVE, based on paper on LAC innovation ecosystems commissioned for this evaluation.

Note: The paper covered all LAC countries except for Venezuela, which was excluded given its economic disruptions and policy conditions which pose barriers to the existence of any innovation ecosystem more generally.

2.3 Public support for innovation is widely seen as both justified and necessary to reach optimal levels of innovation. Innovation (in particular, the activity one sees in young, fast-growing firms) is considered critical not only for productivity growth and the development of competitive economies but also for job creation.[13] But the academic literature establishes that certain market failures—such as the public-good nature of knowledge, asymmetric information, and coordination failures—can weaken innovation when markets are left on their own. While the right instrument mix[14] strongly depends on existing country and

13 For a summary and discussion of the relevant literature, see IDB (2016a) and IDB (2014). Other relevant publications include, for example, Cirera and Maloney (2017), Akcigit et al. (2019), and Sainsbury (2019).

14 Instruments shown to be beneficial include both measures to strengthen public goods for innovation (such as investing in education, strengthening patent rights, funding scientific research) and direct market interventions (such as subsidies to companies, the creation of venture funds, incubators or accelerators). See, for example, IDB (2016a) and IDB (2014).

sector conditions,[15] public support to innovation and innovative entrepreneurs is generally considered justified and beneficial. National and international sources can provide public support, but in the LAC region ecosystem participants are not yet bridging the large funding gaps. Support for innovation by institutions such as the IDB Group can therefore be an activity that has the potential to add value.

B. MDB support for innovation

2.4 In determining the best approach to supporting innovation, MDBs face tradeoffs. Like large corporate entities, MDBs must decide whether to mainstream support for innovations into their regular operations or to create innovation units. The former approach better ensures strategic alignment while it embeds MDBs' sector expertise in the effort. But the latter approach protects smaller and riskier operations, which tend to get crowded out by larger operations and slowed by processes and a risk culture more suited to traditional MDB products. Another important decision relates to whether and how to align the innovation support efforts with the priorities of the MDB. Since innovation activities are typically a fraction of MDB operations, MDBs have to determine whether to focus their efforts on some of their development priorities, or on all of them. A wide strategic angle allows MDBs to be open to unexpected innovations, whereas a narrower focus could help MDB innovation to apply deeper and more targeted support to produce critical mass while learning more in the process.

2.5 While there is no clear consensus on the optimal approach for innovation support, literature on corporate innovation labs emphasizes the need for clarity in how innovation support relates to the core business. Corporations differ from MDBs in their products, clients, and market structure, but they share certain barriers to innovation documented for corporations, such as inertia in processes and resources, and in incentive structures that reward risk avoidance or mitigation and seek efficiency over opportunities. In an effort to spur innovation, a number of large corporations, and even governments, have invested in separate organizational spaces for staff who are dedicated solely to develop new products or processes. Many of these initiatives that occupy dedicated innovation spaces have, however, met with mixed success.[16] Lessons learned emphasize the importance of a clear focus for innovation labs, especially in

15 Relevant aspects include, for example, the legal and regulatory framework, the depth and development of financial markets, the existence of business support services, the availability of a skilled workforce, and the distance of the economy to the technological frontier.

16 See, for example, Mendoza Ventures (2018), Guay (2019), Viki (2018b) or Ahuja (2019).

terms of how they are expected to relate to the core business.[17] Innovation labs that are to generate benefits in the short-to-medium term are likely to be more successful when focusing on incremental innovation and operating in closer coordination with the core business than efforts focused on transformational or disruptive innovation that may yield tangible revenue only in the long term.[18]

2.6 Similar to IDB, peer MDBs have dedicated areas with specialized staff for supporting private sector innovation. How these activities are organized, and their size, differ, however (Table 2.1).

Table 2.1. Organizational aspects of MDB support for private sector innovation

	IDB Lab	WGB	ADB	EBRD	IsDB
Stand-alone fund/facility					
Department within the organization		(IFC)			
IT specialists providing innovation support to project teams		(WB)			
Investments/Loans program size (US$ million)	US$55.6m[a] (2020)	US$816m[a] (FY2020)	US$60m[b]	n.a.	US$7.3m[a] (2020)
Technical Cooperation/Grants program size (US$ million)	$56.5m[a] (2020)	US$4.2m[a] (FY2020)	US$12m[c]	n.a.	

Source: OVE elaboration based on publicly available information and on interviews with representatives of the ADB, IsDB, and the World Bank Group (including IFC). For more detail, see Annex VII.
Notes: Through desk research and interviews, OVE identified ten peer institutions that focus on private-sector-driven innovation, including three MDBs: WBG, ADB, and IsDB. Information shown on EBRD is based on the EBRD website.
Acronyms: Asian Development Bank (ADB), World Bank Group (WBG), International Finance Corporation (IFC), World Bank (WB), European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IsDB).
[a] Annual approvals or commitment.
[b] Fund size.
[c] Program size.

2.7 At the IDB Group, the recent prioritization of innovation has spurred the creation of various innovation initiatives in addition to IDB Lab. In its 2015 Update to the Institutional Strategy (UIS, document AB-3008) and its 2018 successor document (GN-2933-1), the IDB Group established a focus on innovation as a central part of its mission.[19] In addition to the Competitiveness, Technology, and Innovation (CTI) division—the IDB counterpart for governments seeking to strengthen innovation in government

17 See, for example, De Vries (2019), Puttick (2014), or Viki (2018a).

18 Incremental innovation improves existing products or processes, whereas disruptive or transformational innovation develops entirely new products and their markets. For summaries on corporate innovation, see, for example, Ideanote (2018); Nieminen (2018), or van der Meer and Nijhuis (2020).

19 The 2015 UIS established low levels of productivity and innovation among the three main LAC development challenges for IDB Group to address, "innovation and knowledge" as one of its six guiding principles, and "innovation and creativity" among the four core competencies expected of its personnel. The 2018 UIS further reinforced the importance of innovation (the word 'innovation' appears 88 times, compared to the 25 times of the 2015 UIS), particularly that of technological innovation, and explicitly referred to IDB Lab as the IDB Group's innovation lab.

and innovation ecosystems—several initiatives have emerged in IDB's Vice Presidency for Sectors (VPS). One is the Innovation division in the Knowledge, Innovation, and Communications Sector (KIC) department, which promotes an internal culture of innovation in the IDB Group. In addition, other VPS divisions have created seven laboratories or initiatives[20] through which they support innovation. Interviews with the leaders of these initiatives point to various reasons for creating these labs, including (i) insufficient IDB Lab resources for addressing the innovation needs for all IDB clients; (ii) the deep sector and government expertise of VPS staff, who can identify innovations that align with government priorities and are more likely to scale through the public sector; (iii) a perception that IDB Lab prefers disruptive solutions, which are less likely to scale through the public sector because their effectiveness is unproven; and (iv) longer approval processes of IDB Lab operations compared with other technical cooperation (TC) funds. The VPS initiatives work with governments, while IDB Lab works alongside private sector entities. But the expectation for IDB Lab-supported solutions to potentially scale up through the public sector and the similarities in focus between the VPS labs and IDB Lab create areas of overlap and, hence, the need for coordination.[21]

C. IDB Lab's mandates: Guidance and coherence

2.8 The MIF's second replenishment (MIF III) emphasized that the Fund should focus on private sector innovation and poor and vulnerable populations. In a shift away from private sector reform and micro- and small enterprises, the MIF III Agreement stipulates the general purpose of the MIF III:

> "to promote sustainable 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 regional member countries of the Bank and the developing member countries of the Caribbean Development Bank."

20 Cities Laboratory at the Housing and Urban Development Division (HUD), Innovation lab (I-Lab) and Compete Caribbean Facility at the Competitiveness Technology and Innovation Division (CTI), Financial Innovation Lab at the Markets and Finance Division (CMF), Natural Capital Lab at the Climate Change and Sustainable Development Division (CSD), Retirement Savings Laboratory at the Labor Markets Division (LMK), GDLab (Gender and Diversity Knowledge Initiative) at the Gender and Diversity Division (GDI).

21 Areas of overlap include calls for proposals by I-Lab for innovative solutions to certain development problems, to which governments and universities, but also NGOs and private clients can apply, overlapping with clients and types of solutions supported by IDB Lab; or Cities Lab's annual call aimed at innovative ideas for urban problems in LAC. See paragraph 3.33 for coordination efforts between IDB Lab and the VPS innovation labs.

2.9 The agreement goes on to define IDB Lab's 10 functions that further describe IDB Lab's purpose and how it is to accomplish it (Box 2.2). Together with the MIF's purpose, the evaluation considers these functions as the "MIF III mandates."

Box 2.2. The 10 MIF III functions

(i) Identify, test, promote and support private sector driven innovations in the region seeking to create opportunities for poor and vulnerable populations;

(ii) promote the adoption of high-impact innovation in the region, through replication and scaling;

(iii) seek to ensure that innovations that are replicated are effective and have significant development impact;

(iv) mobilize resources and crowd in partners for scale;

(v) promote knowledge creation and learning;

(vi) operate in close alignment with the Bank and the IIC as a means to enhance effectiveness;

(vii) promote environmentally sound and sustainable economic development, as well as gender equality and diversity, in the full range of its activities;

(viii) enhance its development effectiveness through the establishment of specific goals and measurable results;

(ix) adopt risk levels in accordance with its mandate to test the success and failure of innovative solutions; and

(x) complement the work in the region of the Bank, the IIC and other partners.

Source: Agreement Establishing the MIF III (document AB-3132-1).

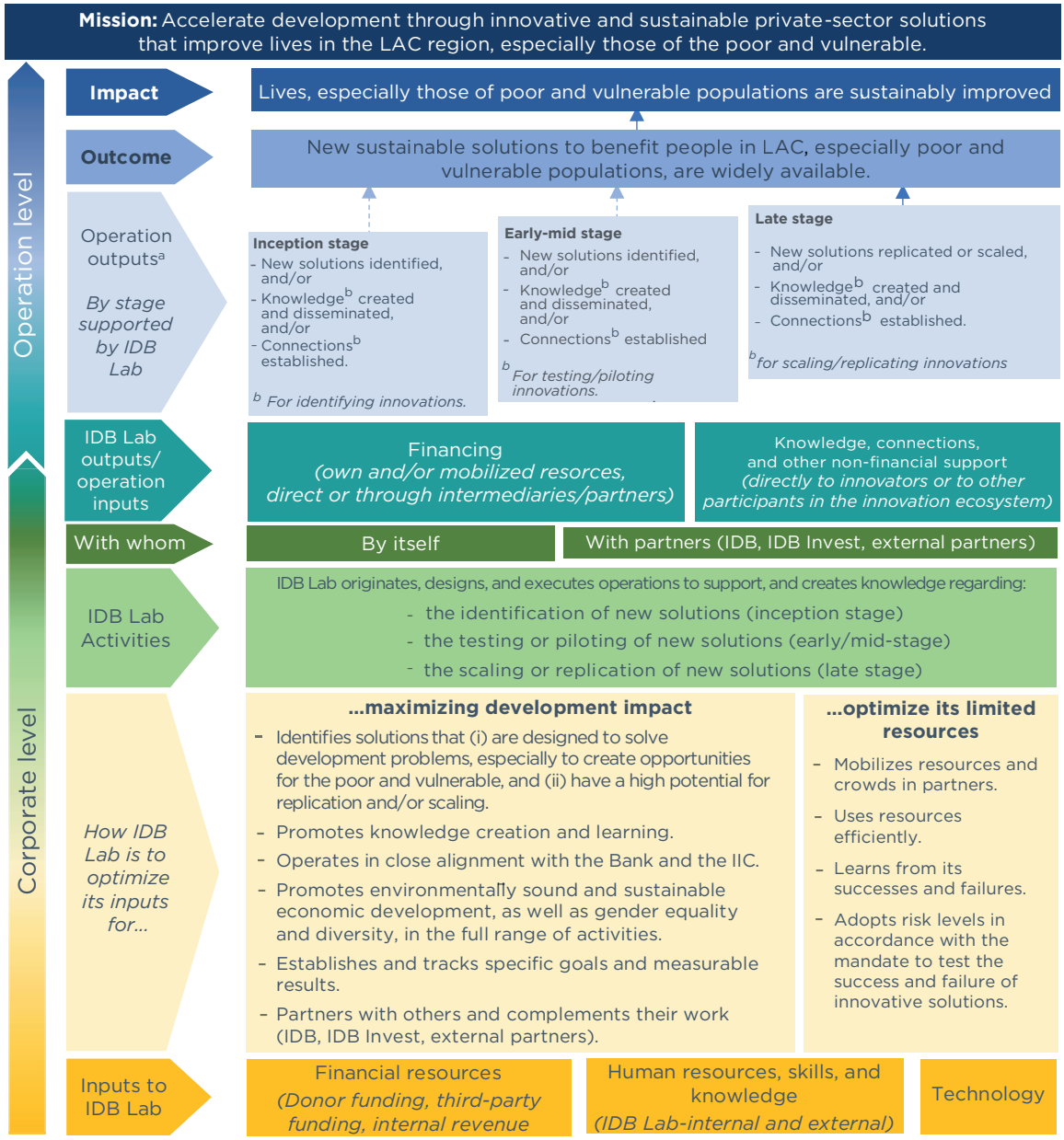
2.10 The MIF III Agreement's statement of IDB Lab's purpose and functions is not grounded in a clear results chain that proceeds from inputs to outputs to outcomes. Some of IDB Lab's mandates describe the Fund's objectives and what types of activities IDB Lab shall focus on, whereas others specify how IDB Lab is to operate to maximize its development impact and its limited resources. To allow for a better organization and understanding of the expectations for IDB Lab and guide this evaluation, OVE derived a theory of change primarily[22] based on the MIF III purpose and functions (Figure 2.1).

22 The theory of change also includes other stipulations contained elsewhere the MIF III Agreement, such as those relating to efficiency in the use of resources. See the Approach Paper for this evaluation (Annex V) and its Annex II for more detail.

Figure 2.1

A theory of change for IDB Lab

Source: OVE elaboration.



Note: [a] The pathways from operation outputs at the inception/early/mid stages to the outcome are indirect as they rely on innovations advancing through later stages, in a process usually facilitated by other actors.

2.11 Other mandates approved by Governors in the context of the MIF III replenishment are for IDB Lab to serve as the IDB Group's innovation laboratory, as well as to seek alternatives to recurring Donor replenishments. As part of the MIF III Agreement, Governors established that IDB Lab shall be the IDB Group's innovation laboratory and that the Lab was to explore alternative funding options to reduce its dependence on periodic contributions from Donors. MIF III documents furthermore projected expected annual approvals of US$85 million for the 2019-2023 period and, while leaving the scaling path for IDB Lab–supported innovations

open in principle, laid out that a main metric of success in scaling up would be the degree to which IDB Group operations embed IDB Lab–tested solutions into their design.

2.12 Considered as a whole, IDB Lab's numerous mandates present tensions and inconsistencies. These tensions are manifested along four lines, as spelled out in Box 2.3.

Box 2.3. Tensions in IDB Lab's mandates

IDB Lab's place in the innovation cycle. On the one hand, the mandate for IDB Lab to be an "innovation lab," and the wording of the general purpose of the MIF (which includes the identification, piloting and testing of innovations), imply that IDB Lab should support innovations in their early stages. On the other hand, the MIF III mandates emphasize the scaling and replication of innovations and their development impact at scale, which would be expected to occur many years after an early-stage IDB Lab intervention. A lack of clarity on what stages IDB Lab should focus on is also reflected in the surveys conducted by OVE. Whereas the highest shares of IDB Lab staff and Country Representatives see IDB Lab adding most value in the testing and piloting stages, Donors consider it more important to support the initial identification of innovative solutions (see Annex III for detailed survey results).

IDB Lab's risk appetite and products. On the one hand, IDB Lab's intended role as a lab implies a high risk tolerance for experimentation and failure at early stages, using grants or equity investments with no certainty of positive returns. On the other hand, Donors' desire that IDB Lab develop financial alternatives to Donor funding could provide incentives for it to operate more like an investment fund rather than a lab, focusing on more mature and thus less-risky segments to increase revenues from its operations. Among IDB Lab's peers, those that emphasize the testing of hypotheses and generating evidence, such as Omidyar Group and the Global Innovation Facility (GIF), generally use recurring donor funding to finance these activities, and do not face expectations for financial returns. Those (such as ADB Ventures, Development Finance Corporation, or the Disruptive Technologies and Venture Capital Department of IFC) that focus on investing reimbursable funds in innovations that grow and scale, in general, do not have a mandate to support the more experimental initiatives of a laboratory.

Benefiting the poor and vulnerable through innovations that scale. Reconciling an focus on the poor and vulnerable with private-sector-driven innovation can be challenging, especially if the poor and vulnerable are to constitute a majority of beneficiaries, because they may not generate sufficient revenue for innovations to be financially viable.a Some peer impact investors, such as Omidyar, have found that profitability and scalability of innovations are strongly correlated with targeting not only low- but also middle-income customers.b Similarly, OVE's 2013 evaluation of IDB Lab (document MIF/RE-2-4, para. 3.41) highlighted trade-offs between innovations' focus on the poor and vulnerable and their success at scaling through the private sector. It recommended clarifying the scaling path for such innovations through the public sector, which can present challenges (see next paragraph).

Scaling through the IDB Group. The expectation of scaling specifically through the IDB Group presents some practical challenges, especially for certain scaling paths. One such path [outlined by the Future and Financing document (CA-581)], namely the adoption of IDB Lab–supported innovations through IDB Group operations, requires extensive coordination so that IDB Lab focuses on solutions aligned with government or private sector client priorities in IDB Group project pipelines and at the right stage of maturity to be ready to be adopted by such clients at the time when IDB Group operations proceed. Such innovations, moreover, need to not

only show effectiveness and viability but also be superior to competing solutions so they prevail in competitive procurement processes mandated by IDB Group policies. For scaling innovations through IDB operations specifically, IDB Lab's role has also become more muddled as VPS divisions have created their own innovation labs for supporting public sector innovation needs. A conceptually different scaling path for IDB Lab-supported innovations is to receive follow-on financing from IDB Invest. This scaling path is more feasible for direct equity investments by IDB Invest (because it can take more risk and deploy smaller amounts for this product), but only possible in few instances due to IDB Invest's limited capacity for equity. In addition, as IDB Lab aims to invest also at later innovation stages, the prospect of direct follow-on investments by IDB Invest raises potential conflict-of-interest scenariosc that would need to be managed.

Source: OVE analysis based on document review, interviews and surveys. [a] See, for example, Lee (2018). [b] Bannick et al. (2015). [c] In some cases, the ability *Notes:* of IDB Lab to successfully exit its own investment, and/or generate positive returns from it, could hinge on decisions by IDB Invest regarding a follow-on investment in the same company.

2.13 The unresolved tensions and contradictions between the numerous parallel mandates allow for different interpretations of what IDB Lab's focus and business model should be. IDB Lab's mandates are broad and allow for various, in some cases conflicting, interpretations of what IDB Lab's strategic focus and business model shall be. This can be an advantage in that it allows IDB Lab to be flexible in seizing opportunities but can also create incentives for Management to pursue numerous objectives and agendas, diluting the impact IDB Lab may have in any one area. Unless IDB Lab Management establishes a focused strategy anchored in clearly spelled out priorities among the mandates (and specifics on whether and how each mandate will be fulfilled), there is a high risk for misaligned expectations between Donors and IDB Lab Management and for limited development impact.

03

Relevance of IDB Lab's Strategic Focus and Corporate Setup

3.1 This chapter describes OVE's findings on how IDB Lab has put its mandates into practice in terms of its corporate strategy and organization. During the first phase of this evaluation, OVE analyzed to what extent IDB Lab is oriented and organized in a way that sets IDB Lab on a path to achieving the objectives set out for the Fund. This chapter first describes IDB Lab's stated strategic focus (section III.A) before then analyzing the relevance of IDB Lab's focus and corporate setup in light of IDB Lab's mandates (section III.B). All findings are based on information (i) contained in documents and on IDB Lab's website; (ii) collected through interviews and surveys; as well as (iii) available on the portfolio at the aggregate level.

A. Description of IDB Lab's strategic focus

3.2 In 2016, IDB Lab established three thematic focus areas for its operations, which remain in effect.[23] Under the three thematic areas—inclusive cities (ICI), climate-smart agriculture (CSA), and knowledge economy (KEC)—nine subareas (also called "verticals") and more corresponding lines of action were identified to offer guidance (Table 3.1). In addition to the thematic areas, IDB Lab priorities also include cross-cutting topics concerning gender and diversity and environmental and social sustainability.

Table 3.1. Thematic areas and subareas

Thematic area	Subareas (verticals)
Climate-smart agriculture	1. Transform value chains.
	2. Farm-level solutions to improve livelihoods.
	3. Natural capital for regeneration and sustainability.
Inclusive cities	1. Transformation of urban services.
	2. Circular economy.
	3. Orange economy.
Knowledge economy	1. Preparing for the future of work.
	2. Financing knowledge economy startups.
	3. Building innovation ecosystems.

Source: Thematic Paper of Knowledge Economy (document MIF/GN-241-1), Thematic Paper of Inclusive Cities (document MIF/GN-238-1) and Thematic Paper of Climate-Smart Agriculture (document MIF/GN-237-1).
Note: These subareas were not meant to be exhaustive, but to signal where most operations were expected to be concentrated. "Orange economy" refers to the production of goods and services whose value is determined by their intellectual property content and where talent and creativity are the primary inputs. "Circular economy" refers to efforts to reduce waste and minimize resource extraction.

23 The thematic areas were first introduced in the 2016-2018 Business Plan (document MIF/GN-208-1) and then included in the Report on the Future and Financing of the MIF (document CA-581). At the conclusion of OVE's first evaluation phase (May 2021), Management informed OVE that they are working on further defining priorities by restructuring their thematic focus areas.

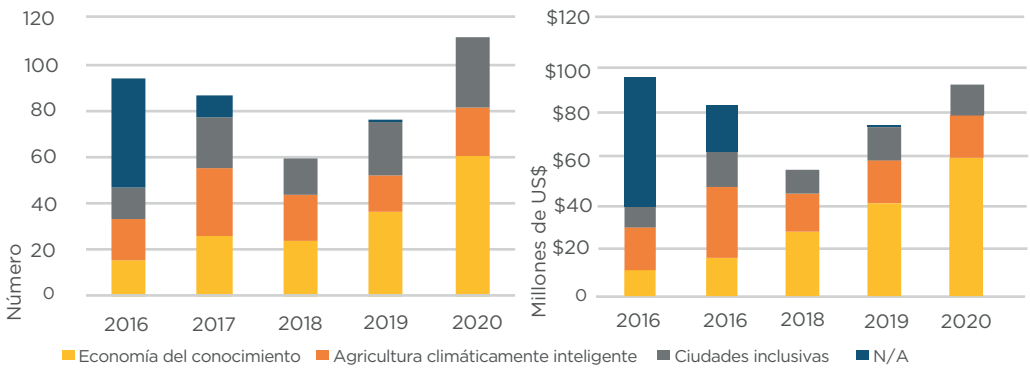
3.3 More recently, IDB Lab Management has prioritized technology-based innovation, transformative innovations, and emerging innovation ecosystems. In its 2019-2021 Business Plan (document MIF/GN-235-3) presented in 2018, IDB Lab revealed a stronger focus on innovations involving technology based on the premise that technology could benefit poor and vulnerable populations by reducing costs and creating value, and that technology-based innovation can scale more rapidly and reach more people. Apart from an increased focus on technology, other areas of emphasis are emerging innovation ecosystems, and support to transformative innovations.[24] The new emphasis on technology, ecosystems, and transformative innovations was, however, not accompanied by clear direction on what, if any, lines of action within the three thematic areas would therefore no longer be pursued.

3.4 An increasing share of IDB Lab operations has been approved in the thematic area of Knowledge Economy. Most operations approved since 2016, both by number and volume, were classified by IDB Lab under the KEC thematic area, with this share having grown over time (Figure 3.1). The large share of KEC operations is not surprising given the broad and cross-cutting nature of many of its lines of action, which, however, also limits the usefulness of this classification for interpreting the portfolio.

Figure 3.1

Operations approved by thematic area, 2016–2020
By number (left graph) and US$ volume (right graph)

Source: OVE, based on data in IDB Group systems. Excludes Social Entrepreneurship Program (SEP) projects.



Note: N/A means that the operation was not classified by IDB Lab in any of the three areas.

3.5 Additional analysis conducted by OVE suggests a shift away from financial inclusion and toward cross-cutting topics. Painting a full picture of the types of interventions IDB Lab has supported is impossible at this stage given the limited descriptive information about operations available at the aggregate level. Given also the limited usefulness of the thematic areas to describe the portfolio, OVE used intelligent text analytics to create thematic clusters based on project

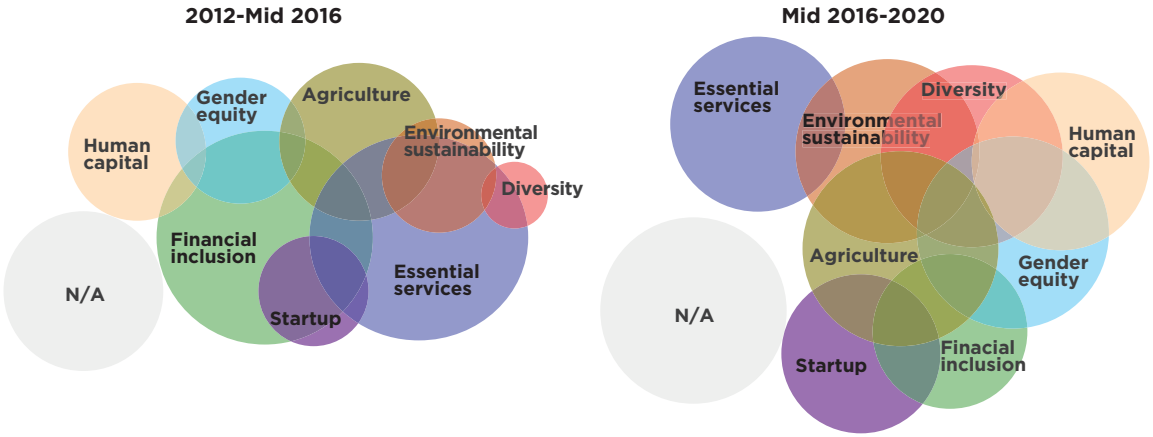
24 Transformative innovations are defined as "interventions with high likelihood of scaling rapidly, producing solutions that could expand at an exponential rather than a linear rate (...) identifying business models that have the potential to dramatically expand benefits to poor, vulnerable, and excluded populations" (document MIF/GN-235-3).

objectives text extracted from IDB databases. The results of this analysis (Figure 3.2) show that operations often address more than one topic, and that since mid-2016, IDB Lab has approved many fewer projects in the general thematic clusters of financial inclusion and essential services, and more in agriculture and the cross-cutting topics of gender equality, environmental sustainability, startups, and diversity.[25]

Figure 3.2

IDB Lab–approved projects by thematic cluster

Source: OVE elaboration based on IDB and IDB Lab databases.



Note: The size of each cluster circle is proportional to the number of approved projects in each. The clusters were created based on extracting and analyzing the text of the stated objective of each project. One project can include several projects and/or operation numbers. Depending on its objective, each project can be classified in multiple clusters.

3.6 The financial products IDB Lab can deploy with its capital[26] to meet its mandates are grants, loans, equity, and hybrid products. IDB Lab's financial products include nonreimbursable technical cooperation and investment grants and reimbursable products in the form of equity, senior loans, and hybrid instruments (e.g., revenue-based loans, subordinated debt, impact discount loans, and convertible notes), as well as hybrid operations for which reimbursement is contingent (contingent recovery grants, simple agreements for future equity). Since 2016, IDB Lab has boosted reimbursable operations in both number and volume and increased the use of hybrid instruments (Figure 3.3). After investing equity mainly through venture capital (VC) funds, IDB Lab recently decided to shift its future focus toward more direct investments in innovative companies. Grant financing can be offered to entrepreneurs directly, or to other intermediary actors in innovation ecosystems. In

25 The share of approvals in agriculture and environmental sustainability, which strongly overlap, increased from 17% to 21% and from 9% to 18%, respectively. The share of project objectives explicitly mentioning gender topics increased from 11% to 20%, and diversity topics from 3% to 17%.

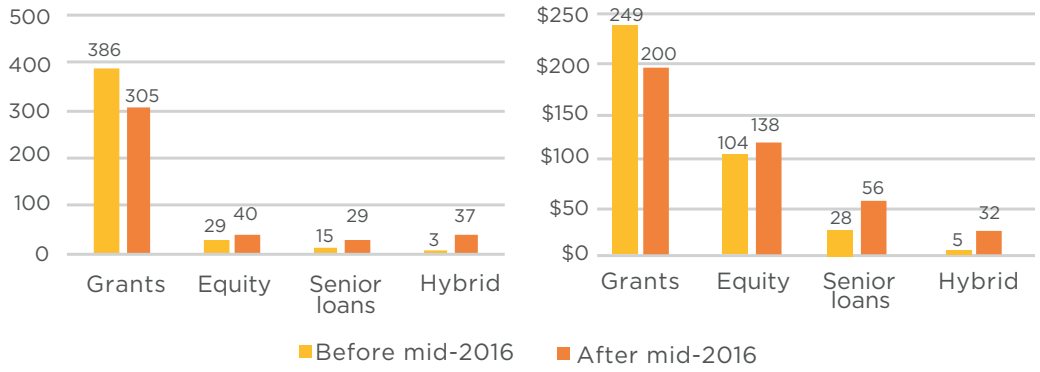
26 In addition to deploying its own capital, IDB Lab also manages the Social Entrepreneurship Program (SEP) program which uses IDB capital. Under the SEP, IDB Lab has approved US$17.0 million in 16 loan and 22 grant operations since mid-2016, and US$50.8 million in 57 loan and 62 grant operations since 2012.

total, IDB Lab has approved 443 financing operations for US$498.5 million between mid-2016 and late 2020, marking lower activity than during the preceding period of the same length in which IDB Lab had approved 527 operations for US$550.5 million. Of all 970 projects approved since 2012, 66 were canceled before disbursing (10% of the amount).

Figure 3.3

MIF financing operations approved 2012 – 2020 by instrument *(total approvals by number -left graph- and US$ volume -right graph-)*

Source: OVE elaboration based on IDB and IDB Lab databases.



Note: Based on project numbers as the unit level. The hybrid category includes revenue-based loans, subordinated debt, impact discount loans, convertible notes, contingent recovery grants, and SAFEs). Excludes Social Entrepreneurship Program (SEP) projects.

3.7 The Lab's criteria on when to use certain financial instruments are unclear. OVE analysis and interviews suggest that target segments and selection criteria for some of IDB Lab's financing products need to be improved. Given a shift toward providing TCs also to for-profit companies (see document MIF/GN-235-3), the potential recipients of certain nonreimbursable products ("spark" TCs)[27] can also be targets for equity investments by IDB Lab, as both focus on innovations at similar stages. Criteria for when to use one versus the other are not clear,[28] and OVE interviews revealed differing views within IDB Lab on whether coordination and communication within IDB Lab are sufficient to avoid confusion and misaligned expectations in IDB Lab clients and originating staff. Moreover, the criteria for when to use contingent instead of pure grants are not specified. Most peer institutions clearly differentiate which products they use at

27 The other two main TC product lines are the recently introduced "prototype" TCs which fund small, early-stage high-risk projects, including at the design stage, and "ecosystem" TCs that aim at creating the conditions that allow innovations to flourish.

28 In addition to offering financing to NGOs and nonprofit organizations, non-reimbursable resources can be offered to "companies that implement innovative models with limited earning potential, but with clear social and environmental impact" ("Beyond Tourism" guidelines). But this definition may apply to some companies which could be targets for equity investments as well. The specific instrument to be offered is said to be assessed based on the purpose for which resources will be used, but the criteria are not explicit.

which stages and provide reimbursable instruments to firms with some track record,[29] compared to grants or indirect engagement through third parties during the pre-seed or seed stages.[30]

3.8 In addition to financing, IDB Lab also includes knowledge and connections in its product offering.[31] Knowledge is a product clearly anchored in the knowledge function cited in the MIF III agreement. Whereas only OVE's second phase of the evaluation will include an analysis of IDB Lab's knowledge products, interviews and budget data point to a decline in the importance placed on knowledge activities during the MIF III period (see also section III.B.1.b). The link of the "connections" product to the mandate is less direct and mainly aims to facilitate links between relevant actors of innovation ecosystems, and between the IDB Group and those actors. For this purpose, IDB Lab uses both personal contacts, as well as, increasingly, technological platforms. Several initiatives have been developed and/or sponsored by IDB Lab, or are under way under this line of work, including LACChain, fAIr LAC, WeXchange, Latitud R, KALA, and NeXT.[32]

B. Analysis of IDB Lab's strategic focus and corporate setup

3.9 This section assesses to what extent IDB Lab is focused and organized in a way that allows it to meet the MIF III mandates. Following the elements of the theory of change developed to guide this evaluation (Figure 2.1), the analysis is structured around the MIF III functions which describe how IDB Lab shall use its inputs to maximize development impact and optimize its limited resources.[33]

29 Exceptions are Acumen Pioneer Fund which invests directly from pre-seed to stage A, CDF, which invests through funds and similar structures at the seed stage, and GIF, which offers investment products at the seed stage but limits the amounts to one-tenth of what is offer at the early stage. See Annex VII for more detail.

30 For example, at this stage CDF only invests indirectly through seed funds and similar structures as part of its Startup Catalyst program. ADB Ventures and IsDB's Transform Fund provide grants.

31 According to the external website, IDB Lab's products are knowledge, connections, and financing. The connector role was first introduced in the 2019-2021 Business Plan (document MIF/GN-235-3) and subsequently also highlighted by the 2019, 2020, and 2021 work programs (documents MIF/GA-30, MIF/GA-31, and MIF/GA-32-2).

32 LACChain is a platform for the development of blockchain applications with inclusion impact, fAIr LAC is a partnership and digital platform to promote the responsible use of artificial intelligence, WeXchange is a digital platform to connect women entrepreneurs in STEM with mentors and investors in LAC, Latitud R is a regional platform for inclusive recycling and circular economy, KALA is a digital platform to connect entrepreneurs and investors, and NeXT is an open innovation platform to partner large corporates and startups to scale radical innovation. IDB Lab's website and document MIF/GA-32-2.

33 These topics can be found in the light-yellow areas at the bottom of the theory of change in Figure 1.1.

1. How IDB Lab uses its resources to maximize development impact

3.10 To achieve development impact, the MIF III mandates laid out expectations for IDB Lab to (a) identify solutions that are designed to solve development problems, especially to create opportunities for the poor and vulnerable, and have a high potential for scaling and replication; (b) promote knowledge creation and learning; (c) establish and track specific goals and measurable results; (d) promote environmentally sound and sustainable economic development, as well as gender equality and diversity; (e) operate in close alignment with and complement the Bank and the IIC; and (f) complement and partner with others (external partners). The following sections discuss to what extent IDB Lab is oriented and set up to meet each of these expectations. Chapter IV presents OVE's conclusions based on this analysis.

a. On identifying and supporting solutions (i) designed to solve development problems, especially to create opportunities for the poor and vulnerable, and (ii) with a high potential for replication and/or scaling:

3.11 This section examines how IDB Lab is set up to select and screen projects to fulfill these mandates. It discusses to what extent IDB Lab's strategic focus and corporate setup are appropriate for IDB Lab to direct its support to interventions that are likely to scale or be replicated, and to generate development impact particularly for poor and vulnerable populations. Findings are based on information contained in relevant documents, systems, and other tools, and collected through interviews and surveys. Drawing clear conclusions about the relevance of approved and implemented IDB Lab operations to the mandates of benefiting the poor and vulnerable and scaling is not possible at this stage of the evaluation.

3.12 IDB Lab screens operations for their scaling potential, as well as their expected development effectiveness, including the benefits for poor and vulnerable populations. It uses a two-stage project selection process: a "pitch" followed by a scoring procedure using a tool called iDELTA (Box 3.1), introduced in 2018, which was adapted from the DELTA used by IDB Invest and replaced the previously discontinued QED (Quality for Effectiveness in Development) checklist. The clarity and visibility of innovations' scaling paths and potential impacts on the poor and vulnerable are among the dimensions assessed to determine the eligibility of IDB Lab operations, and they are scored before project approval using the iDELTA. Instances of actually scaled or replicated solutions are also tracked ex post as a part of IDB Lab's KPIs (Table 3.2). While screening operations for these

criteria is important, these assessments are more uncertain when IDB Lab intervenes very early in the innovation cycle given the low visibility of the specific scaling path and expected benefits and target beneficiaries at the initial stages.

Box 3.1. The iDELTA

The iDELTA (DELTA stands for Development Effectiveness Learning, Tracking, and Assessment) tool assesses solutions supported by IDB Lab against three main aspects:

i) Alignment to country and corporate priorities (choice of aligned/not aligned for numerous dimensions and indicators);

ii) Expected development outcome (30%), innovativeness (30%), scalability (30%) and resource mobilization (10%) (numeric project score based on the weighted average score of these criteria); and

iii) Evaluability (numeric evaluability score).

The ratings of these criteria, in turn, are a function of the ratings of several sub-dimensions under each.

Under development outcome, the sub-dimensions that relate to the one of the mandates discussed in this section, namely the creation of opportunities for poor and vulnerable populations, can contribute up to 18% of the total project score. The other discussed mandate (scaling or replication potential) is addressed by the scalability rating, which can contribute up to 30% of the total project score and considers the organizational path for scale, scaling plan, intervention credibility, relative advantage of the model over existing practices, ease of transference/ adoption, size of potential market, quality of estimation of cost per beneficiary at scale, and deployment alongside IDB Group resources.

One weakness of the iDELTA scoring methodology—which favors disruptive over incremental innovations, and early-stage over later-stage support—is that it fails to incorporate the higher risks faced by such early-stage and disruptive innovations to reaching their expected development outcomes.

Source: OVE, based on iDELTA spreadsheets.

3.13 There is a lack of formal guidance on how to select and design operations that overcome the digital divide and therefore ensure that the poor and vulnerable actually benefit from the prioritized technology-based innovations. OVE's 2013 evaluation recommended to *"better define the MIF's strategy for targeting low-income beneficiaries and promoting poverty reduction."* Parts of IDB Lab's thematic priority areas clearly aim to improve the lives of poor and vulnerable populations.[34] Several lines of action within these areas are, however, digital-technology based,[35] and IDB Lab Management recently

34 Examples are target interventions aiming to improve the lives of smallholder farmers within CSA, strengthening capacities and knowledge of excluded and vulnerable populations within KEC, and improving basic urban services within ICI.

35 For instance, CSA includes digital platforms that directly link producers and consumers, sensors for plant growth and nutrition control, and electronic chips for monitoring and localized disease detection in animals. KEC proposes, for example, digital platforms for training or education.

increased its emphasis on such solutions. On the one hand, technology-based innovations can have advantages in terms of their scaling potential[36] and their comparatively low marginal cost. On the other hand, existing inequalities can be exacerbated by a shift toward technology because of the barriers large parts of poor and vulnerable populations face in accessing and using technology. These barriers—often called the "digital divide" —include lower rates of connectivity,[37] literacy,[38] and educational attainment among the poor and vulnerable, which can pose challenges for their use of technology and also make it more difficult for them to benefit from employment creation in high-tech sectors. Literature[39] suggests that interventions need to be carefully designed to address and overcome unequal technology access and use conditions, and thus to prevent most benefits of technological innovations from being captured by the already-well-off, exacerbating inequality. IDB Lab's thematic papers acknowledge the challenges posed by the digital divide. However, other than describing this issue, there is a lack of formal guidance on how IDB Lab staff is to select and design operations that are able to overcome the digital divide,[40] or, in case the access barriers cannot be overcome, an acknowledgement of what these imply in terms of target beneficiaries. Only the second phase of the evaluation will assess the available evidence on whether IDB Lab-supported operations not only have the potential to benefit poor and vulnerable populations, but in fact manage to do so (or generate and disseminate knowledge that can help others in doing so).

3.14 Another issue that lacks clarity is whether and how IDB Lab reconciles its commitment to be present in all its regional member countries with the mandate to support innovations that scale, as well as with its focus on the poor and vulnerable. The size of domestic markets, combined with the barriers to internationalization, impede scaling in all but a handful of LAC countries—which can prevent innovations from being sustainable unless they reach financial viability at a small scale. The limited size of the market creates an even more acute problem because of the

36 See, for example, Kohlgrüber et al. (2019).

37 According to a recent study by the Inter-American Agriculture Institute (IICA), IDB, and Microsoft (2020), 32% of the LAC population does not have internet connectivity, and 63% in rural areas. Smartphone penetration has been rising but is still only 71% in urban and 37% in rural areas.

38 According to the World Bank (2018), in LAC the literacy rate is 93.86%. However, literacy can be much lower in rural areas, such as in Peru (85.5%) and Brazil (82.5%).

39 See, for example, Veinot et al. (2018), Gilbert et al. (2008), and Tawfik et al. (2016).

40 Specificity on which types of technological interventions to prioritize to target the poor and vulnerable (although without clarifying how prevalent the needed connectivity and other access conditions are in different LAC regions) differs among the strategic papers; it is stronger in the CSA thematic paper than in the other two.

Lab's focus on a part of these markets, namely poor and vulnerable populations. Nevertheless, and despite the absence of a MIF III mandate on the geographic distribution of IDB Lab operations, IDB Lab Management has committed to approving operations in all regional member countries, including the smallest.[41] The Action Plan establishing these commitments (document MIF/GN-236-1) alludes to scalability challenges in these markets and proposes to focus on pilots and experimentation. While this is a reasonable first step, it will be important to clearly spell out whether and how the scalability mandate can be addressed in small countries once such pilots have run their course. Although the Action Plan presents the approval targets for these country groups as a way to benefit poor and vulnerable populations, aligning these targets with this mandate is not a given: Some small island countries have much higher per-capita incomes (and lower poverty rates) than the region's larger countries.[42]

3.15 A more systemic issue lies in IDB Lab's very broad strategic focus which can result in a dispersed portfolio with limited impact. The breadth of the MIF's activities is an issue in itself, as previous OVE evaluations have consistently noted. MIF itself had also identified the dispersed operational program as a challenge and established the three thematic areas (Table 2.1) to narrow IDB Lab's strategic focus. But OVE compared the "access framework"[43] of the MIF II period with the new thematic areas, finding that most access areas overlapped with the thematic areas, with public-private partnerships and microfinance the only clear omissions. Whereas the thematic areas were purposefully defined to be broad (to "encourage entrepreneurial and opportunistic behavior that underpins much of MIF's past success"),[44] the many lines of action and subtopics[45] within the thematic areas obscure IDB Lab priorities. In a survey of IDB Lab staff, almost 38% of respondents said they were unfamiliar

41 Citing a request by Donors, in 2019 IDB Lab presented an Action Plan for Group C and D and Small and Island Countries (document MIF/GN-236-1) which committed IDB Lab to covering all regional member countries and established targets for Group C and D (45% of approved operations in the 2019-2023 period) and small and island countries (17% of approved operations).

42 The GDP per capita (PPP terms) of small countries such as The Bahamas or Trinidad and Tobago is at least 1.5 times higher than the LAC average, whereas it is lower than the LAC average in some larger countries such as Brazil and Colombia, which also have higher poverty rates than the average.

43 The "access framework" was introduced in 2010 to "focus on a smaller set of areas in which the MIF had a comparative advantage," but a few years later MIF identified that it had generated 20 thematic agendas, each one with separate resources and knowledge products, leading to a dispersed operational program that hindered MIF's capacity to deliver scalable solutions (documents MIF/GA-21-1; MIF/GN-146; MIF/RE-2-4; MIF/GN-208-1).

44 Document MIF/GN-208-1.

45 Productivity, inclusion, natural capital, essential services in the urban sector, models for reuse, maintenance, renovation, and remanufacturing, development of the creative sector and heritage, employment, training and skills, financing, building innovation ecosystems and use of technologies in different sectors (education, health, agriculture, financing, energy).

with the Lab's strategic priorities (17%), did not to know whether IDB Lab has the appropriate focus (13%), or did not consider Lab priorities appropriately focused due to their insufficient clarity (7%). The many priorities, their lack of clarity, and constant revision were also raised in OVE interviews of IDB Lab and other IDB Group staff. Similarly, almost a quarter (22%) of respondents who expressed familiarity with IDB Lab's strategic priorities in an OVE survey of Donor representatives considered IDB Lab's priorities inappropriately focused;[46] another 9% stated that they did not know whether the current focus of IDB Lab was appropriate.

3.16 A majority of peer institutions reviewed for this evaluation have a well-defined focus. Some peers focus on specific stages, sectors, or client types, whereas others have a broader focus but differentiate their product offering by innovation stage (Figure 3.4). The peers with a broad sector focus acknowledge that the advantage of a being open to opportunities from unexpected sources is to some extent counterbalanced by a dispersed portfolio with low impact in any one area.[47] These peers also pointed out that their broad focus implies that their ability to build deeper in-house knowledge about specific areas is limited, prompting them to bring in external expertise for project screening and selection.

Figure 3.4

Focus criteria of peer organizations

Source: OVE elaboration based on interviews and publicly available information.

	Sector	Stages of innovation	Types of entities supported	Products mapped by stage
ADB Ventures (ADB)	■	■		
CDF (IFC)	■	■		
Luminate (Omidyar Group)	■	■		
Adobe Capital		■	■	
Endeavor Invest		■	■	
DIV (USAID)				■
GIF				■
Transform Fund (IsDB)				■

Notes: ADB Ventures and CDF support technology-driven businesses; Luminate focuses on civic empowerment, data and digital rights, financial transparency, and independent media. They focus on the early to growth stages. Adobe Capital and Endeavor Invest provide equity to firms in the mature early to growth stages and select and segment the entrepreneurs they support based on specific criteria. DIV, GIF and the Transform Fund conduct open calls for proposals with selection criteria, evidence and documentation requirements, as well as funding ceilings clearly differentiated by innovation stage. See also Annex VII.
Acronyms: Asian Development Bank (ADB), Disruptive Technologies and Venture Capital Department (CDF), International Finance Corporation (IFC), Development Innovation Ventures (DIV), U.S. Agency for International Development (USAID), Islamic Development Bank (IsDB).

46 Among those disagreeing with IDB Lab's strategic focus, 70% thought that IDB Lab priorities were not defined clearly enough. The majority of those who expressed concerns regarding IDB Lab's priorities due to other reasons (70%) highlighted a perception of a scattered portfolio with unclear impact and scaling potential.

47 After a 2018 evaluation of the GIF, which highlighted this aspect, the GIF Board chose to focus on the three critical outcomes of jobs, gender, and public services. See also Annex VII.

b. On promoting knowledge creation and learning:

3.17 This section focuses on the IDB Lab's corporate setup to generate knowledge and learn from what it does. During this first phase of the evaluation, OVE analyzed the strategy, resources, systems, and processes IDB Lab has in place to generate knowledge and learn from the activities it supports, as this is an essential function of a lab especially when pursuing the goal of supporting innovation that can scale.[48] Phase two of OVE's evaluation will review the Lab's knowledge products for internal and external audiences. A preliminary OVE analysis shows that IDB Lab released 71 publications and organized or co-sponsored nine conferences between mid-2016 and late 2020.

3.18 The organizational setup for knowledge creation and learning has undergone multiple changes in recent years. IDB Lab's institutional setup for knowledge generation was affected by all three changes to the organizational structure that IDB Lab has made in the last five years. In 2016, the units devoted to knowledge and development effectiveness were eliminated; some knowledge functions were transferred to operational units, others discontinued entirely. When IDB Lab returned to an organizational structure based on products and functions rather than thematic areas, a dedicated knowledge management unit was reinstated in 2017. Two years later, the knowledge and learning functions of this unit (generating practical applications from data, insights for the development of projects, generating research questions) were taken over by a small, newly created knowledge unit.

3.19 IDB Lab outsourced certain knowledge functions to other parts of IDB Group and significantly lowered funding for knowledge activities. Several knowledge-related functions previously performed in-house have been outsourced to other IDB Group entities since 2018, namely knowledge dissemination and communication (to KIC) and the validation of development effectiveness assessments, support on development data analytics, and other selected thematic studies (to IDB Invest's Development Effectiveness Division, DVF). Other crucial knowledge functions, such as internal knowledge management and knowledge generation from IDB Lab operations, remained under IDB Lab's responsibility because the services offered by KIC were not deemed a good match for IDB Lab's needs. The approved administrative budget for knowledge-related functions (including those outsourced) decreased by 42% between 2015 and 2020. IDB Lab stopped conducting operation-level impact evaluations and systematic portfolio reviews, and phased out the

48 IDIA (2017a). "Innovation, learning and scaling are closely linked in an iterative (not linear) process of delivering development impact at scale".

special accounts used to finance them. The use of these accounts, which had been fed by a fraction of each IDB Lab operation's budget,[49] was almost entirely halted.

3.20 IDB Lab has very recently developed a new knowledge framework, but further focusing is needed to ensure the effective use of IDB Lab's limited resources for knowledge activities. OVE's 2013 evaluation recommended that IDB Lab "better define and strengthen the MIF's role as a knowledge institution," finding that knowledge was not clearly integrated into the MIF's business model despite its important role in scaling up (see Annex IV). The MIF III Agreement broadly outlined knowledge creation and learning among IDB Lab's functions, and other MIF III strategic documents interpreted this function as including both the creation of knowledge as public good and learning from operations. For most of the evaluation period, IDB Lab did not have any explicit guidance nor a strategy with regards to knowledge. IDB Lab's new knowledge framework, presented to Donors in March 2021, lists a range of possible questions IDB Lab's knowledge activities can help answer for IDB Lab, the rest of the IDB Group, and external audiences, but does not prioritize among them. Such a prioritization is needed to avoid spreading IDB Lab's limited resources too thinly for effective knowledge generation and learning in any one area, particularly also in light of IDB Lab's broad thematic focus. Knowledge needs and interests can differ significantly depending on the intended use and users. Given resource constraints, it is important that IDB Lab clearly define the type of knowledge it seeks to generate and its intended users. For scaling up through the public sector, generating rigorous evidence on effectiveness is more important than when scaling through the private sector, where solid data on financial viability and market demand is needed. Knowledge generated for the IDB Lab itself to learn is different from generating studies on industry developments for external audiences. The most effective channels for sharing knowledge can also differ among the different types, in that a primary focus on agile learning for and from operations within IDB Lab can make inter-personal exchanges more important than for knowledge created for wide dissemination to external audiences.[50]

49 The Impact Evaluation account was funded by MIF capital by applying a 5% fee of each approved project, and the Agenda Account applied similar fees of between US$5,000 and US$30,000 per project.

50 Many peer institutions highlight the critical role played by targeted and personal information exchange among professionals for knowledge generation and learning. Whereas a few peers also use publications, newsletters, and social media to reach external stakeholders; track operation-level data in systems; and help conduct rigorous impact evaluations, the most common type of knowledge activity cited was enabling operational staff to learn and share knowledge through internal or external networking and events.

3.21 IDB Lab's current tools, systems, and processes for presenting aggregate information do not facilitate learning. In line with the need to generate lessons from similar activities to understand what works and what does not, IDB Lab has stressed the importance of taking a portfolio approach to knowledge generation. IDB Lab's main tools used to systematically aggregate and report information about IDB Lab-supported operations—the KPIs and the iDELTA—have, however, important limitations on their use for learning (see para. 3.25). Although IDB Lab has instituted new systems, and begun to connect existing ones, they are still inadequate for the IDB Lab's need to understand and describe its portfolio, let alone learn from it. Relevant operations-level data about grants is not aggregated and used, and nonfinancial data on reimbursable operations is not systematically captured. Recognizing these challenges, IDB Lab's new knowledge framework, which focuses on improving learning from groups of operations, includes measures to upgrade systems and processes to allow IDB Lab to extract, aggregate, and use knowledge currently only captured at the level of individual operations.[51] An initial initiative attempts to capture and qualitatively describe lessons across similar operations in "learning briefs," three of which were produced as of late March 2021.

3.22 IDB Lab has created a number of channels for knowledge sharing, but IDB Lab staff see effective learning being hindered by conflicting priorities. To learn from interventions that do and do not work, and the reasons for successes and failures, operational staff need sufficient time, particularly during project implementation, to observe, document, and share relevant information at the operational level. IDB Lab has created a number of channels for information sharing, including thematic and regional "circles" (see also para. 3.30 below), communities of practice, open talks to discuss relevant publications, brown bag lunches, and portfolio talks, and more systematically brings in relevant knowledge from IDB and IDB Invest (see section III.A.5 below). All members of IDB Lab Management interviewed by OVE, however, acknowledged that knowledge activities by IDB Lab are still insufficient. A survey of IDB Lab staff confirmed these perceptions, in that most respondents thought that IDB Lab currently does not have effective procedures in place to learn from successful and failed projects (Figure 3.5). Main reasons for IDB Lab's failure to generate, use, and disseminate relevant knowledge from its operations mentioned by interviewed IDB Lab staff are a focus on meeting approval targets and the many

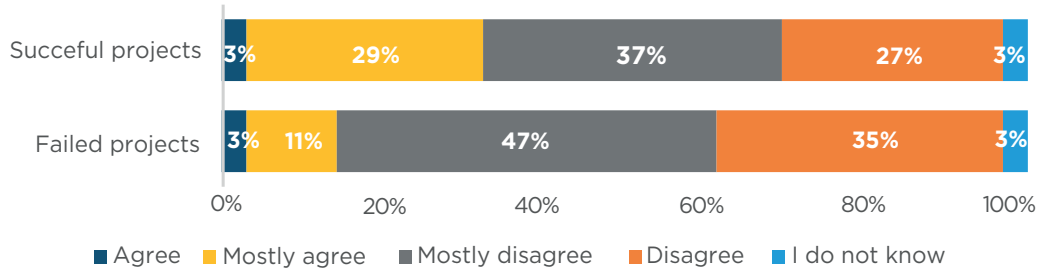
51 For instance, the categories used to describe IDB Lab operations in IDB systems (such as sector/subsector, thematic area, country, size) are too broad for grouping similar IDB Lab interventions. To address this challenge, IDB Lab recently embarked on a "portfolio genome" project that uses intelligent text analytic tools to dynamically categorize its portfolio.

and changing strategic priorities amid a perception of high workloads, which also emerged from the survey of IDB Lab staff (Figure 3.11). Consultancies recently commissioned by IDB Lab found that the biggest obstacles to developing a knowledge management system (and to improving the IDB Lab's thematic and regional circles) were too many competing demands, high workloads, unclear objectives, and a lack of prioritization.[52]

Figure 3.5

Survey question: IDB Lab has effective procedures in place to learn from the experience of...

Source: OVE survey of IDB Lab staff.



c. On establishing and tracking specific goals and measurable results:

3.23 This section presents an assessment of progress on a results measurement framework, recommended by OVE's previous evaluation and requested in the MIF III Agreement. OVE's 2013 evaluation of IDB Lab recommended that IDB Lab implement a corporate results framework that would preserve IDB Lab's ability to innovate, and also to improve results measurement and tracking practices at the project and portfolio levels.[53] The MIF III Agreement mandated IDB Lab to "establish specific goals and measurable results," although it did not specify the level—corporate or project, or both. This present section assesses IDB Lab's ways of establishing goals and tracking results at the corporate and portfolio level. Phase two of the evaluation assesses the results indicators used at the project level.

3.24 IDB Lab created a set of KPIs to establish goals and track results at the aggregate level. In 2017, IDB Lab proposed a set of KPIs to report, at the aggregate level, on development results of MIF-funded projects and the achievement of its guiding principles. The KPIs replaced a different Corporate Results Framework (CRF) IDB Lab had created and presented to Donors in 2013 in response to OVE's recommendation.[54]

52 "IDB LAB/21-Day Story Sprint. Report and Roadmap: Knowledge Management System Prototype" and a KAIROS consultancy commissioned by IDB Lab about the experience with the circles.

53 See Annex IV, recommendation 4, final bullet phrase.

54 The MIF's CRF focused on presenting a list of aggregate operation results grouped by products (outputs), results (outcomes), impacts, and systemic impacts.

IDB Lab overhauled its KPIs in 2020,[55] grouping the revised KPIs into three categories: strategic, corporate, and portfolio (Table 3.2). Several KPIs use the ratings of some dimensions of the iDELTA tool. Apart from being reflected in certain KPIs, all iDELTA ratings and scores can also be aggregated across the portfolio and viewed on a dashboard. Some KPIs are also part of the IDB Group's Corporate Results Framework (CRF, document GN-2727-12).

Table 3.2. IDB Lab Key Performance Indicators and targets

Strategic level	
Development impact at scale	
Projects with innovations replicated or scaled	≥ 20% (2019); ≥ 30% (2023)
Of which, projects with innovations massively scaled	≥ 20%
IDB Lab and IDB Group strategic priorities	
Projects with high innovation score	≥ 90%
Projects supporting poor and vulnerable populations	≥ 60%
Projects supporting gender equality*	≥ 60%
Projects supporting diversity*	≥ 20%
Climate finance in IDB Lab projects*	≥ 30%
Projects supporting climate change mitigation and/or adaptation*	≥ 40%
Projects supporting agriculture, forestry, land use, and coastal zone management*	≥ 25%
Operations supporting small and vulnerable countries*	≥ 45%
Operations supporting small and island countries*	≥ 17%
Corporate level	
Efficiency	
Cost to portfolio ratio	≤ 7.3%
Knowledge, experimentation, with a view toward scale	
Direct (core) mobilization ratio	1:4
Indirect (catalytic) mobilization ratio	3.2:1
Projects deployed along IDB Group resources	≥10
Net Promoter Score: IDB Lab's role as agent for development knowledge	TBD
Net Promoter Score: IDB Lab's role as agent for innovation finance	TBD
Net Promoter Score: IDB Lab's role as connector agent	TBD

55 The main changes were (1) a new hierarchy; (2) more emphasis on knowledge and connections; (3) harmonization of strategic alignment and mobilization indicators with IDB Group practices; (4) adjustment of portfolio-level indicators to reflect IDB Lab's role of experimentation and learning; (5) dropping of some indicators that did not reflect IDB Lab's role as a lab; and, (6) a proposal to conduct more sophisticated studies to assess more systemic impact.

Portfolio level	
Implementation	
Projects scoring high (green flag) on knowledge/insights	TBD
Technical cooperation projects scoring high (green flag) on implementation	TBD
Loans and equity investments scoring high (green flag) on implementation*	≥ 60%
Results	
Nr. of firms with increased productivity during the year**	≥ 375,202 (2019-2023) ≥ 40% women-led
Nr. of households with improved living conditions during the year**	≥ 914,385 (2019-2023) ≥ 50% held by women
Greenhouse gas emissions reduced/saved during the year	None

Source: OVE based on document MIF/GN-217-3.
Note: An asterisk (*) marks a CRF indicator. Two asterisks (**) mark gender-disaggregated indicators.

3.25 The design of the KPIs limits their usefulness for learning from IDB Lab's operations. The KPIs can show to what extent the mix of approved operations conforms to targets set at the aggregate level, and they can offer limited financial insights into[56] and perceptions about IDB Lab.[57] But they are of limited use for understanding the extent to which IDB Lab succeeds or fails at what it does. The few indicators that show results of IDB Lab operations during their implementation[58] focus on quantitative information at the end-beneficiary level. This makes them relevant for assessing the reach of innovations once they attain scale, but not for meaningfully measuring results from small-scale testing and piloting, early growth, or even design—the stages typically supported by IDB Lab.[59] The "flag status," which indicates to what extent operations are implemented as planned or expected to recover IDB Lab's investment, does not necessarily align with the success or failure of the supported innovation, nor does it capture specific insights on underlying factors.[60] There is one indicator related to knowledge generation

56 KPIs track cost and resource mobilization indicators, but not revenues or returns from operations, nor Donor contributions.

57 The net promoter scores for IDB's role as a connector, financier, and developer of knowledge are based on surveys sent to IDB Lab counterparts.

58 Number of companies with increased productivity, number of households with improved living conditions, number of jobs created, greenhouse gases avoided.

59 Measures more immediately relevant to these types of operations could, for example, be the extent to which innovations supported by IDB Lab obtain follow-on funding, whether they were able to successfully test their product or intervention model and apply it to more settings, generate relevant evidence on their effectiveness and/or financial viability, and/or whether relevant lessons learned were extracted and disseminated to relevant audiences, including in the event of failure.

60 For nonreimbursable operations, the flag status is mainly based on timely compliance with agreed milestones, and its usefulness for capturing success and failure therefore depends on how milestones are defined. For reimbursable operations, the green flag status is based on expectations for financial recovery of the original investment and therefore correlated with the success or failure of supported investments but does not

from operations—projects scoring high on knowledge/insights—but it has not yet been defined. The iDELTA contains a wealth of relevant information about project characteristics, but it captures only ex-ante expectations and not actual outcomes.

3.26 Practical considerations pose additional challenges for using the KPIs to show meaningful results and learning. There are two issues. First, the scaling indicators inconsistently define the unit at which to measure scale, and are unclear on how to differentiate scaling from growth.[61] Second, KPIs are tracked over too short a period to capture all instances of successful scaling or to measure results at scale, particularly for TCs which are typically completed after about three years. Since IDB Lab's contractual relationship with executing agencies ends after project closure, it would require additional resources to collect meaningful data on these indicators at a later stage. Gathering and verifying information on impacts on end-beneficiaries, such as the poor and vulnerable, can moreover be costly because it is often difficult to identify the relevant beneficiaries and collecting data on them, especially if IDB Lab has supported intermediaries such as funds, accelerators, or incubators. The recent revision of the Lab's KPI framework proposed more systematic studies on impacts, but offered few specifics.

3.27 Recognizing the limitations of measuring results based on expectations and client reporting alone, some peers have implemented complementary approaches to generate richer insights. Meaningfully measuring innovation and its short- and long-term impacts is a widely recognized challenge, and there is no clear best practice on how to go about it.[62] A few peers—IFC, DFC, Acumen—score projects ex-ante for expected development impact, similar to IDB Lab, and several peers supplement regular data reporting from clients during implementation with more extensive efforts to collect relevant information. GIF and DIV fund rigorous assessments of impact, cost-effectiveness, and scaling

---

offer more specific insights. This is the case not only but especially for investments through funds, for which recovery expectations are a product of multiple underlying investments. A relevant indicator would be operations with a green+ status, which shows which investments are expected to generate a positive return and therefore more strongly correlates with the success of supported solutions, as for growing further and receiving follow-on investments, private investors typically require not just investment recovery but a certain level of positive returns.

61 In the annual client surveys used to collect these data, scaling is defined as growth beyond the "IDB Lab–supported project," which may not be a concept that is uniformly understood by all clients. It also raises questions about how IDB Lab expects to collect this data before the IDB Lab–supported project ends, and what clients would report for projects that support the scaling stage itself. For illustrating the unit for calculating scale, the survey uses "number of clients," which may in some cases be different from the "number of beneficiaries" stipulated by IDB Lab when defining these indicators internally (document MIF/GN-217-3) and can therefore lead to differences between what clients report and what internal audiences, such as Donors, understand this indicator to mean.

62 See, for example, OECD (2019) or IDIA (2017b).

of supported solutions, including through studies that assess impacts of groups of projects long after GIF's and DIV's support has ended. ACUMEN uses mobile technology to quickly collect information directly from customers of the social enterprises they support, even in the most remote areas. Omidyar Group funds evaluation efforts and the collection of additional data beyond client reporting, such as through surveys, to learn quickly and comprehensively about what works, what does not work, and why.

d. On promoting environmentally sound and sustainable economic development, as well as gender equality and diversity

3.28 IDB Lab measures and tracks various metrics about the cross-cutting topics (i.e., gender, diversity, and sustainability), which also feature prominently in IDB Lab's strategic focus documents, initiatives, and operations. The iDELTA assesses whether solutions are aligned (*ex-ante*) to the three cross-cutting topics and scores the extent to which proposed solutions mitigate relevant risks and aim to create benefits for the environment and relevant populations. The relevant iDELTA subdimensions are also used to track and report the three KPIs that set portfolio-level targets regarding these cross-cutting topics.[63] Several lines of intervention that address cross-cutting topics are mentioned in IDB Lab's thematic papers that describe and define its priority areas,[64] and a preliminary analysis conducted by OVE suggests that these topics are at least explicitly mentioned in the objectives of significantly more IDB Lab projects approved since mid-2016 than before (Figure 3.2). IDB Lab also participates in initiatives with an environmental or gender focus and has launched several calls for proposals related to these topics, including for VC funds.[65] Moreover, one of IDB Lab's thematic circles is dedicated to gender issues. Most IDB Lab operations are classified to imply only limited environmental and social risks,[66] whereas more than a quarter (28%) are not classified at all. Before analyzing individual operations in phase two of the evaluation, OVE can, however, not

63 See Table 3.2 above. None of the KPI thresholds for the three cross-cutting topics was reached in 2020, and only the gender equality and diversity KPIs reached their targets in 2019.

64 The KEC paper (document MIF/GN-241-1) establishes that IDB Lab will target vulnerable youth, workers in displaced industries, workers at older stages of life, people with disabilities, and women for preparing for the Future of Work; support funds that address gender and diversity gaps; and build support networks that link women entrepreneurs to capital. The CSA paper (document MIF/GN-237-1) proposes to develop new natural capital markets to conserve/restore ecosystems and develop methods to monetize the value of natural capital for its conservation and restoration.

65 The initiatives include WeXchange (for women entrepreneurs in STEM) and Latitud R (focused on recycling), and the calls for proposals include "blue tech" and "rethink plastics" challenges.

66 IDB Lab operations are screened for environmental and social risks before approval with the help of an IDB Invest environmental and social specialist. 57% of IDB Lab operations approved since 2012 have been classified as the lowest-risk (C) category, and only 2% of operations under a moderate level of potential impact (category B). 14% are exceptions to the classification system (category B13).

determine whether IDB Lab adequately screens its operations for environmental and social risks, whether any risk mitigation measures are adequate, and to what extent IDB Lab operations make meaningful contributions to environmental sustainability and gender and diversity objectives.

e. Operates in close alignment with and complements the Bank and the IIC (now IDB Invest):

3.29 IDB Lab has worked to further define how it meets the MIF III mandate to align with and complement the rest of the IDB Group. This effort has gained importance as potential transfers from IDB and/or IDB Invest are considered by IDB Lab among the future alternatives to periodic Donor contributions. IDB Lab's 2019-2021 Business Plan outlines three avenues for work with the rest of the IDB Group. One relates to innovations being scaled through their application in IDB public sector operations, in part addressing OVE's 2013 recommendation to specify and clarify the role of the public sector in scaling up innovation. The second is scaling through follow-on investments by IDB Invest. The third refers to more general and upstream collaboration to enhance the IDB Group's value proposition. Each of the suggested avenues implies different strategic directions for IDB Lab, and they all require extensive coordination and collaboration with the rest of the IDB Group to ensure alignment and complementarity.

3.30 IDB Lab has engaged in numerous efforts to foster alignment and collaboration with the rest of the IDB Group. IDB Lab has modified its development effectiveness approach to better align to the Group's CRF, and the iDELTA tool assesses the alignment of IDB Lab operations to IDB Group's priorities. At the country programming level, IDB Lab has provided inputs to several country strategies,[67] and interviews show Country Representatives involving IDB Lab specialists, with increasing regularity, in planning exercises, discussions, meetings, and visits. In addition, a public-private coordinator was assigned to each of the Bank's regions to find synergies across the IDB Group, including between IDB Lab and the rest of the Group. Thematic and sector coordination is facilitated through regular communication between IDB Lab and relevant areas in the rest of the IDB Group—for example, in biweekly coordination meetings at the management level, periodic thematic discussions (such as the "fintech hour"), as well as increasing, albeit heterogeneous, coordination efforts with

67 In a review of 49 of the most recent current and predecessor country strategies (CS), OVE found that the formal inclusion of IDB Lab has remained stable over the past few years, with more than half the country strategies not listing IDB Lab team members. More recent CS show informal collaboration and relevant inputs provided by IDB Lab, as recent CS have increasingly contained more details about IDB Lab's activities in each country, as well as guidance on collaboration with the rest of the Group. For more detail, see Annex VI.

the other laboratories housed in VPS.[68] In 2020, IDB Lab created eight thematic and four regional "circles." Their members meet regularly to facilitate information exchanges between IDB Lab and other IDB Group operational staff who work on similar topics.[69] At the operations level, IDB Lab has significantly increased the inclusion of relevant staff from the rest of the IDB Group in project teams.[70] Moreover, innovation experts from IDB and IDB Invest are permanent members of IDB Lab's "Ideate" jury; and IDB and IDB Invest Management members are part of IDB Lab's QRR committee for grants (IDB) and the transaction committee for reimbursable operations (IDB Invest). Other IDB and/or IDB Invest staff are periodically invited to Ideate pitch sessions as members of the jury or as guests. At the high strategic level, the latest Update to the Institutional Strategy was for the first time jointly prepared by IDB, IDB Invest, and IDB Lab.

3.31 Joint initiatives and thematic calls for proposals (challenges) have been another area of collaboration. Several divisions of the Bank have used the IDB Lab-led platform LACChain, and the fAIr LAC initiative was developed jointly by IDB Lab and the Social Protection and Health Division (SPH). IDB Lab has also launched a series of calls for proposals with other divisions, including the "Rethink Plastics" innovation challenge with several other areas of IDB Group,[71] the "Beyond Tourism Challenge," with the collaboration of IDB Invest and the Climate Change and Sustainable Development Division (CSD), and the "Better Together" challenge in partnership with the Migration Unit and the external partner USAID. Additionally, IDB Lab has partnered with other divisions in the elaboration of knowledge products, such as a publication on the "Silver Economy" published in 2020 in coordination with SPH and IDB Invest, and a book on digital self-sovereign identity, digital wallets and blockchain with ITE. An important recent collaboration effort with SPH was the joint design of a call for proposals for innovations that help address the COVID-19 pandemic and its impact (Box 3.2).

68 In interviews, most heads of the VPS innovation labs state that they coordinate and collaborate with IDB Lab, but the intensity varies. IDB Lab has coordinated and collaborated more with the Natural Capital Lab, Compete Caribbean, and the Retirement Savings Laboratory than with the I-lab and the Cities Lab, although they work on similar issues as IDB Lab. See also Annex VI.

69 Thematic circles have been created for financial inclusion, green growth, gender, diversity, essential services, twenty-first century skills, health, and agriculture.

70 An OVE analysis of IDB Lab approval documents shows that in 2014–15, 24% of approved projects had at least one project team member who was a sector specialist from IDB or IDB Invest. In 2019/20 this share had increased to 79%.

71 It included the Climate Change and Sustainable Development Sector (CSD), Infrastructure and Energy Sector (INE), Knowledge, Innovation and Communications Sector (KIC), Office of Outreach and Partnerships (ORP), Office of the President (PRE), and IDB Invest.

Box 3.2. Collaboration between SPH and IDB Lab on the COVID-19 response

In 2020, IDB Lab released a special call for innovative solutions from across the region to combat COVID-19 and the pandemic fallout. IDB Lab had coordinated closely with SPH experts on the design of the criteria for the call, and IDB Lab and SPH jointly evaluated and selected proposals, including at the country office (COF) level. A total of 20 initiatives were selected to be funded with up to US$150,000 using its prototype TC format. For some of the initiatives, SPH is expected to facilitate the scaling of successful innovations through Bank loans. Another area of coordination with SPH was for the creation of the COVID-19 Digital Connector platform, which is intended to serve as a mechanism for coordination, collaboration, and dissemination of the digital innovations available globally for the benefit of vulnerable populations in the context of the COVID-19 pandemic (https://bidlab.org/en/digital-connector/home). In total, IDB Lab has approved US$40 million and mobilized US$188 million in 71 operations related to the COVID-19 response.

Source: Document MIF/GN-249 and data warehouse.

3.32 IDB Group staff and Management highlight several positive aspects of collaboration. Interviews with IDB and IDB Invest counterparts point to perceived improvements in collaboration, alignment, and communication, especially at the management level in recent years. Survey respondents and interviewees highlighted the work of IDB Lab in building innovation ecosystems and its network of contacts in particular.[72] When collaborating on IDB Lab operations, most IDB/IDB Invest specialists were satisfied with IDB Lab specialists' responsiveness and technical knowledge,[73] and a majority of IDB Lab staff considered the involvement of other IDB Group specialists to have led to at least marginally better project design.[74] Whenever IDB Lab specialists collaborated on IDB or IDB Invest operations, most IDB/IDB Invest specialists were satisfied with IDB Lab's involvement, recognized IDB Lab's value added, highlighted the IDB Lab specialists' willingness to collaborate, their knowledge of private sector actors, and the good personal relationship (see Annex III for more detail).

3.33 Several challenges remain, however, with unclear IDB Lab priorities emerging as an area of particular concern. Surveys and interviews point to an absence of knowledge of and clarity about IDB Lab's lines of work and priorities among IDB and IDB Invest

72 78% of IDB and IDB Invest specialist survey respondents who indicated any work-related connection to IDB Lab (78% of total respondents) stated that "IDB Lab established contact with other relevant actors in ecosystems for innovation, which have later been, or can be, used by the rest of the IDB Group".

73 Of the IDB and IDB Invest specialists who indicated collaboration with IDB Lab in the survey, 92% considered the availability and responsiveness, and 83% the technical knowledge of IDB Lab specialists, very or mostly satisfactory. See also Annex III.

74 58% of IDB Lab staff respondents reported collaboration with IDB to have resulted in significant improvements in IDB Lab projects (31% in marginal improvements). For collaboration with IDB Invest, 29% of respondents indicated significant and 52% marginal improvements (see Annex III).

specialists,[75] which affect their incentives to collaborate with IDB Lab.[76] Whereas IDB Lab team leaders are encouraged or required to include relevant IDB Group specialists in project teams, there are fewer, and inconsistent, formal incentives for collaboration from the rest of the IDB Group . Interviews and surveys also point to instances in which the inclusion of IDB or IDB Invest staff in project teams is perceived more as a formality, with collaboration more superficial than substantive.[77] Collaboration mechanisms tend to be informal and often rely on personal relationships.[78] Regarding any barriers to "added value" from IDB Lab, IDB and IDB Invest specialists repeatedly cited the Lab specialists' perceived high workload, despite their perception that IDB Lab staff were willing to collaborate. Efforts by VPS to involve IDB Lab in the elaboration of relevant Sector Framework Documents has been inconsistent,[79] and coordination between IDB Lab and the innovation labs housed in VPS is heterogeneous, with a need to better delineate and define roles and responsibilities to ensure complementarity and avoid confusing IDB Group's clients[80] given the closely related and partly overlapping areas of activity. Interviewed IDB Management and staff also repeatedly expressed doubts about the practicality of collaborating for the purpose of scaling IDB Lab-supported innovations through IDB operations with the public sector, emphasizing instead the value of cooperating with IDB Lab in building innovation ecosystems and fostering new ideas more generally.

3.34 In summary, IDB Lab has significantly increased its collaboration with the rest of the IDB Group, but not all of these efforts are perceived to be efficient and effective. IDB Lab has increased coordination at the management level, more consistently brought other IDB Group specialists into IDB Lab operations, and created

75 Among the 22% of survey respondents who did not collaborate with IDB Lab, 39% state their lack of familiarity with IDB Lab's lines of work as a reason.

76 Several IDB and IDB Invest specialists described their efforts to pitch opportunities to IDB Lab, but that these were not taken up, often without explanation. A common theme among IDB and IDB Invest specialists was that they did not understand why IDB Lab supports certain operations and not others.

77 A survey conducted by OVE among IDB and IDB Invest specialists reveals that of those who have collaborated as a team member in IDB Lab operations, 13% describe their participation in none of the project cycle stages as mostly or very active. A perceived lack of IDB Lab interest in more active contribution was cited as a reason in interviews and the survey.

78 OVE interviewed 10 heads of those IDB divisions that showed the highest instances of collaboration according to IDB Lab's approval documents since 2012. Six of them state that informal relationships within the IDB Group still play a crucial role in collaboration. Several specialists also pointed this out in the survey conducted by OVE, expressing the need for more formal and institutional channels and incentives for collaboration.

79 OVE reviewed 46 Sector Framework Documents (SFDs), which show the formal participation of IDB Lab in 8 (17%). Of the 22 current SFDs, only 4 included formal IDB Lab participation, but 13 mentioned IDB Lab activities (mostly examples IDB Lab projects, studies, or other knowledge products).

80 The website http://www.bidinnovacion.org, for example, leads external audiences to CTI's I-Lab, and it may not be obvious to them that the I-Lab is distinct from IDB Lab.

spaces for exchange among colleagues working on similar issues across the Bank. IDB, IDB Invest, and IDB Lab staff generally have a positive perception of the value the different parts of the Group add to each other. However, the effectiveness and efficiency of some of the collaborations are still constrained by a lack of more clarity, particularly among staff, about IDB Lab's priorities. Moreover, some IDB and IDB Invest specialists consider that their inclusion in IDB Lab operations is mostly a formality, with limited room to make substantive contributions. Finally, interviews with IDB specialists and Management reveal doubts about the efficiency of collaboration efforts aimed at pursuing the public sector scaling path through IDB operations.

f. On complementing and partnering with others (external partners):

3.35 Interviews with innovation ecosystem participants suggest that the products IDB Lab offers continue to be generally complementary and relevant. In the paper on innovation ecosystems commissioned for this evaluation, the region's investors and other market participants expressed a desire for IDB Lab to help convey advice to governments about the frameworks needed for fostering innovation. They furthermore mentioned a role for IDB Lab to complement their activities by acting as a connector within and between the region's innovation ecosystems, including for the many countries in which startups face a small domestic market and therefore need to connect to other ecosystem to reach scale. Participants also highlighted the continuing need for financing (which is still scarce, especially in series A and beyond) and pointed to IDB Lab's importance in reducing risk perceptions by co-investing through funds or directly with regional and other investors. Finally, respondents expressed strong interest in learning more about IDB Lab–supported operations, especially what did and did not work, and why.

3.36 Except for its recent equity strategy, IDB Lab's strategic orientation would, however, benefit from more specificity in how IDB Lab intends to complement other market participants across markets. OVE cannot ascertain to what extent IDB Lab actually complements others through its operations without taking a closer look at them (the object of phase two of this evaluation). The paper on innovation ecosystems in LAC points to considerable heterogeneity in needs across countries and sectors. This suggests that ensuring IDB Lab's complementarity is likely to require a differentiated approach depending on country and market circumstances. Whereas the lack of financing and a desire for IDB Lab to act as a connecting agent is common to most countries, the specifics of what financing stages show the most need and which connections are seen as most useful

differ substantially. IDB Lab's recent equity strategy more clearly relates IDB Lab's approach to evolving market circumstances, but other parts of IDB Lab's strategic priorities would benefit from a more explicit discussion of whether and how their focus and implementation relate to country and sector specifics.[81] IDB Lab's complementarity could also be made more explicit for some IDB-Lab-supported regional platforms that appear similar to existing initiatives of other market participants.[82]

3.37 A recent shift by IDB Lab toward offering very early-stage innovation support has raised questions about the stages at which IDB Lab can provide the most value-added and complementarity. With the recent introduction of its "prototype" TC product line,[83] IDB Lab began offering TC support at the design stage of innovations. Earlier innovation support can offer advantages, such as introducing inclusive designs into tech solutions to ensure they can benefit poor and vulnerable populations. The commissioned paper on LAC innovation ecosystems, however, points to a higher need for post-R&D financing, when there is less institutional support at the national level. Moreover, several OVE interviews show current and former IDB Lab and IDB Management questioning the value added by IDB Lab at these very early stages given the comparative advantage IDB Lab is perceived to have in the piloting and testing phases, when innovations are applied in a market setting for learning and preparing for eventual growth. This opinion is based on perceptions that IDB Lab lacks the deep technical and sector expertise required to distinguish promising from less-promising solutions in the R&D and prototyping phase. According to the same interviews, IDB Lab's ability to support stages after testing and piloting (such as growth and scaling) is constrained by the limited resources it can deploy given its size. Surveys[84] also show, although there was a range of opinions, that respondents believe IDB Lab adds the most value at the innovation stage of testing and piloting.

81 This is especially the case for IDB Lab's support to comparatively better-served sectors such as fintech, those countries where VC funding is most concentrated, and those stages (design/pre-seed and seed) which appear to be more covered by other financing sources in many countries.

82 PitchBook, for example, offers deal sourcing, business development and networking among their solutions (which could be similar to NeXT and Kala's value propositions); and Responsible Data (RD) promotes the adoption of responsible data practices, addressing ethical, legal, social and privacy-related challenges (showing similarities with IDB Lab's fAIr LAC platform).

83 Prototypes were introduced in 2019 (document MIF/AT-1565), and their budget increased during 2020 (document MIF/AT-1565-1). The number of prototype projects in 2020 was 33, compared to a target of 6 and to the 5 approved during 2019, based on document MIF/GN-249-3.

84 Surveys of IDB Lab staff and Country Representatives. See also Annex III.

3.38 IDB Lab partners extensively with external market participants. IDB Lab operations are executed by and through executing agencies and can involve additional external partners. IDB Lab also partners with other investors or philanthropists to mobilize resources toward IDB Lab operations or other initiatives, and it collaborates with others on knowledge products and events. Data quality and completeness are limited in IDB Lab systems, so OVE is not able to fully analyze the extent of collaboration with external partners in phase one of the evaluation, which is based on information available at the aggregate level. A preliminary review of the available data shows that, in the context of its operations, IDB Lab has worked with 338 different executing agencies from 25 countries since 2016. Whereas information on external partners other than executing agencies is not collected in IDB Lab systems, an OVE analysis using intelligent text analysis tools of IDB Lab Donors Memos indicate that collaboration with additional outside partners in IDB Lab operations has increased in recent years.[85] IDB Lab has also worked on several challenges and initiatives with more than 130 external partners,[86] including private companies, corporate foundations, academia, development banks and NGOs, although their role is not always clear. For example, 37 external partners participate on the LACChain platform, 21 are involved in fAIr LAC (including Google, Microsoft, Telefónica, Facebook, and the World Economic Forum), and the "play" challenge launched in 2020 involved 20 different partners. INTEcGRA, both a challenge and pilot for resource mobilization, includes funding from USAID, PepsiCo, Danone, Coca-Cola, and others. Recently, Google, through Alphabet Capital, committed resources for the Locfund Next regional fund (document PR-4846).

g. Summary

3.39 IDB Lab's strategic focus and corporate setup need improvements to ensure that resources are used in a way that maximizes development impact. IDB Lab's too-broad strategic focus risks dispersing its portfolio and thus impact. Certain aspects, such as the emphasis on technology and the commitment to approve operations in all countries, furthermore, lack specificity on whether and how they can overcome challenges to fulfilling some of IDB Lab's mandates. IDB Lab has a set of KPIs, and it scores projects for expected development effectiveness and alignment with its mandates, but these tools have limited utility for showing and understanding the

85 Donors Memos mention external partners (other than executing agencies) in 20.8% of projects in 2016-2020, compared to 14.4% in 2012-2015.

86 Based on information available on the challenge websites and guidelines, and documents MIF/GA-32-2 and MIF/GN-249-3.

results of the types of operations IDB Lab supports. IDB Lab also lacks sufficient focus in its knowledge activities given its limited resources, and it still struggles to extract and impart information about the knowledge and learning gleaned from its operations—despite the vital importance such learning has for its role as a lab. The Fund has begun to improve its systems, which is necessary as these are not yet suitable for consistently aggregating and relaying information on implementation progress and results, nor on the drivers behind success and failure of IDB Lab operations. IDB Lab has stepped up its collaborations with the rest of the IDB Group, but Lab's role and collaboration priorities still need more definition and focus to ensure the effectiveness and efficiency of these efforts. IDB Lab's products are considered generally relevant and complementary by other market participants, but the Lab's strategic focus could benefit from greater specificity on its approach to addressing differences in market needs across LAC to ensure complementarity and additionality.

2. How IDB Lab uses its inputs to optimize resources

3.40 This section discusses the funds IDB Lab has at its disposal and whether and how IDB Lab optimizes the use of these funds in the pursuit of its mission. According to the theory of change set out in Figure 2.1, above, IDB Lab is to use its resources efficiently, mobilize resources and crowd in partners, adopt risk levels in accordance with the mandate to test the success and failure of innovative solutions, and learn from successes and failures. This section (a) describes IDB Lab's sources and uses of funds as well as resource mobilization; (b) discusses efficient use of resources; and (c) explains the adoption of appropriate risk levels. For OVE's findings on learning, refer to section III.B.1.b of the report.

a. Sources and uses of funds, resource mobilization

3.41 IDB Lab is funded primarily through periodic replenishments of its capital by Donors.[87] For the second replenishment (MIF III), approved in 2017 and effective in 2019, Donors agreed to contribute US$311.7 million, which in real terms was about 50% of the previous replenishment, and 14% of the resources the MIF was first established with.[88] Assuming IDB Lab maintains annual approved amounts of US$85 million, the expected

87 A small part of IDB Lab's administrative expenses is funded from other sources (Productivity Fund established with special contributions from China to finance certain activities to strengthen IDB Lab's capabilities; small fees from trust funds when IDB Lab uses their resources in core mobilization; funds from IDB to finance administration of the SEP).

88 IDB Lab's original contributions at its establishment in 1992 (MIF I) totaled US$1.3 billion, and its first replenishment (MIF II), approved in 2005 and effective in 2007, totaled US$502 million. See also Figure 1.1.

time until fund depletion is much briefer for MIF III (5 years) than the periods before the replenishment rounds after MIF I (15 years) and MIF II (12 years). For the MIF III replenishment, Donors tasked IDB Lab to seek alternatives to relying primarily on Donor replenishments.

3.42 The increased share of reimbursable operations raises expectations for higher future reflows, but their magnitude is uncertain at this point. IDB Lab provides its funding in the form of grants, loans, and equity investments. The share of loans and equity investment (L&E), classified as "reimbursable" products, has risen from 36% of total approval amounts between 2012 and mid-2016 to 51% since mid-2016. Any reflows from reimbursable products can be reused in new operations, extending the life of the Donor-provided capital. Generating reflows from increased reimbursable operations is uncertain and will take time, however, due to the long-term and risky nature of equity, IDB Lab's main reimbursable product. In the short term, IDB Lab's ability to use its income for financing its expenses is also constrained by the need to provision for rising L&E disbursements:[89] net income from L&E operations has been negative in all years since 2015 (Figure 3.7). During that period, gross income from L&E operations has been between 2% and 4% of IDB Lab's outstanding L&E balance, which has seen an annual average of 5.4% in writeoffs.[90] Whereas total net cash flows from operations have been less negative in recent years, this is mainly due to lower grant disbursements, as net cash flows for loan and equity (L&E) operations alone have turned more negative due to increased disbursements (Figure 3.6). In line with expectations, IDB Lab has thus far not generated overall positive returns on its equity operations, and only modest positive returns on its loans.[91]

89 IDB Lab's current provisioning levels—set at a flat 40% of the invested amount for equity and 10% for loans—far exceed historically observed average loss levels (11% for equity vs. more than full principal recovery, on average, for loans).

90 Based on annual financial statements 2012-2019.

91 Based on closed operations, IDB Lab has recovered an average of 0.89 cents per dollar of equity invested and 1.13 dollars per dollar lent (including interest and fees). For loans, this corresponds to a weighted average nominal IRR of 5.3% and an average annual nominal interest earned of 2.2%. While returns of equity investments have been negative, their performance has been better than projected around the MIF III replenishment. These return numbers are in large part driven by operations approved before the MIF III replenishment. Due to the long-term nature of equity returns, it is not yet possible to determine whether investments made since 2016 perform better or worse than those made earlier.

Figure 3.6

Net cash flow from operations

Source: OVE elaboration based on IDB Lab financial statements. 2020 numbers are unaudited.

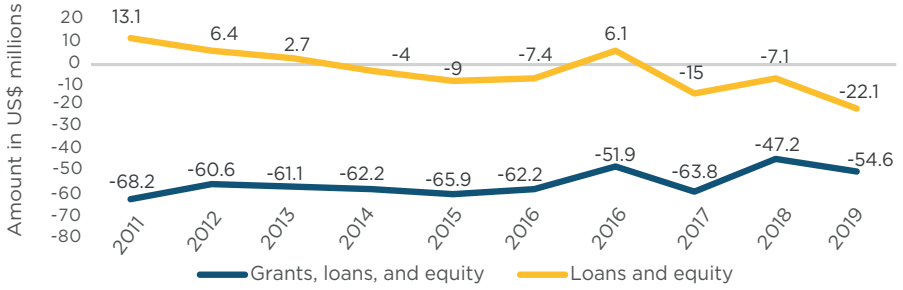
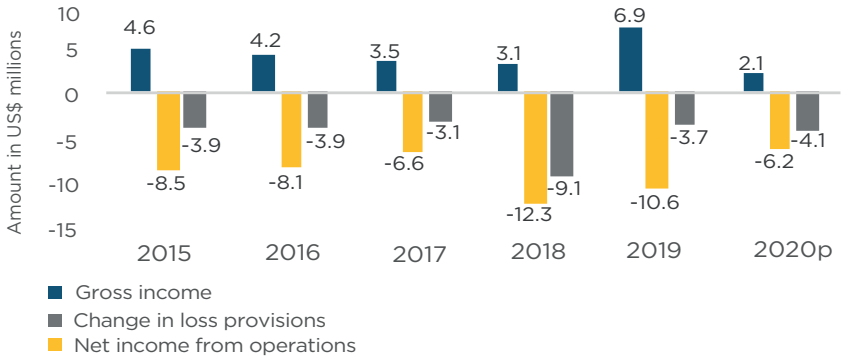


Figure 3.7

Net income from L&E operations

Source: OVE elaboration based on IDB Lab financial statements. 2020 numbers are unaudited.



Note to both figures: Net flows subtract outflows (disbursements) from inflows (loan collections and recuperations, equity investments return of capital, loan and equity investment income) from IDB Lab's operations.

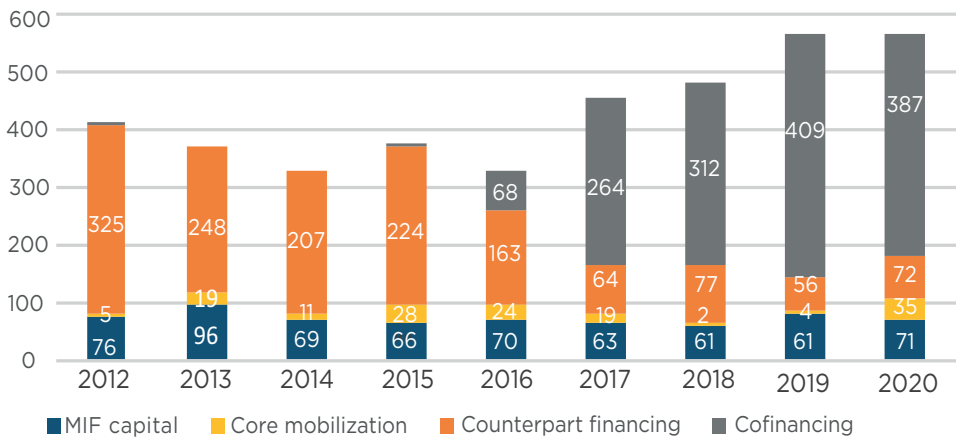
3.43 Based on data available at the aggregate level, resource mobilization has increased in recent years. In addition to its own capital, IDB Lab can also channel money from other sources to its operations. This mobilization of resources is not only a function established by the MIF III Agreement, but the expectation for IDB Lab to find alternatives to traditional Donor funding also implied an aspiration for IDB Lab to increase its resource mobilization from other sources. IDB Lab tracks three kinds of resource mobilization: resources from other donor trust funds managed by IDB and channeled to IDB Lab operations ("core" mobilization); counterpart financing by clients/executing agencies; and resources from third parties (which include, for example, foundations or other donors, in addition to impact and commercial investors) reaching IDB Lab operations directly (together, the latter two are referred to as "catalytic" mobilization by IDB Lab). Whereas for IDB Invest, the concepts of core and catalytic mobilization roughly correspond to how instrumental IDB Invest was in mobilizing these resources (with core signaling a more active role than catalytic mobilization), a similar interpretation is less clear

for IDB Lab. According to data contained in IDB systems,[92] catalytic resource mobilization has increased in recent years (Figure 3.8), although its sources are difficult to interpret based on aggregate data as there are, reportedly, issues of consistency with data recording. Equity tends to mobilize the most resources: since 2016, equity operations have mobilized on average US$12.5 for every US dollar invested by IDB Lab, compared to US$2.3 by loans and US$2.1 by grants. Another plausible form of resource mobilization—additional financing IDB Lab investee companies can obtain due to their strengthened capital—is not tracked.

Figure 3.8

Resource mobilization by MIF capital projects

Source: OVE elaboration based on data in the IDB data warehouse.



Note: Excludes cancelled operations, SEP operations, approvals not classified as operations, and mobilization by projects not involving MIF capital. Mobilization of investments made over several years was counted in the year of first disbursement.

3.44 IDB Lab's peers highlight tradeoffs to diversifying the funding base. In the context of the MIF III Agreement, IDB Lab was tasked by Donors to explore alternatives to traditional donor funding. One option is higher and more systematic mobilization of donor funds from other sources. IDB Lab's peers report that while tapping more donors can increase funding, it can also add cost[93] and complexity, in that diverse donor interests can create pressure to gradually expand the recipient organization's mission beyond its original scope. These tradeoffs are relevant for IDB Lab given its burdensome governance structure (Paragraph 3.53 below) and broad mandate.

92 Mobilization amounts presented here are entered by IDB Lab into IDB systems at approval and usually not updated thereafter. OVE's second phase of the evaluation will review whether mobilized amounts reported during implementation differ from the amounts recorded in IDB databases.

93 For example, GIF dedicates 2.5 full time staff to fundraising and donor relations management. It has also implemented a tiered governance structure to allow for different levels of influence by different funders. See also Annex VII.

3.45 IDB Lab has reduced its administrative expenses substantially. Amid concerns about the strong growth in the MIF's personnel and budget,[94] Management began to rein in spending in 2015. In 2016, Governors mandated that the MIF cut administrative expenses and seek efficiencies as Donors deliberated on a second (MIF III) replenishment. To address this mandate, an action plan (document MIF/GN-222-1) was developed by a working group including Management and staff from IDB Lab, IDB, and IDB Invest. As a result of this action plan and prior measures, IDB Lab cut spending from its administrative budget by 22% from its 2014 peak, while expenditures from its main additional funding sources[95] decreased by 67%. The cost savings from the administrative budget came almost entirely from cuts in personnel costs. The COVID-19 pandemic recently reduced travel and other nonlabor costs. Expenditures for IDB Group service provision, by contrast, grew, since some of the labor cost reductions were achieved by outsourcing certain activities to other parts of the IDB Group.[96] After initial cuts, which were steeper than projected), spending has trended up in the two most recent years but remains below historic levels.

3.46 IDB Lab has cut its workforce and focused it on operations. IDB Lab's 2016-2018 Business Plan (document MIF/GN-208-1) in the runup to the latest capital replenishment concluded that the IDB Lab team had grown too large, become too dependent on consultants, concentrated at the Washington, DC, headquarters (HQ), and performed support activities that could be provided by other areas of IDB Group (such as IT system support, development-effectiveness assessments, and communication). As a result, IDB Lab Management cut the number of staff members and consultants (in full-time-equivalent positions, or FTEs) by more than half (from 195 to 91 between 2015 and 2020), while the share of consultants fell from 49% to 31%. Since cuts to support functions were steeper than for operational functions,[97] the share of FTEs in operations rose from 50% to 68%. Country office personnel responsibilities were shifted from fiduciary supervision—which has been increasingly outsourced to a newly created Service

94 The size of total personnel (staff and consultants) had grown from 78 in 2007 to 195 in 2015, and budget spending (including MIF administrative budget and other funds) had almost doubled during the same period. MIF administrative budget spending alone had grown by 35%.

95 While transfers from the IDB for administering the SEP and from the Productivity Fund continue, the use of other accounts (Agenda, Impact Evaluation, Regional Projects) fed by allocations from IDB Lab operation budgets has been largely phased out.

96 A new service provision framework, introduced in 2018, based costing of services on marginal cost instead of the prior payments of a general overhead of 10% of IDB Lab salary costs. Under the new framework, IDB Lab signs service agreements every year with those IDB Group entities from which it procures services, specifying the scope of these services, metrics and standards of service expectations, and charges to be paid. IDB Lab currently has service agreements in place with nine IDB departments and with IDB Invest for four different service areas.

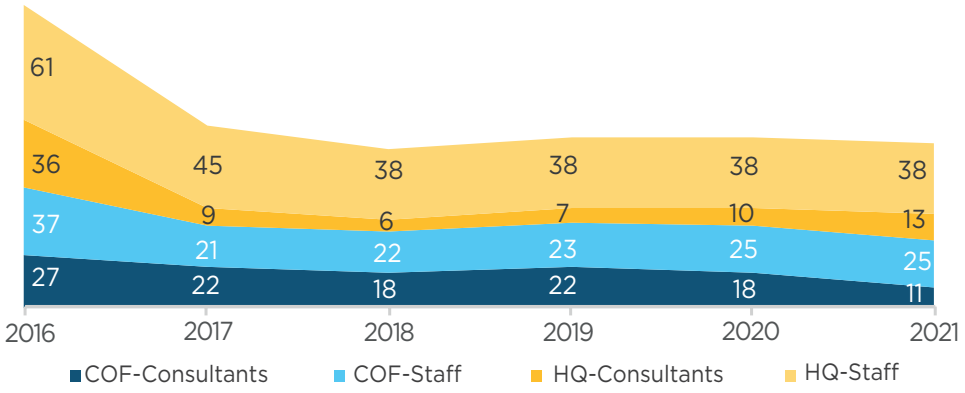
97 This was achieved in part by outsourcing certain nonoperational activities to IDB or IDB Invest, and in part due to certain activities, such as knowledge management, no longer being performed to the same extent.

Center in Costa Rica—toward project identification and design. The proportion of the workforce at COFs rose from 37% in 2015 to 50% in 2019 but is projected to drop to 41% in 2021 because of further transfers of fiduciary and administrative functions to the Costa Rica Service Center (Figure 3.9).

Figure 3.9

IDB Lab workforce in full-time equivalent (FTE) positions, 2016–21

Source: OVE elaboration.



Note: 2015 is not included as this detailed breakdown is only available since 2016. 2020 and 2021 numbers are projections made in November 2020. Staff numbers are as of year-end; consultant FTEs include those financed with third-party funds and non-MIF budget funds but exclude product and external services consultants (PECs) and cost-shared consultants assigned to other IDB departments.

b. Efficient use of resources

3.47 IDB Lab's cost reductions have improved its simple efficiency metrics. Given the drastic cuts to its workforce and the more modest reductions in approvals (Figure 2.4), simple efficiency indicators for IDB Lab have improved considerably (see Table 3.3).

Table 3.3. Workload and budget efficiency indicators

	2015	2020
No. of projects approved (2020) / total MIF FTE	0.5	1.4
US$ million approved (2020) / total MIF FTE	0.5	1.3
No. of projects approved (2020) / operational MIF FTE	1	2.1
US$ million approved (2020) / operational MIF FTE	1	2
No. of active projects / team leader	4.5	7.9
No. of projects in preparation / team leader	0.8	1.5
No. of projects in supervision / team leader	3.7	6.4
No. of projects approved / US$ million MIF admin. budget spent	3.0	6.2
US$ approved / US$ MIF admin. budget spent	3.2	6.0
Active projects / US$ million MIF admin. budget spent	13.2	22.1
US$ active projects / US$ MIF admin. budget spent	20.4	34.6

Source: OVE elaboration based on IDB Lab portfolio data, Work Plan and Budget documents, and documents MIF/GN-208-1 and MIF/GN-222-1.
Note: Approval numbers for operations involving MIF capital only. MIF FTE exclude FTEs financed by IDB resources to manage the SEP. The number of operational FTEs is an estimate, calculated by multiplying the total number of FTEs by the proportion of persons in operational units (Discovery/DIS, Investment/INV). MIF admin budget refers to all budget resources used except for those allocated by IDB for managing the SEP.

3.48 An absence of suitable benchmarks inhibits OVE's ability to put the efficiency metrics into more context. Based on the available data,[98] OVE cannot ascertain that some functions are performed more efficiently than others or evaluate the efficiency metrics further. Furthermore, it is difficult to benchmark IDB Lab's efficiency indicators given the absence of organizations with the same mandates and structure. Among the peers contacted for this evaluation, relevant indicators such as US$ million committed annually per dedicated staff (which is closest but still not comparable to operational IDB Lab staff)[99] range from 0.2 to 22 (with a median and mode of 1), whereas it is 1.9 for IDB Lab.[100] IDB Lab operations are very small, so efficiency measured in US dollar terms will not favor the Lab as compared with IDB and IDB Invest. Workload expressed as the number of projects per operational staff is much higher for IDB Lab than for IDB and IDB Invest (Table 3.4). On the one hand, the larger and more complex projects IDB and IDB Invest approve would explain that operational staff are in charge of fewer projects than their IDB Lab counterparts. On the other hand, the less-sophisticated, small IDB Lab clients might entail more work on preparation and supervision than for typical IDB and IDB Invest clients. In short, it is difficult to objectively establish whether IDB Lab staff workload is adequate for optimal performance.

Table 3.4. Efficiency metrics IDB Lab-IDB Invest

	IDB Lab (DIS, INV)	IDB (VPS, VPC)	IDB Invest (INO)
Operation amounts / operational staff			
US$ million 2020 approvals / operational personnel	1.9	5.0	22.9
US$ million active projects / operational personnel	11	32.8	137.8
Number of projects / operational staff			
No. of 2020 approvals / operational staff	2.0	0.4	0.4
No. of active projects / operational staff	7.0	1.7	3.6
Projects in preparation	*1.3*	*0.5*	*1.4*
Projects in supervision	*5.7*	*1.2*	*2.2*
No. of active projects / team leader	7.9	5.8	5.9
Projects in preparation	*1.5*	*1.8*	*2.3*
Projects in supervision	*6.4*	*4.0*	*3.6*

98 There is limited information on the cost of the functions IDB Lab performs as it only recently began to use time and labor recording. Interviews suggest that the quality of the data is still unreliable.

99 While some peers have similar objectives, each of them is too different from IDB Lab in terms of focus, products, business models, or structure to allow for meaningful comparisons. Resource and staffing needs differ, for example, between direct equity investments (which require more active involvement) and investing through funds, or based on differences in the peers' ability to use other resources, such as from within a larger organization or from external experts. For more detail, see Annex VII.

100 This differs slightly from the FTE number in Table 3.3 above as total Nr. of staff and consultants, and not FTEs, was used, to be more comparable to the type of personnel information provided by peers.

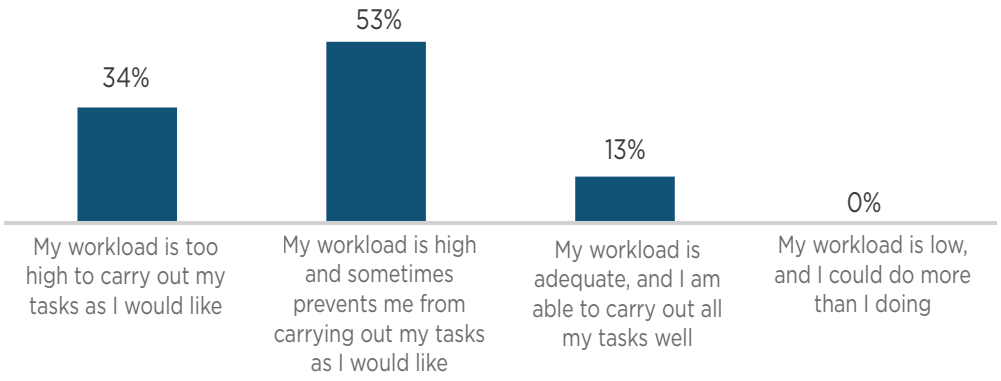
Source: OVE elaboration based in IDB data warehouse data and data provided directly by IDB Invest, the staff directory, and IDB and IDB Lab Work Program and Budget documents.
Notes: Personnel numbers include staff and consultants. For IDB, the total number of personnel in VPC (Vice Presidency for Countries) and VPS excludes KIC (Knowledge, Innovation and Communications Sector), RES (Research Department) and ESG (Environmental and Social Solutions Unit), the latter because IDB Lab personnel does not include environmental and social safeguards specialists, and was calculated by applying the ratio of total personnel/staff for all of IDB (based on information provided by the Human Resources Department (HRD) to 2020 VPC and VPS staff numbers contained in the 2021 Program and Budget Proposal (document GA-276-1). IDB approval and active project numbers include loans, guarantees, investment grants, grant facilities and TCs (TCPs). IDB Invest approval, active projects, and personnel numbers exclude short-term products and advisory services to ensure comparability.

3.49 Most IDB Lab staff perceive their workload as high or too high. In OVE's survey of IDB Lab staff, 87% of respondents rated their workload as high or too high to consistently perform all their tasks well (Figure 3.10). A perception of IDB Lab staff being overstretched was also repeatedly raised in OVE interviews with both IDB Lab and other IDB Group staff. Due to an unavailability of similar information for IDB and IDB Invest staff, OVE is however unable to ascertain whether workloads are perceived to be higher at IDB Lab than in the rest of the IDB Group. OVE is also unable to determine to what extent the current remote work circumstances given the COVID-19 pandemic were a factor driving the responses.

Figure 3.10

Survey question: to what extent does your workload allow you to perform your tasks and responsibilities in an appropriate manner?

Source: OVE survey of IDB Lab staff.

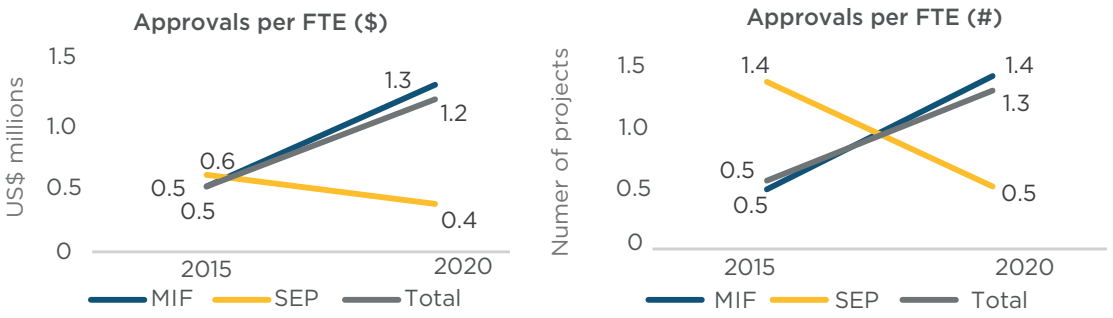


3.50 IDB funds to finance personnel to administer the SEP may partially cross-finance MIF expenses. IDB funds for managing the SEP finance a certain number of staff and consultants at IDB Lab. Regardless of their financing source (IDB of MIF funds), all IDB Lab personnel can work on both MIF and SEP projects. Whereas average MIF project approvals per FTE financed by MIF budget have risen strongly, the average SEP project approvals per FTE financed by IDB funds to manage the SEP have dropped (Figure 3.11), suggesting that resources for managing the SEP may in part cross-finance staff time spent on MIF operations.

Figure 3.11

Workload comparison, MIF-SEP

Source: OVE elaboration based on IDB Lab Work Plans, document MIF/GN-222-1, and the IDB data warehouse.



Note: "MIF" includes projects financed by MIF capital and IDB Lab FTEs financed by all sources except IDB resources allocated for personnel to manage the SEP. "SEP" includes projects financed by SEP resources and FTEs financed by IDB to manage the SEP.

3.51 There is not enough data to know whether and how much IDB Lab has saved service provision costs through service agreements. Comparisons of the overall cost of service agreements before and after the new framework was implemented in 2018 are difficult. While many services had already been provided, their definition and scope have changed in many cases,[101] and new services have been added.[102] Other functions previously performed in-house, such as knowledge management, are not performed—at least not to the same extent—neither by in-house staff nor by other parts of IDB Group. In addition, comparing the cost of services previously provided in-house (such as development effectiveness and IT system support and development) to the cost of the same services now provided by other parts of the IDB Group is hampered by the lack of proper cost-accounting data for such services in IDB Lab and changes in the type and scope of services provided. In terms of service quality, the experience with the new service provision framework has generally been positive,[103] although it is considered more complex,[104] and some service agreements show room for improvement in user satisfaction.[105]

101 Including for IT, Secretariat, and Outreach and Resource Management services.

102 Knowledge and Communication, Development Effectiveness, and Fiduciary services in 2018, Budget and Administrative services in 2019, and Risk Management and Integrity services in 2021.

103 Annually conducted user surveys show high satisfaction with several services (especially legal, secretariat, and environmental and social advisory services) and improvements compared both to the previous framework and since 2018. Interviewees on both the IDB Lab and IDB and IDB Invest sides highlighted satisfaction with the more transparent cost structure and clearer expectations for the services and their quality.

104 Other drawbacks consist in the resources needed to annually renegotiate all service agreements and a perceived initial lack of service culture in some IDB Group departments. The quality of reporting on performance metrics has also been uneven.

105 In the latest survey, satisfaction was below the 80% benchmark for the agreements with the Office of the Executive Auditor (AUG), the Finance Department (FIN), KIC, Office of Outreach and Partnerships (ORP), and DVF. OVE's analysis of the survey data, however, suggests that some of these results stemmed from unfamiliarity with the scope of the service agreements among some survey respondents.

3.52 IDB Lab has accelerated project preparation, but the processes for client reporting still need to be improved. The average time between pitch (eligibility) and approval was almost halved between 2013/2014 and 2019 (from 12 to 6.3 months) and the percentage of projects approved within six months from pitch almost tripled (from 22% in 2013/2014 to 61% in 2019). This progress still falls short of targets, however.[106] More than half of IDB Lab staff survey respondents believe the approval process still takes long; some interviewees consider that part of the time savings between eligibility and approval may be compensated by more time spent before eligibility, which is not tracked in systems. One inefficient process is the collection of information on operations from IDB Lab clients. Clients are not reporting their relevant data through a single channel. Instead, there is an online portal for TCs; documents regarding reimbursable operations are sent via e-mail; and they answer annual surveys on KPIs. Both interviews and surveys show a widespread perception that IDB Lab's time, attention, and effort are overly focused on project origination and approval instead of implementation.

3.53 IDB Lab has a costly and cumbersome governance structure. The Donors Committee approves almost[107] all the IDB Lab's operations and conducts oversight as well. The 40-member committee makes decisions by consensus or vote (requiring a two-thirds' majority). In 2018, Donors increased the thresholds for operations to be approved by virtual nonobjection (instead of in-person meetings); this decision has reduced the number of meetings, although not as much as targeted.[108] The current setup involves a significant amount of time invested by all 40 Donor representatives and their support staff, by the IDB President who chairs the committee meetings, by the IDB Secretary's office to ensure the functioning of the meetings, as well as by IDB Lab Management to prepare and hold presentations and discuss them beforehand with Donors in numerous bilateral meetings.[109] To facilitate electronic meetings during the COVID-19 pandemic, Donors agreed to temporarily

106 IDB Lab's 2016-2018 Business Plan (document MIF/GN-208-1) states as an objective the creation of a new, four-month approval process.

107 The only exceptions are very small projects originated by COF staff, as well as small, prototype TCs under a specific line of activity to address the COVID-19 pandemic.

108 From an average of 20.5 in the period 2014-2017, the annual number of formal and informal meetings declined to 13 in 2018 and 2019 and 15 in 2020, compared with a goal of 7–10 meetings per year. The number of technical briefings has increased from 0.5 to 2 per year on average.

109 IDB Lab resource needs for interactions with the Donors Committee correspond to around 3–5 FTEs according to interviews. Despite the considerable resources invested, only 27% of survey respondents among Donor representatives considered the information received from IDB Lab's Management to be both complete and clear.

organize into 10 groups with one designated speaker.[110] Even if this setup is maintained, OVE's interviews, surveys,[111] and analysis suggest more analysis is merited to determine if further measures should be taken to allow Donors to ensure efficient and effective strategic oversight. Some of IDB Lab's peers that are stand-alone facilities also operate under the oversight of a Board of Directors or Trustees but leave most individual project approvals to senior management.[112] Their Board sizes tend to be smaller,[113] and their meetings less frequent, as their main responsibilities center around fiduciary oversight and high-level strategy setting.

3.54 Systems are another major factor in process efficiency, and they continue to need significant improvements to allow for the collection, aggregation, and reporting of relevant and accurate information. For the management and monitoring of TC operations, in 2019 IDB Lab replaced its old and error-prone MIF Intranet with a platform built on the Salesforce software. It has also started to create dashboards that combine relevant data from different databases. Some of these dashboards show iDELTA and KPI data at the portfolio level, as well as information about IDB Lab projects related to COVID-19. Several major inefficiencies and risks remain, however: (i) information is still stored in several disjointed databases, requiring IDB Lab staff to replicate some information by hand; (ii) there is no central way to access all data, meaning several tools and systems are used for day-to day work; (iii) investment operations are still tracked in spreadsheets disconnected from the IDB systems containing their financial data, presenting risks related to system controls, data accuracy, and human error; (iv) corporate information (such as on policies and procedures) is not centralized, and some of it not well-documented at all, implying operational risks, relying on people's recollections, and hindering the training process of new hires; and (v) IDB Lab's portfolio is hard to understand, even by knowledgeable IDB Lab staff members, due to the

110 While only one chair per group speaks at the meetings, any representative may submit an individual written statement to the Secretary, and all representatives may attend electronic meetings and make oral statements—the latter, in exceptional cases.

111 In a survey of Donor representatives, 67% of respondents stated that they would like to modify aspects of the function of the Committee with the purpose of providing effective guidance.

112 A few boards engage in investment decisions for operations above certain thresholds (US$3 million in the case of Omidyar and GBP10 million in the case of GIF). In some cases (ADB Ventures' Fund Investment Committee, GIF's Decision Panel, Transform Fund's two boards: Trustees and Scientific), management decisions involve input from external experts. See also Annex VII.

113 GIF's Board of Directors, for example, consists in its majority of independent directors. Three seats are reserved for the largest funders, while all funders can participate in the election process of the directors.

complicated and inadequate way data are recorded. IDB Lab's Digital Growth Plan has recognized and plans to address some of the systems' shortcomings.

c. Adoption of risk levels in accordance with the mandate to test the success and failure of innovative solutions

3.55 IDB Lab has made progress on creating a better, more comprehensive approach to understanding the risks it takes, but still faces significant operational risks due to the aforementioned shortcomings in its systems and processes. The 2019-2021 Business Plan stated that IDB Lab would seek to improve its project risk reviews and move toward instrument-specific risk assessments. The Integrated Risk Management Framework (document MIF/GN-245-1), developed in 2020 under a service agreement with IDB's Risk Department, constitutes progress in that it provides a framework for classifying the risks IDB Lab may face. The practical implications of risk classifications remain, however, undefined, and the project-level risk approach is still in its piloting stage. In terms of operational risk, OVE's data-gathering efforts during the evaluation revealed numerous gaps and errors—rooted in inadequate systems and processes—in the data IDB Lab has readily at its disposal about its operations, including on their financial performance. This issue implies the risk that some decisions at the management and operational level may be based on outdated, incomplete, or otherwise inaccurate information. In terms of IDB Lab's actual approach to risk-taking through its operations, recent changes in IDB Lab's product priorities seem to, on the one hand, indicate an increased appetite for risk. The prototype TCs introduced in 2019 support high-risk trial projects, while the increased level of direct equity investing presents more concentrated risk compared with equity through VC funds. Similarly, the strategy of targeting more of the indirect equity investments toward nascent markets also implies higher risks. On the other hand, IDB Lab recently proposed to balance some of this higher risk by extending its investment strategy to larger and later-stage investment rounds.

04

Conclusions

4.1 OVE has reached five conclusions, based on evidence collected in this first phase of the evaluation of IDB Lab. This evaluation assesses to what extent IDB Lab's mandates are relevant and looks at the way the Fund is oriented and organized so the Lab can fulfill them. The five conclusions are described below.

4.2 **Relevance of IDB Group support for private sector innovation:**

Supporting private sector innovation continues to be relevant. The LAC region still lags behind other regions in terms of how much innovation it generates, which can limit productivity increases and general economic growth. A few LAC countries have strengthened their support systems for innovation and experienced significant growth in entrepreneurial innovative activity and venture capital industries. Investment in innovation remains scarce overall, however, highly concentrated in those select countries, confined to a few sectors and innovation stages. Based on the available evidence, OVE cannot ascertain to what extent the IDB Group in general has a distinctive role, and IDB Lab in particular, in financing or otherwise spurring private sector innovation. But it remains true that sizable market failures and gaps pose barriers to private sector innovation in the region. These gaps justify continued support by public institutions like the IDB Group.

4.3 **Relevance of IDB Lab's governance structure and mandates:**

IDB Lab's governance structure is comparatively heavy, and Donors have set out mandates for IDB Lab that are numerous and internally inconsistent. IDB Lab's large and resource-intensive Donors Committee individually approves almost all of IDB Lab's small operations rather than—as is conventional among peer organizations—delegating most such approvals to Management. At the same time, the mandates laid out for IDB Lab by Donors present some tensions and contradictions. IDB Lab is expected to support private sector innovations that scale, but do so with a focus on poor and vulnerable populations which may not generate enough revenue for most innovations to be financially viable, and even though its mission as a lab implies that it intervenes long before scaling can be observed. It is tasked to be a lab that experiments and takes risks, but at the same time to be alert to financial sustainability. It is expected to support innovations that scale through the rest of the IDB Group, even though it is unclear whether this scaling path is efficient. Taken together, these mandates can pull IDB Lab into too many conflicting directions for it to be effective and create misaligned expectations between IDB Lab and Donors unless IDB Lab Management clearly spells out how it will prioritize among the mandates to focus its interventions.

4.4 **Relevance of IDB Lab Management's strategic focus:**

The strategic focus adopted by IDB Lab Management is too broad and fails to make explicit how certain activities respond to its mandates and to the region's heterogeneous needs. The aforementioned tensions between, and breadth of, IDB Lab's many mandates are not resolved by IDB Lab's strategic focus. Although the lines of action proposed under its three thematic areas are aligned with IDB Lab's mandates, they cover too many different and broad areas to provide effective operational guidance and can foster a dispersed portfolio of limited impact in any one ambit—an issue already identified in OVE's previous evaluations. IDB Lab's recent shift toward technology-driven solutions was not accompanied by more clarity about lines of action within its broad thematic focus areas that would be deemphasized or dropped. Similarly, IDB Lab has not spelled out specifics of how the supported technology-based innovations are to overcome the barriers that often prevent the benefits of these innovations from reaching the targeted poor and vulnerable. IDB Lab's commitment to approve operations in all of its member countries has not been fully reconciled with its mandates to focus on innovations that scale, nor is it well aligned with its mandate to focus on poor and vulnerable populations. IDB Lab has a new equity strategy that segments IDB Lab's investment products according to the maturity levels of the region's venture capital markets, but other areas still lack similar differentiation based on heterogeneous market needs. IDB Lab staff expresses confusion about the Fund's strategic priorities, partly because of how frequently the priorities change. Staff in other parts of the IDB Group likewise express a lack of clear understanding of IDB Lab's focus, creating misaligned expectations which affect incentives for continued collaboration.

4.5 **Relevance of IDB Lab's alignment and complementarity with the rest of the IDB Group:**

The role of the IDB Lab within the IDB Group needs better definition. IDB Lab has boosted its collaboration with the rest of the IDB Group—for example, by coordinating at the management level, bringing other IDB Group specialists into IDB Lab operations, and creating spaces for exchange among colleagues working on similar issues. IDB Group Management and staff generally have a positive perception of the value IDB Lab and the rest of the Group add to each other. The effectiveness and efficiency of some collaboration efforts are, however, still constrained by the absence of clarity on IDB Lab's priorities among IDB and IDB Invest staff, and by the need to better define how exactly IDB Lab and the rest of the Group are supposed to complement each other. Since future funding scenarios for

IDB Lab include possible transfers from other parts of the IDB Group, it is important that Management has clear and realistic expectations about how IDB Lab is to add value to the rest of the Group and to clarify what this implies for collaboration needs and IDB Lab's strategic focus. Is it expected, for example, that IDB Lab–supported innovations will be scaled through IDB operations? This would require IDB Lab to coordinate with IDB to focus on solutions that are likely to be more incremental than disruptive, can demonstrate their effectiveness, and are ready to overcome the practical hurdles posed by procurement rules and government risk aversion. The public sector scaling path also requires more clarification regarding IDB Lab's role in relation to the new innovation initiatives in IDB's VPS, which work directly with governments. Are IDB Lab innovations expected to scale through follow-on investments by IDB Invest? This requires, first, a recognition of the constraints posed by IDB Invest's limited equity capacity and, second, extensive coordination with IDB Invest to ensure IDB Lab supports solutions aligned with IDB Invest's strategic priorities and risk appetite. Should IDB Lab and the rest of the IDB Group jointly define development problems in need of innovative solutions, which IDB Lab would then support? This approach would mean extensive upstream collaboration to select suitable problems while requiring less collaboration downstream at the operations level and would also be more compatible with IDB Lab's current focus on disruptive innovation. IDB Lab appears to be aiming at all of these options, which is unrealistic given its resource constraints. Therefore, a further refocusing of collaboration efforts and clear definition and communication of IDB Lab's role and priorities are needed to ensure efficiency and effectiveness of the time and effort invested by all sides.

4.6 **Relevance of IDB Lab's setup for (i) promoting knowledge creation and learning and (ii) establishing and tracking results:**

IDB Lab needs to strengthen results tracking, knowledge creation, and learning. A lab's defining characteristic is its ability to determine and demonstrate what does and does not work, and why. Such knowledge creation is essential to a laboratory aiming to support innovations that scale. OVE interviews and surveys with IDB Lab Management and staff show, however, that there is insufficient attention to knowledge creation and learning, and that IDB Lab is not presently set up to effectively and efficiently extract lessons from its operations. Nor has IDB Lab developed a sufficiently focused approach to prioritizing the types of knowledge it will direct its limited resources to. It generates data on results indicators that do not meaningfully express the success or failure of the operations it supports at the stage it supports them. It prepares detailed ex-ante assessments

of expectations for its operations but does not follow up on them during implementation. IDB Lab has not instituted the systems, processes, and tools it needs to consistently aggregate and communicate information on implementation progress and on the immediate results of its operations, nor on the drivers behind success and failure. It also lacks a well-articulated plan for generating evidence on scaling and other impacts after IDB Lab's involvement—that is, at the time when such assessments can generate meaningful insights. IDB Lab has taken steps to improve certain aspects of its systems, better understand its portfolio, and create more regular channels for information exchange. These efforts are important and should continue. But for them to succeed, IDB Lab also needs to ensure that operations staff have the incentives, resources, and tools to collect and share relevant insights.

4.7 **Implementation of previous OVE recommendations:**

Progress on implementing the five recommendations of OVE's 2013 evaluation has been limited. Following the evaluation, Management identified a series of actions to address the issues raised by the recommendations (documents MIF/GN-166-1, MIF/GN-166-2, MIF/GN-166-3) but their implementation was halted after 2015. The recommendations and a summary of OVE's findings on their implementation status, based on the findings of this first evaluation phase, are as follows (for more detail, see Annex IV):

(i) Implement a corporate results framework, ensuring that it preserves the MIF's flexibility to innovate: IDB Lab has a comprehensive system of KPIs that is useful for tracking the mix of approved operations against a set of targets; it has significant limitations, however, for tracking and showing the results of IDB Lab operations.

(ii) Better define the MIF's strategy for targeting low-income beneficiaries and promoting poverty reduction: While some parts of IDB Lab's thematic areas target poor and vulnerable populations, strategic documents offer few specifics of how the prioritized technology-based innovations are to overcome the barriers that often prevent the benefits of these innovations from reaching the targeted beneficiaries.

(iii) Further specify and clarify the role of the public sector in scaling up innovation: The role of the public sector in scaling up innovation supported by IDB Lab continues to be unclear. Several units within the IDB Group now work directly with governments on innovation. This can create areas of overlap

and lack of clarity in the IDB Lab's role regarding public sector innovation needs. The scaling path through IDB operations, moreover, presents practical challenges.

(iv) Strengthen the tracking of implementation and results: Most aspects of this recommendation can be assessed only once OVE has reviewed IDB Lab's practices at the level of individual IDB Lab projects in the second phase of its evaluation. For results reporting at the aggregate portfolio level, IDB Lab still lacks the processes, tools, and systems to meaningfully do so.

(v) Better define and strengthen the MIF's role as a knowledge broker: During most of the evaluation period, IDB Lab lacked a strategy defining its knowledge priorities, outsourced certain knowledge functions to other parts of IDB Group, and significantly lowered funding for knowledge activities. IDB Lab staff and Management acknowledge deficiencies in IDB Lab's ability to learn from its operations, and a new knowledge framework, emphasizing learning from operations, was recently presented to Donors (March 2021). The new framework, however, still lacks sufficient focus and guidance on how IDB Lab will prioritize to make the most effective use of is limited resources for this purpose. As knowledge products and knowledge at the operations level are part of the scope of phase two of the evaluation, OVE is not able to assess all aspects of this recommendation in this first phase.

4.8 OVE will combine the findings of both evaluation phases to offer overarching conclusions and recommendations. The second phase of the evaluation, currently ongoing, will help shed light on the extent to which the IDB Lab's operations reflect the Fund's mandates and its strategic priorities, as well as present insights on their effectiveness, efficiency, additionality, sustainability, and innovativeness. The combined findings of both evaluation phases will allow OVE to offer overall conclusions and recommendations in its final report, expected to be presented to Donors in the last quarter of 2021.

References

Acs, Z. and Audretsch, D. (1988). Innovation in Large and Small Firms: An Empirical Analysis. *American Economic Review*, [online] 78(4): 678–90. Available at: https://www.jstor.org/stable/1811167?seq=1

Ahuja, S. B. (2019). Why Innovation Labs Fail, and How to Ensure Yours Doesn't. *Harvard Business Review*. Available at: https://hbr.org/2019/07/why-innovation-labs-fail-and-how-to-ensure-yours-doesnt

Akcigit, U., Dinlersoz, E., Greenwood, J., and Penciakova V. (2019). Synergising ventures: The impact of venture capital-backed firms on the aggregate economy. *Vox EU,* [online]. Available at: https://voxeu.org/article/impact-venture-capital-backed-firms-aggregate-economy

Bannick, M., Goldman, P., and Kubzansky, M. (2015). *Frontier Capital: Early Stage Investing for Financial Returns and Social Impact in Emerging Markets.* Omidyar Network.

Cirera, X. and Maloney, W.F. (2017). T*he Innovation Paradox: Developing-Country Capabilities and the Unrealized Promise of Technological Catch-Up.* Washington, DC: World Bank. Available at: https://openknowledge.worldbank.org/handle/10986/28341

De Vries, D. (2019). Successful Innovation Labs Have These Four Things in Common. IDEO. Available at: https://www.ideo.com/journal/successful-innovation-labs-have-these-four-things-in-common

Deloitte and THNK. (2015). *Scale Up: The Experience Game*. [online] Deloitte. Available at: https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/deloitte-analytics/deloitte-nl-data-analytics-onderzoeksrapport-scale-up-the-experience-game.pdf

Gage, D. (2012). The Venture Capital Secret: 3 out of 4 Start-Ups Fail. The Wall Street Journal. Available at: https://www.wsj.com/articles/SB10000872396390443720204578004980476429190

Gilbert, M. R., Masucci, M. Homko, C. and Bove, A. A. (2008). Theorizing the digital divide: Information and communication technology use frameworks among poor women using a telemedicine system. Geoforum, [online] 39(2): 912–925. Available at: https://www.sciencedirect.com/science/article/abs/pii/S0016718507001261

Guay, J. (2019). *Public Innovation Labs Around the World Are Closing—Here's Why*. [online] Apolitical. Available at: https://

apolitical.co/en/solution_article/public-innovation-labs-around-the-world-are-closing-heres-why

Hartmann, A. and Linn, J. F. (2007). *Scaling Up: A Path to Effective Development.* 2020 Focus Brief on the World's Poor and Hungry People. Washington, DC: IFPRI.

Ideanote. (2018). Innovation Lab: Everything You Need To Know And More. Ideanote. Available at: https://blog.ideanote.io/innovation-lab-know-everything/

Inter-American Development Bank. (2004). *Independent Evaluation of the MIF (2002-2003): Final report.* Document MIF/GN-78-18. Washington, DC: Inter-American Development Bank.

_____. (2013a). *Second Independent Evaluation of the Multilateral Investment Fund—Final Report to Donors.* Document MIF/RE-2-4. Washington, DC: Inter-American Development Bank.

_____. (2013b). *MIF Action Plan: Implementation of OVE's recommendations.* Revised version. Document MIF/GN-166-1. Washington, DC: Inter-American Development Bank.

_____. (2014a). *Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation.* Edited by Gustavo Crespi and Ernesto Stein. New York: Palgrave Macmillan. Available at: https://www.palgrave.com/gp/book/9781137405593

_____. (2014b). *MIF Action Plan: Report on the Implementation of OVE's Recommendations*. Document MIF/GN-166-2. Washington, DC: Inter-American Development Bank.

_____. (2014c). *MIF Action Plan: Second Report on the Implementation of OVE's Recommendations*. Document MIF/GN-166-3. Washington, DC: Inter-American Development Bank.

_____. (2015). *Update to the Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve Lives.* Document AB-3008. Washington, DC: Inter-American Development Bank.

_____. (2016a). *The New Imperative of Innovation: Policy Perspectives for Latin America and the Caribbean. Washington, DC: Inter-American Development Bank*. Available at: https://publications.iadb.org/en/new-imperative-innovation-policy-perspectives-latin-america-and-caribbean

_____. (2016b). *Report and Road Map on Options for the Future of the MIF in the Context of the Reorganization of the IDB Group's Private Sector Activities*. Document AG-7/16. Washington, DC: Inter-American Development Bank.

_____. (2016c). *The MIF's Business Plan 2016-2018: Increasing Impact through Effectiveness and Efficiency. MIF Working Group's revised version*. Document MIF/GN-208-1. Washington, DC: Inter-American Development Bank.

_____. (2017a). *Proposed Resolution. Multilateral Investment*

Fund III. Document AB-3127. Washington, DC: Inter-American Development Bank.

_____. (2017b). *Final Report on the Future and Financing of the Multilateral Investment Fund*. Document CA-581. Washington, DC: Inter-American Development Bank.

_____. (2017c). *Multilateral Investment Fund. Results Framework and Development Effectiveness Approach 2017-2023.* Revised version. Document MIF/GN-217-1. Washington, DC: Inter-American Development Bank.

_____. (2017d). *MIF Action Plan. Revised version.* Document MIF/GN-222-1. Washington, DC: Inter-American Development Bank.

_____. (2018a). *Update to the Institutional Strategy 2020-2023. Development Solutions that Reignite Growth and Improve Lives. New version.* Document GN-2933-1. Washington, DC: Inter-American Development Bank.

_____. (2018b). *IDB Lab Business Plan 2019-2021. Approved version.* Document MIF/GN-235-3. Washington, DC: Inter-American Development Bank.

_____. (2018c). *Work Program and Budget for 2019.* Document MIF/GA-30. Washington, D.C.: Inter-American Development Bank.

_____. (2019a). *Agreement Establishing the Multilateral Investment Fund III.* Document AB-3132-1. Washington, DC: Inter-American Development Bank.

_____. (2019b). *OVE's Proposed 2020-2021 Work Program and Budget. Second revised version.* Document RE-543-2. Washington, DC: Inter-American Development Bank.

_____. (2019c). *Action Plan for Targeting Activities in Group C and D and Small and Island Countries.* Document MIF/GN-236-1. Washington, DC: Inter-American Development Bank.

_____. (2019d). *Regional. Proposal for the Creation of a Technical Cooperation "Sandbox". Line of Activity for Innovation Prototypes.* Document MIF/AT-1565. Washington, DC: Inter-American Development Bank.

_____. (2019e). *IDB Lab. Work Program and Budget for 2020.* Document MIF/GA-31. Washington, DC: Inter-American Development Bank.

_____. (2019f). *Thematic Paper Knowledge Economy. Revised version.* Document MIF/GN-241-1. Washington, DC: Inter-American Development Bank.

_____. (2019g). *Thematic Paper. Climate-Smart Agriculture. Revised version.* Document MIF/GN-237-1. Washington, DC: Inter-American Development Bank.

_____. (2019h). *Thematic Paper. Inclusive Cities. Revised version*. Document MIF/GN-238-1. Washington, DC: Inter-American Development Bank.

_____. (2020a). *IDB Group Corporate Results Framework 2020-2023. Approved version.* Document GN-2727-12. Washington, DC: Inter-American Development Bank.

_____. (2020b). I*DB Lab Strategic Approach for Equity Investments.* Document MIF/GN-255. Washington, DC: Inter-American Development Bank.

_____. (2020c). *Regional. Proposal for the Creation of a Technical Cooperation "Sandbox." Line of Activity for Innovation Prototypes,"* approved pursuant to Resolution MIF-DE-8-19. Amendment. MIF/AT-1565-1. Washington, DC: Inter-American Development Bank.

_____. (2020d). *IDB Lab Strategic Approach for Equity Investments.* Audiovisual presentation. Document MIF/PP-141. Washington, DC: Inter-American Development Bank.

_____. (2020e). *IDB Lab. Work Program and Budget for 2021. Approved version.* Document MIF/GA-32-2. Washington, DC: Inter-American Development Bank.

_____. (2020f). *Revised Key Performance Indicators. Revised version.* Document MIF/GN-217-3. Washington, DC: Inter-American Development Bank.

_____. (2020g). *IDB Lab Quarterly Report—First Quarter 2020.* Document MIF/GN-249. Washington, DC: Inter-American Development Bank.

_____. (2020h). Regional. *Equity investment EQU/MS-18045-RG, loan 5047/MS-RG, and nonreimbursable technical cooperation funding ATN/ME-18044-RG for the project "Locfund Next: Financial Inclusion and Digital Transformation in Microfinance Institutions in Latin America and the Caribbean"* approved pursuant to Resolution MIF/DE-19-20. Amendment. Document PR-4846. Washington, DC: Inter-American Development Bank.

_____. (2020i). *Proposed Resolution. Multilateral Investment Fund Governance Response to the COVID-19 Pandemic Outbreak. Amendments to the Regulations of the Donors Committee.* Document MIF/GN-123-6. Washington, DC: Inter-American Development Bank.

_____. (2020j). *Towards a Digital Growth Plan. New version.* Document MIF/GN-253-1. Washington, DC: Inter-American Development Bank.

_____. (2020k). *IDB Lab Integrated Risk Management Framework.* Document MIF/GN-245-1. Washington, DC: Inter-American Development Bank.

_____. (2021a). *Options for Future Sustainability. Funding Scenarios and Governance. A Preliminary Analysis.* Document MIF/GN-252-1. Washington, DC: Inter-American Development Bank.

_____. (2021b). *IDB Lab Quarterly Report—Fourth Quarter 2020.* Document MIF/GN-249-3.

_____. (n.d.). Innovation Lab. Webpage. Available at: https://www.bidinnovacion.org/en/

_____. (n.d.). IDB Lab. Webpage. Available at: https://bidlab.org/en

_____. (n.d.). LACChain. Webpage. Available at: https://www.lacchain.net/home

_____. (n.d.). fAIr LAC. Webpage. Available at: https://fairlac.iadb.org/en

_____. (n.d.). WeXchange. Webpage. Available at: https://wexchange.co/en/

_____. (n.d.). Digital connector COVID-19. Webpage Available at: https://bidlab.org/en/digital-connector/home

Inter-American Institute for Cooperation on Agriculture, IDB, and Microsoft. (2020). *Rural Connectivity in Latin America and the Caribbean: A Bridge for Sustainable Development in a Time of Pandemic.* IICA. Available at: https://repositorio.iica.int/handle/11324/12896?locale-attribute=en

International Development Innovation Alliance. (2017a). Insights on Scaling Innovation. [online] IDIA Insights. Available at: https://static1.squarespace.com/static/5b156e3bf2e6b10bb0788609/t/5b1717eb8a922da5042cd0bc/1528240110897/Insights+on+Scaling+Innovation.pdf

_____. (2017b). *Insights on Measuring the Impact of Innovation [online] IDIA Insights.* Available at: https://www.unhcr.org/innovation/wp-content/uploads/2018/06/Measuring20Impact.pdfKohler, T. (2016). Corporate accelerators: Building bridges between corporations and startups. Business Horizons, [online] 59(3): 347-357. Available at: https://www.sciencedirect.com/science/article/abs/pii/S0007681316000094

Kohlgrüber M., Schröder, A., Bayón, F., and Arteaga, A. (2019). *A new innovation paradigm: combining technological and social innovation. Matériaux & Techniques,* [online] Volume 107(1):107. Available at: https://www.researchgate.net/publication/331930598_A_new_innovation_paradigm_combining_technological_and_social_innovation#pf1

Kotashev, K. (2021). *Startup Failure Rate: Ultimate Report + Infographic* [2021]. [online] Failory. Available at: https://www.failory.com/blog/startup-failure-rate

KPMG (2015). *Why are big businesses looking to startups for innovation?* KPMG Australia. Available at: https://assets.kpmg/content/dam/kpmg/pdf/2015/02/big-business-start-ups-innovation.pdf

Latin American Venture Capital Association (LAVCA) (2020). Industry Data. Available at: https://lavca.org/industry-data/

Latitud R. (n.d.). Website. Available at: https://latitudr.org/

Lederman, D., Messina, J., Pienknagura, S., and Rigolini, J. (2014). *Latin American Entrepreneurs: Many Firms but Little Innovation.*

Washington, DC: World Bank.

Lee, L. (2018). *Reshaping Markets to Solve Poverty and Inequality. Economics Insights by Stanford Business.* Available at: https://www.gsb.stanford.edu/insights/reshaping-markets-solve-poverty-inequality

Mendoza Ventures (2018). *The State of Innovation Labs: Part 1—Why innovation labs fail.* [online] Medium. Available at: https://medium.com/mendozaventures/the-state-of-innovation-labs-part-1-why-innovation-labs-fail-31593ebab3f4

Nieminen, J. (2018). *Innovation Management—The Complete Guide.* Viima. Available at: https://www.viima.com/blog/innovation-management

Organisation for Economic Co-operation and Development (OECD). (2019). *"Concepts for measuring innovation", in Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation*, 4th ed. Paris: OECD Publishing. Available at: https://www.oecd-ilibrary.org/science-and-technology/oslo-manual-2018/concepts-for-measuring-innovation_9789264304604-5-en;jsessionid=Qc7mo-1aAjEePDjkSOgbxVL_.ip-10-240-5-88

Puttick, R. (2014). *Innovation Teams and Labs: A Practice Guide. Nesta.* Available at: https://media.nesta.org.uk/documents/innovation_teams_and_labs_a_practice_guide.pdf

Responsible Data. (n.d.) Webpage. Available at: https://responsibledata.io/about/

Sainsbury, D. (2019). *Windows of Opportunity: How Nations Create Wealth*. Available at: https://www.york.ac.uk/ppe/news-and-events/events/2019/windows-of-opportunity/

Tawfik, A. A., Reeves, T. D., and Stich, A. (2016). *Intended and Unintended Consequences of Educational Technology on Social Inequality. TechTrends*, [online] 60: 598–605. Available at: https://link.springer.com/article/10.1007/s11528-016-0109-5

Van der Meer, R. and Nijhuis, J. (2020). *How to Get the Most Out of Your Innovation Lab. Accenture*. Available at: https://www.accenture.com/nl-en/blogs/insights/the-most-out-of-your-innovation-lab

Veinot, T. C., Mitchell, H., and Ancker, J. S. (2018). *Good intentions are not enough: how informatics interventions can worsen inequality. Journal of the American Medical Informatics Association*, [online] 25(8): 1080–1088. Available at: https://academic.oup.com/jamia/article/25/8/1080/4996916?login=true

Viki, T. (2018a). *The Myth of The Innovation Lab.* Forbes. Available at: https://www.forbes.com/sites/tendayiviki/2018/04/15/the-myth-of-the-innovation-lab/

_____. (2018b). *Why Does Your Innovation Lab Exist?* Forbes. Available at: https://www.forbes.com/sites/

tendayiviki/2018/08/12/why-does-your-innovation-lab-exist/?sh=24c290ba1e45

Weiblen, T., and Chesbrough, H. W. (2015). *Engaging with Startups to Enhance Corporate Innovation, California Management Review*, [online] 57(2): 66–90. Available at: https://journals.sagepub.com/doi/10.1525/cmr.2015.57.2.66#articleCitationDownloadContainer

World Bank (2018). *Education Statistics—All indicators.* World Bank—Data. Available at: https://databank.worldbank.org/source/education-statistics-%5e-all-indicators

Office of Evaluation and Oversight - OVE

Established in 1999 as an independent evaluation office, OVE evaluates the performance and development effectiveness of the activities of the Inter-American Development Bank Group (IDB Group). These evaluations seek to strengthen the IDB Group through learning, accountability and transparency.

OVE evaluations are disclosed to the public in accordance with IDB Group policies to share lessons learned with the region and the development community at large.

iadb.org/evaluation

linkedin.com/showcase/idb-ove

@BID_evaluacion