



REVISED VERSION. THEMATIC PAPER INCLUSIVE CITIES

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ABBREVIATIONS

AI	Artificial intelligence
CSD/CCS	Climate Change Division
CSD/HUD	Housing and Urban Development Division
CTI	Competitiveness, Technology, and Innovation Division
IC	Inclusive cities
IFD/CMF	Connectivity, Markets, and Finance Division
IFD/CTI	Competitiveness, Technology, and Innovation Division
INE	Infrastructure and Energy Sector
INE/ENE	Energy Division
INE/TSP	Transport Division
INE/WSA	Water and Sanitation Division
KIC	Knowledge, Innovation, and Communication Sector
KIC/ICD	Innovation and Creative Division
SFD	Sector framework document

I. BACKGROUND

- 1.1. The purpose of this thematic paper is to provide sharper focus on how the priorities and concepts presented in the IDB Lab Business Plan 2019-2021¹ will be applied within the thematic area of Inclusive Cities (IC). It is one of four thematic papers that serve as a complement to the Business Plan in terms of the stated values of experimentation, transformative impact, and greater opportunities for poor or vulnerable populations. This revised version of the thematic paper reflects, insofar as possible, the suggestions offered by the Representatives on 24 April 2019.
- 1.2. This paper is organized in six sections. First, it summarizes key challenges faced by the region in this thematic area, the objective pursued by IDB Lab in this area, and the most vulnerable and excluded groups to be prioritized. Next, the paper looks at IDB Lab's experience, drawing key lessons for future work in this area. It then identifies three operational and knowledge priorities within IC. Lastly, the paper identifies potential areas of collaboration with other parts of the IDB Group and discusses how this collaboration can be leveraged to reach objectives within the IC areas of opportunity.²

II. CONTEXT AND OBJECTIVES

- 2.1. Urbanization in Latin America and the Caribbean (LAC) has occurred at a rapid pace. Today, LAC is the second-most urbanized region in the world: the urbanization rate rose from 41% in 1950 to 79% in 2010 and is expected to reach 84.7% by 2035. LAC cities will add 118 million more people in the next two decades.³
- 2.2. Cities have also become the main engines of economic growth. The 198 largest cities in the region account for over 60% of GDP, and the ten largest cities account for half of that output.⁴ Today, cities are important centers for disseminating innovation, generating knowledge, and concentrating labor.

A. Main challenges in this thematic area

- 2.3. Although urban centers can offer major opportunities to individuals of all economic levels and backgrounds, cities in our region have significant levels of inequality when it comes to accessing the benefits of economic and social development. The thematic area has two challenges to be

¹ According to the IDB Lab Business Plan 2019-2021, IDB Lab uses projects, networks, and knowledge to support innovations that generate disproportionately large benefits for poor, vulnerable, and excluded populations. Its criteria for intervention are the possibility of experimentation with a model, the solution's potential for disproportionate impact on the poor or vulnerable population, the potential for replicability and scalability, resource mobilization, knowledge creation, and close alignment with IDB Group operational and strategic priorities. IDB Lab uses three forms of financing in its operations: (i) nonreimbursable (to address market failures and generate benefits that reach various actors); (ii) contingent (for market models at the experimental stage); and (iii) reimbursable (investment and debt).

² IDB Lab's work in IC builds on the "Knowledge Economy" work with the development knowledge-intensive sectors, as defined by the OECD (health, education, and financial services) and the Future of Work (document MIF/GN-241), as well as the "Climate-Smart Agriculture" work with the IDB Natural Capital Laboratory to support climate change resilience and the circular economy (document MIF/GN-237-1).

³ United Nations, Department of Economic and Social Affairs, Population Division (2018). [World Urbanization Prospects: The 2018 Revision, Online Edition](#).

⁴ McKinsey Global Institute (2011). [Urban World: Mapping the Economic Power of Cities](#).

prioritized by IDB Lab: **democratize access to sustainable urban services, and leverage city assets for the development of new economic opportunities.** Even though poverty rates in rural areas are still significantly higher than in urban areas,⁵ and urbanization has led to improvements in accessing services, access to these benefits remains very unequal. In all cities and regions, social indices are improving, but levels of inequality remain high. In 1990, for instance, poor households accounted for 48% of total LAC households, whereas today they account for 30%.⁶ Yet the average Gini coefficient for LAC is 0.49, and perhaps even higher for inner cities.⁷

2.4. This rapid growth brings a series of **sector challenges:**

- a. **Housing.** The housing problem for the poor and vulnerable population of the region is principally the qualitative deficit, more than the quantitative one. The region's governments have provided or subsidized low-cost housing for millions of low-income families.⁸ Yet almost 37% of the region's urban population live in substandard housing conditions. The challenge is not so much building new housing, as improving the quality of existing housing and ensuring its connectivity to the urban economy near jobs, services, and businesses. The housing problem for the poor and vulnerable is closely tied to the informal neighborhoods that account for the bulk of substandard housing. In LAC, an estimated 86 million households live in informal settlements, substandard housing conditions, and overcrowded or makeshift dwellings with high exposure to environmental pollutants and extreme weather risks, as well as difficulty in accessing basic services.⁹
- b. **Mobility.** Mobility problems have an uneven impact on the population's ability to access opportunities for education, employment, and leisure. In LAC, the limited supply of public transportation disproportionately affects the poor,¹⁰ and women even more than men.¹¹ For example, an average 16% of households within city limits do not have access to formal transportation less than ten minutes from home. For those living in informal settlements, this figure can be as high as 23%.¹² Additionally, affordability of transportation is a challenge in the region. Some studies estimate that the poorest quintile of the population spends over

⁵ Economic Commission for Latin America and the Caribbean (2018). [Statistical Yearbook for Latin America and the Caribbean, 2017](#).

⁶ Ferreira, F. H. G., et al. (2013). [Economic Mobility and the Rise of the Latin American Middle Class](#). World Bank.

⁷ UN Habitat (2012). [The State of Latin American and Caribbean Cities](#).

⁸ In the past twenty years, an estimated six million housing units have been delivered in Brazil, Colombia, Peru, Chile, Paraguay, and Argentina. Housing, What's Next? From Thinking the Unit to Building the City. Verónica Adler and Felipe Vera, editors, IDB (forthcoming 2019).

⁹ Libertun de Duren, N. (2018) Prevenir y remediar los barrios informales en América Latina. Blogpost: <https://blogs.iadb.org/ciudades-sostenibles/es/prevenir-y-remediar-los-barrios-informales-en-america-latina/>.

¹⁰ Libertun de Duren, Nora (2017). [La carga de la vivienda de interés social: Comparación entre hogares de la periferia y del centro en ciudades de Brasil, Colombia y México](#). IDB Working Paper.

¹¹ The daily mobility of women is related not just to work, but to a wide range of household care activities such as shopping and care for children and the elderly that require a large number of trips each day. This complexity of use means that public transportation service does not fully meet the needs of women, even though women are the main users. There is also the problem of personal safety for women while traveling on foot or on public transportation. Studies in Quito, Santiago, and Buenos Aires indicate that sexual harassment and aggression on public transportation is a major problem that adversely affects the emotional health of women (Heather Allen (2019). [Ella se mueve segura. A study on women's personal safety in public transport in three Latin American cities](#). Caracas: CAF and FIA Foundation).

¹² CAF Observatory for Urban Mobility in Latin America (2018), [Transporte y desarrollo en América Latina. Nro 2](#).

- 25% of their income on transportation in some of the region's cities.¹³ Furthermore, haphazard settlement of land and improper zoning lead to overlong commutes and heavy traffic congestion and pollution.
- c. **Energy and water.** The growth of cities is reflected in the growing demand for water and energy. Energy demand in the region is projected to rise 90% by 2040,¹⁴ yet nearly 100 million people in the region still lack access to treated water. Although coverage levels have increased, the quality of these services remains a challenge, as does their affordability for poor and vulnerable populations.
 - d. **Waste.** Poor waste management tends to disproportionately affect low-income populations living in informal settlements with serious health and environmental implications for them.¹⁵ Currently, 45% of the solid waste produced in the region is disposed of improperly. The percentage of waste recycled in waste recycling plants is still almost nonexistent, and the informal sector plays a leading part in this activity. Waste produced from inefficient processes in the food and construction industries generate additional costs, which puts greater pressure on city budgets.¹⁶ Currently, in developing markets, the cost of collection and final disposal of solid waste can be as high as 50% of a city's annual budget, and this trend is expected to rise.¹⁷
 - e. **Carbon emissions and vulnerability to climate change.** Urban areas are significant contributors to greenhouse gas emissions (between 60% and 80% globally). According to the World Health Organization's pollution database, in Latin American cities that measure environmental pollution, the percentages of PM₁₀ are as high as 92%, and PM_{2.5}, 90%.¹⁸ At the same time, urban areas are particularly sensitive to the impacts of climate change, as 90% of them are located on the coast.¹⁹ The impact of climate change and natural disasters could undermine efforts to achieve long-term sustainable development.
 - f. **Employment and entrepreneurship.** A shortage of high-quality jobs, as seen in the growing rates of informal economic activity, as well as the absence of an ecosystem that favors entrepreneurs and micro, small, and medium-sized enterprises (MSMEs) and offers access to entities that can provide the knowledge or financing for businesses to modernize, achieve scale, and meet the needs of more dynamic markets, slow the growth of firms and keep them from taking advantage of new business opportunities and new jobs.²⁰

¹³ Serebrisky, T., et al. (2018). [How Affordable is Transportation in Latin America and the Caribbean?](#) IDB Technical note TN-1588.

¹⁴ Balza, L., et al. (2016) [Lights On? Energy Needs in Latin America and the Caribbean to 2040](#).

¹⁵ Monterrey Institute of Technology, Water Center for Latin America and the Caribbean (2018). [Agua y ciudades en América Latina: Retos para el desarrollo sostenible](#). IDB.

¹⁶ Ellen MacArthur Foundation, SUN, and McKinsey Center for Business and Environment (2015). [Growth Within: A Circular Economy Vision for a Competitive Europe](#).

¹⁷ World Bank (2012). [What a Waste?: A Global Review of Solid Waste Management](#).

¹⁸ PM₁₀ measures the amount of particulate matter dispersed in the atmosphere with diameters of 10 microns or smaller. PM_{2.5} measures the particulate matter suspended in the atmosphere with diameters of 2.5 microns or smaller. Due to their size, these particles can enter the human respiratory system.

¹⁹ C40 Cities. [Why Cities? Ending Climate Change Begins in the City](#).

²⁰ IDB Lab addresses the Future of Work within the thematic area of the Knowledge Economy, given that the impact of the fourth industrial revolution on employment is a crosscutting issue that affects not only quality of life in cities but opportunities for development of the livelihoods of rural producers.

B. Objective of this thematic area

- 2.5. In addition to these challenges, the trend is for LAC cities to experience more and more budgetary and operational difficulties in delivering adequate urban services to all residents.^{21 22} At the same time, there are opportunities for capitalizing on the capacity for innovation generated by cities and their entrepreneurial ecosystems, to address the growing problems of exclusion. Accordingly, IDB Lab's core objective is to **test innovative and scalable market-based solutions that democratize access to sustainable urban services and create economic opportunities by leveraging city assets.**
- 2.6. For the period 2019-2021, IDB Lab will focus on equity in access to goods and services, environmental sustainability, and economic development with interventions in the following three areas of opportunity, given their high potential to contribute to solving the challenges of poor and vulnerable population: (i) transformation of urban services (housing, mobility, energy, and water and sanitation); (ii) circular economy; and (iii) orange economy. The proposed approach is to address the challenge of inclusion and accessibility as a crosscutting element of all solutions proposed for the prioritized challenges.

C. What does inclusion mean in this thematic area?

- 2.7. Among the households excluded from the benefits of urbanization are **poor households in slums²³ or informal settlements,²⁴** where public services are nonexistent or low-quality and there is a little access to employment and entrepreneurship opportunities. In 2017, households in informal settlements accounted for 21% of the LAC urban population, equivalent to 100 million people living in conditions that aggravate the dynamics of segregation, exclusion, and poverty. The majority of the poor are women, and poverty's impact on women is growing over time, as they head more and more households.
- 2.8. The differences in access to the economic, social, and environmental benefits of urbanization can be more acute depending on an individual's gender, age, ethnicity, race, disability, or national origin. When looked at from a gender perspective, major inequalities become apparent in the

²¹ The challenges of fiscal management and institutional capacity of the public sector are fundamental for economic and social development in the context of the LAC countries. The IDB Group's Institutions for Development Sector employs a number of instruments to address these challenges according to the lines of action established in the Fiscal Policy and Management Sector Framework Document (document GN-2831-8) and the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-8).

²² Our region also faces a great challenge in citizen security, which the IDB has addressed through work in the social sector, crime prevention, police, and support to the judicial and prison system (Citizen Security and Justice Sector Framework Document, document GN-2771-7). For the period (2019-2023), this challenge will not be at the heart of IDB Lab's thematic strategies. However, its efforts for economic inclusion, the development of solutions for public administration, and others may contribute to reducing this challenge.

²³ UN Habitat defines a slum household as a group of individuals living under the same roof in an urban area who lack one or more of the following: durable housing of a permanent nature that protects against extreme climate conditions; sufficient living space which means not more than three people sharing the same room; easy access to safe water in sufficient amounts at an affordable price; access to adequate sanitation in the form of a private or public toilet shared by a reasonable number of people; and security of tenure that prevents forced evictions.

²⁴ Informal settlements are residential areas where a group of housing units has been constructed on land to which the occupants have no legal claim, or which they occupy illegally; and unplanned settlements and areas where housing is not in compliance with current planning and building regulations.

challenges discussed above. Gender gaps in labor and employment, wages, land tenure rights, asset access and accumulation, personal safety and representation, and formal structures of urban governance are still significant and show that **women** are often the last to benefit from prosperity in cities.²⁵ For instance, there are large gender inequities in housing ownership and titling rights. It is still more difficult for women to access home loans than it is for men, due to discrimination and wage inequality, which can prevent women from accessing housing in good locations. Specifically, limited access to property title exacerbates economic inequalities (i.e., loan guarantees and rental income), as well as vulnerability. The issue of mobility must also be addressed from a gender perspective: women make 15% more trips, which are shorter in duration and occur at different times of day for many different purposes, yet LAC transportation systems are not necessarily designed with that in mind. Women also bear more of the burden when public services break down, since they become responsible for caring for children, the elderly, and the sick in their homes.

- 2.9. Additionally, **people of African descent** are predominantly urban (82%) and make up about one fourth of the population of Latin America, yet they are overrepresented in the low-income population in all countries. Afrodescendants have fewer opportunities for social mobility. Regionwide, they are 2.5 times more likely to live in chronic poverty compared to whites and mestizos. Their children are thus born into unequal opportunity and have less access to quality services and spaces, which prevents them from fully developing their potential and predetermines much of their lives.²⁶
- 2.10. Despite many positive developments, **indigenous peoples** still face considerable challenges. In urban areas, for instance, indigenous households tend to be less safe, less sanitary, and more susceptible to disasters compared to nonindigenous urban households. In general, indigenous peoples are 2.7 times more likely to live in extreme poverty compared to the nonindigenous population.²⁷
- 2.11. **People with disabilities** make up 10% of the region's population. The number of households with people with disabilities is likely to increase as the population ages and chronic conditions like diabetes, cardiovascular disease, cancer, and mental health issues become more prevalent. These individuals are at high risk of exclusion from social, economic, and political life not only from stigmatization but because policies, programs, and services are not designed with their needs in mind.
- 2.12. **Young people and older adults** are also a relevant population in urban development projects. According to a recent IDB study,²⁸ 21% of young people in the region are neither studying nor working. Likewise, poverty is high among adolescent populations. According to ECLAC,²⁹ 31% of young people in the region between ages 15 and 29 are considered poor. In this sense, projects that improve the living conditions of these populations and help identify job creation opportunities are key. The region will also experience significant growth in the elderly population,

²⁵ UN Habitat (2013). [Gender and Prosperity of Cities, State of Women in Cities 2012/2013](#).

²⁶ World Bank (2018). [Afrodescendientes en Latinoamérica. Hacia un marco de inclusión](#).

²⁷ World Bank (2017). [Indigenous Latin America in the Twenty-first Century. The First Decade](#).

²⁸ Novella et al. (2018). [Millennials en América Latina y el Caribe: ¿Trabajar o estudiar?](#)

²⁹ ECLAC (2017). [Social Panorama of Latin America](#).

and many cities are not yet ready to meet the special needs of these segments. According to IDB data for the region,³⁰ 12% of the population aged 60 or over are dependents. Problems of vulnerability and poverty are no strangers to this population, as 44% of those past retirement age have no pension or financial support of any kind. In addition, family support for the care of older adults is increasingly limited, with more women in the workforce and the economic pressure in households. Therefore, making transportation more accessible, facilitating access to quality housing, and delivering other urban services will be important for addressing this problem.

- 2.13. Given the different target populations that may be relevant within inclusive cities, the iDelta tool being implemented by IDB Lab will assist during the project design stage to clearly identify what types of populations are the beneficiaries of the projects and establish the necessary monitoring and supervision mechanisms to assess the extent to which these populations are reached.

D. Alignment with IDB Group priorities

- 2.14. This thematic paper is consistent with the **Update to the Institutional Strategy 2020-2023** (document GN-2933), drawing on the updated focus areas (technology and innovation, and resource mobilization) to help address two of the three development challenges (social inclusion and equality, and productivity and innovation). It also addresses the crosscutting issues of: (i) climate change and environmental sustainability; and (ii) gender equality and diversity.
- 2.15. It is also aligned with the **Urban Development and Housing Sector Framework Document** (document GN-2732), which reflects the Bank's evolving strategy in this area and recognizes the need to address urban development holistically with special attention to environmental sustainability and reducing the urban population's vulnerability to climate change and to man-made or geophysical hazards. Additionally, it is aligned with: (i) the Climate Change Sector Framework Document (SFD), in including climate change mitigation and adaptation actions across all activities; (ii) the Water and Sanitation SFD, in promoting access to quality infrastructure and urban public services; (iii) the Transportation SFD, in supporting sustainable urban transportation systems; (iv) the Social Protection and Poverty SFD, in addressing the needs of the most vulnerable households; (v) the Tourism SFD, in regenerating heritage-rich urban areas; and (vi) the Gender and Diversity SFD, in mainstreaming the gender perspective and diversity.
- 2.16. This document is also aligned with the New Urban Agenda adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito, Ecuador, on 20 October 2016. The New Urban Agenda is a guide for the city development efforts of a wide range of actors (states, urban and regional leaders, donors, United Nations programs, and civil society) over the next 20 years.³¹ In particular, it prioritizes sustainability, inclusion, accessibility, and women's empowerment by promoting compact, connected, integrated, and inclusive cities, recognizing the correlation between good urbanization and development.

³⁰ Aranco et al. (2018). [Panorama de envejecimiento y dependencia en América Latina y el Caribe](#). Policy brief IDB-PB-173.

³¹ The United Nations General Assembly endorsed the New Urban Agenda at its sixty-eighth plenary meeting of the seventy-first session on 23 December 2016. The full document can be consulted at <http://habitat3.org/wp-content/uploads/NUA-Spanish.pdf>.

III. LESSONS FROM THE IDB LAB EXPERIENCE

- 3.1. Over the period spanned by the previous Business Plan 2016-2018, IDB Lab approved 30% of its projects within the area of IC.³² Of the IC projects approved, 45% were in the area of service delivery (housing, transportation, energy, and water and sanitation); 20% in resource management (circular economy and resilience); and 35% in generating economic opportunities (entrepreneurial ecosystem, employment, and orange economy). The lessons learned over the past few years have helped reshape priority areas based on the values set out the Business Plan 2019-2021 related to experimentation, transformational impact, and greater opportunities for the excluded and vulnerable.
- 3.2. **Different types of innovations.** While some sectors like mobility or the urban circular economy generate highly innovative business models, others such as water and sanitation, or energy, generate innovation chiefly in terms of the technological aspects of their solutions. As such, there should be some flexibility regarding the scale and types of solutions supported, to address the variety of urban contexts and sectors, including innovations in economic sectors that have different levels of public sector regulation and involvement.
- 3.3. **The need to articulate and promote demand.** One of the key lessons learned in the IC thematic area is the importance of using the IDB Group as a source to identify urgent issues in cities and guide solutions. In the area of mobility, for instance, the Transport Division (TSP) has been key in providing guidance to IDB Lab on the types of innovative transportation solutions in the private sector that can potentially be aligned with the IDB's mandate. At the same time, IDB Lab can explore the types of companies that can potentially develop scalable business models. It is also important for IDB Lab to articulate demand, since local governments and organizations are ill-equipped to pioneer the identification and adoption of solutions. Even in cases where the regulatory framework is favorable, there are other obstacles to promoting innovative public procurement: the risk of prototyping for both vendors and purchasers; a low level of capacity and knowledge at procurement entities to engage in forecasting, technological oversight, and technical dialogue with the market to communicate challenges and identify possible solutions; and difficulties in attracting innovators, especially innovative high-tech startups and small and medium-sized enterprises (SMEs).
- 3.4. **Challenges of the entrepreneurial ecosystem in cities.** We have also learned that in many cases urban entrepreneurial ecosystems have significant gaps when it comes to innovative actors. In the mobility sector, support from accelerators and financing from venture capital funds do not always meet the specialized needs of tech startups, which often need to manage intellectual property and negotiate with the public sector. In that sense, coordination between executing agencies and local governments must be strengthened, to ensure impact in urban areas. For this reason, we must understand the challenges faced by innovators in their interactions with the public sector and leverage the IDB Group's relationship with the public sector in each country.
- 3.5. **IC challenges of the region's private sector.** It is important to recognize that the innovative solutions to urban challenges we regard as promising often are not proven enough to capture the interest of investors, who frequently are looking for more tested business models. For example,

³² This calculation is based on the design teams' classification of projects into three thematic areas, as reflected in the corresponding donors memorandums.

in low-cost housing, the construction sector is interested in offering large-scale, standard housing solutions, whereas IDB Lab prefers innovative urban housing models (i.e., rental housing, flexible urban housing spaces, new models of shared housing, and renovation of existing homes to prevent the urban perimeter from expanding). This suggests that more experimentation is needed with business models in the housing chain in order to navigate the rigidities of the housing market and new family structures and uses of space. This lesson can be applied to innovative solutions in other IC areas of opportunity.

- 3.6. **Cutting-edge technologies and the low-income population.** During this span of time, we have learned how difficult it is to bring innovations to vulnerable, low-income populations living in informal settlements. For example, in the area of housing, new green and resilient construction materials and technologies are being innovated but fail to reach most MSMEs and builders working in informal settlements. Digital technologies can help overcome these limitations by providing an opportunity to widely share lessons learned. Similarly, platforms within the sharing economy provide access to new market segments for users and providers of services and are increasingly becoming powerful facilitators of innovative solutions through digital technologies. This has the potential to transform business models into urban services and improve the lives of poor and vulnerable populations. These solutions can be used to dramatically reduce spending and exponentially expand access to essential products and services.
- 3.7. **Diversity of sectors.** Another lesson learned is the difficulty of creating thematic specialization within IDB Lab and the need to draw on the IDB Group's knowledge, since IDB Lab has sought to develop innovations in a wide range of urban services. Therefore, during the 2019-2021 period, IDB Lab should make additional efforts to ensure that projects in the priority thematic areas are sufficiently represented in annual approvals. This is especially important since implementing these projects will provide the opportunity to learn from experience.

IV. OPPORTUNITIES FOR IMPACT

- 4.1. Based on an analysis of experiences, trends, and progress made by the IDB Group in this thematic area, three **areas of opportunity** have been identified for the next three years, where private sector innovation can contribute more to resolve the challenges identified in section 2.C and generate transformational impacts on quality of life for populations at risk of exclusion from the benefits of urbanization: (i) transformation of urban services (housing, mobility, energy, and water and sanitation); (ii) circular economy; and (iii) orange economy.
- 4.2. The strategy developed in 2016 for this thematic area focused on improving quality of life for households in medium-sized cities (cities between 100,000 and 2,000,000 inhabitants). Medium-sized cities are at the forefront of the region's urban population growth with faster growth rates than large urban areas. However, considering demand and IDB Lab's work over the past three years, these thresholds would be eliminated, also because there is no universal criterion for minimum size or density to determine whether a populated geographic area is called a city.³³ Removing this threshold means that IDB Lab's work will not be rigidly limited by the size

³³ For example, the World Bank proposes that an urban area is any area that has a density of 150 inhabitants per square kilometer and access to a settlement of at least 50,000 inhabitants within 60 minutes by road. The Organization for Economic Cooperation and Development (OECD), on the other hand, proposes a method that combines census factors to define the boundaries of urban centers with mobility factors to define conurbations and suburbs that function as part of the same city.

of the city, and prioritizes the mandate of serving the poor and vulnerable population regardless of location.³⁴

A. Transformation of urban services

- 4.3. The objective of this area is to **improve access in terms of quality and affordability to goods and services without disruptions for citizens through the adoption of technologies³⁵ and new business models**. Ensuring that all citizens have better access to urban services improves not only quality of life but equity and social cohesion, as well. IDB Lab’s experience gained in developing projects on social innovation, basic services, energy efficiency, and public-private partnerships can enhance its role in better connecting private-sector-led innovative solutions to the needs of cities. The work to be done in this area of opportunity will be important for the activities of CSD/HUD, INE, and IDB Invest.
- 4.4. **Housing.** Figures suggest a challenge in qualitatively improving the housing stock and thinking about housing in relation to the quality of the urban fabric it creates (i.e., low-density peripheral growth versus high-density development). It is also important to think about intelligent use of existing resources in order to design an environment that is efficient, modular, and flexible, taking advantage of the slack capacity of existing resources and addressing the challenges of climate change. Over the next few years, interventions for addressing spatial segregation will continue to be explored, as will business models in key areas for the sector: inclusive financial products to improve and expand housing; linkages between emerging companies and construction solutions; the use of resilient and green materials; and access to technical assistance to expand and improve existing housing (as with “Four Points in the Urban Housing Improvement Value Chain,” operation ME-T1254). IDB Lab is expected to serve as a touchpoint for innovation and contribute to coordinating dialogue and lessons learned among disruptive initiatives by promoting partnerships as well as knowledge transfer to the market, in order to scale up access to quality housing.

Collective Financing to Improve Housing (loan ME-L1251)

This US\$2 million senior loan for working capital supports the development of an online, person-to-person (P2P) collective financing platform promoted by Kubo Financiero S.A. de C.V. SOFIPO, to strengthen its housing improvement products.

Combining digital technology and data use, this model is designed to replace traditional financial intermediaries by directly connecting borrowers with investors in order to make loan transactions more efficient. This translates into better interest rates for borrowers and more attractive returns for small-scale investors using these services. The expected outcome is better quality of life for 6,420 middle- and low-income families by improving their housing and businesses. This project is being implemented in collaboration with CSD/HUD and IFD/CMF.

³⁴ The IDB Lab Results Framework and Development Effectiveness Approach 2017-2023 (document MIF/GN-217-1) establishes that no less than 60% of approved amounts must be directed to projects targeting poor and vulnerable populations.

³⁵ “Technologies” are understood broadly to include digital technologies, as well as technologies in such sectors as construction, electric power generation, and others. In all cases, technology adoption in the proposed solutions will be considered in relation to the availability of the necessary infrastructure for its use, and the development of solutions not involving digital technologies may also be considered.

- 4.5. **Mobility.** The cities of the region have moved forward with different policies to improve mobility (bus rapid transit systems, metros, public bicycles and bike paths, limiting traffic, etc.). However, there is still an urgent need to make mobility more efficient in order to reduce the impact on pollution, lost time, productivity, and quality of life. Work in this area will engage the key stakeholders in urban mobility (public sector, private sector, research institutes, civil society, etc.) to support innovation in sustainable and user-centered transportation. One of the initiatives to be supported is to reduce the use of personal vehicles by improving the public transportation system through the use of new technologies, development of green transportation solutions based on alternative sources, and testing of innovative mobility solutions aligned with the principles of social inclusion and environmental sustainability.

Prevent-Shift-Improve: Sustainable Mobility (Technical cooperation operation ME-T1322)

In this project, IDB Lab, along with the World Resources Institute and the Shell Foundation, has created a platform to select and accelerate innovative urban mobility solutions in Mexico. The “Propulcity” project accelerates mobility ventures that contribute to eliminating the use of private automobiles, reducing congestion and emissions, and improving the quality and duration of travel within cities.

The mobility solutions selected for the project leverage digital technology innovations and sustainable transportation technologies. As a result of the first of two planned requests for proposals, the platform is supporting five mobility startups: Bussi, a van-pooling service for businesses; Vetelia, on-demand electric bicycles; Klustera, a startup that provides transportation data to public transportation operators; Bridgefy, a startup that uses mesh technology to provide emergency services when telephone networks are down; and Supercívicos, a multimedia app for reporting mobility problems. This project is being carried out in coordination with INE/TSP.

- 4.6. **Water and sanitation.** Urbanization and climate change have overwhelmed the capacity of some cities to offer quality water and sanitation services that are resilient to chronic pressures or sharp shocks. Support will be provided for initiatives that build on previous experiences to provide in-home access to services, leveraging technology and circular models to enhance water resource management and improve service delivery with better management and prediction models to reduce system stress. The benefits of implementing technology and new models goes beyond utilities. Encouraging the rational use of water and energy resources is essential to ensure affordable services for all. It also frees up resources to improve quality and expand services.

Capital Mobilization to Promote Resilience in Water Services
(investment and technical cooperation operations ES-Q0001 and ES-T1276)

In collaboration with Catholic Relief Services and INE/WSA, this project seeks to expand and rehabilitate water services in secondary cities and periurban areas of El Salvador by supporting water service providers with technical assistance to better enable them to manage and finance their systems through the development of an innovative instrument to provide debt financing to local financial institutions for onlending to, or cofinancing with , water service providers to finance their expansion and improvement of water and sanitation infrastructure.

IDB Lab will contribute US\$500,000 in nonreimbursable technical cooperation funding and US\$3 million in capital investment to a trust fund managed by BANDESAL. This intervention will catalyze financial contributions and capacity in the sector. As a result, 300,000 people living in 150 periurban communities and small cities will have improved access to clean drinking water.

- 4.7. **Energy.** With the growth of cities, the challenge of providing nonpolluting, quality, and affordable energy has also grown in the region. Innovative solutions will be explored for efficiency, cogeneration, distribution, and new sources like renewable energy, to improve energy access and quality in cities. These solutions must be cost-effective versus the status quo and have a positive impact for low-income populations (i.e., low-cost batteries for generating and storing solar energy, new cogeneration technologies, smaller and more affordable equipment for solar and wind power, new applications for measurement and use, geothermal energy for heating, etc.).

MGM Sustainable Energy Fund I – MSEF I (investment operation RG-Q0035)

The MGM Sustainable Energy Fund provides financing for innovative energy efficiency and renewable energy projects in Colombia, Mexico, Central America, and the Caribbean. The fund will invest 70% of its committed capital in energy efficiency projects, and 30% in renewable energy projects (proven technologies that include expansion or rehabilitation of biogas, solar power, and wind power).

One flagship project that has received investment is the Bocas del Toro project in Panama, which installed 640 solar panels generating 192kWp (kilowatt peak). By replacing diesel in the generation of electricity, these panels prevented the emission of 18,000 kg in greenhouse gases. It also benefitted small hotels in the city and local indigenous community of Bahía Honda. Another example is the Energreen biogas project in Mexico, which converts biogas from sanitary waste into energy. This project produces 75 million kWh (kilowatt hours) per year and benefits around 100,000 households. IDB Lab is one of the main institutional shareholders with US\$5 million of the fund total of US\$63 million.

B. Circular economy

- 4.8. The objective of this area is to **improve environmental conditions in cities with models that maximize the value of components and outputs**. The circular economy offers models for reuse, maintenance, renovation, and remanufacturing that conserve valuable environmental assets, create local green jobs, reduce health risks, and create attractive public spaces that contribute to quality of life, productive cities, and social cohesion for current and future residents of cities. Efforts in this area will support the work of INE/WSA, CSD/HUD, and IFD/CTI on this issue.

- 4.9. The circular economy seeks to reduce waste and minimize resource extraction by incentivizing maximum use of resources. The flow of construction materials, water, and even food³⁶ can be reconfigured so as to prevent resource waste. Urban areas offer an ideal environment for obtaining these benefits and addressing the challenges of these models. The goal of replacing linear products with products that are “circular by design,” as well as creating reverse logistics networks and other systems to support the circular economy, is a powerful stimulus for new ideas that could offer new sources of innovation in cities. Additionally, city authorities can contribute to closing these loops through the decisions they make on the procurement of works, goods, and services. Finding new ways to maintain the value of parts and materials will foster the development of new business models and could create vibrant urban communities. Local and circular production systems will include maker labs (to promote local production, repair, and distributed manufacturing); collective resource banks (to match demand with supply of materials); and digital platforms (to manage materials, monitoring, and logistics), thereby ensuring that the principles of the circular economy and its innovative solutions are applied on a larger scale.
- 4.10. Projects will draw together four lines of action to varying degrees. The first is development of circular business models; the second is stimulation of research and efforts to design products, materials, and business models; the third is access to finance; and the fourth is creation of an enabling environment through support for a long-term city or country perspective and promotion of demand.

Recycling Used Cooking Oil in São Paulo (technical cooperation operation BR-T1343)

This US\$900,000 technical cooperation project seeks to turn used household cooking oil into inputs for the biofuel industry, creating economic opportunities for low-income families in vulnerable communities and enhancing São Paulo’s resilience to climate change.

The project’s objective is to improve the lives of 1,750 poor and vulnerable recyclers and prevent pollution of 280 billion liters of clean water over the course of the project, benefitting 10.5 million citizens in the 63 municipalities covered by the project.

CSD/CCS and WSA staff at the Bank’s Country Office in Brazil collaborated on the project design. The Nordic Development Fund contributed an additional US\$200,000.

C. Orange economy

- 4.11. The objective of this area of opportunity is to **support local economic development based on the characteristics and potential of the city itself**. Our focus in developing the creative, or “orange,” economy is to recognize the increasingly important role played by the orange economy in the

³⁶ This circular approach can also be applied to food waste. Significant amounts of land, water, and energy are consumed in growing and processing food that is thrown away and then releases methane, a greenhouse gas. At the same time, 815 million people suffered from malnutrition in 2016. With growing urbanization, it is expected that even more amounts of edible food will be thrown away. However, unwanted but edible food can still be used by passing regulations to address the problem, developing models that help organizations redirect the food, and raising the population’s awareness of the issue. Food and Agricultural Organization (2017). [The State of Food Security and Nutrition in the World](#).

economic development of LAC and in generating a series of nonmonetized benefits, such as improving social inclusion and resilience, as well as incentivizing the use of local resources and knowledge.³⁷ Work in this area will be coordinated with CSD/HUD, IFD/CTI, and KIC/ICD.

- 4.12. There are different ways of conceptualizing the creative economy. The IDB defines the creative, or “orange,” economy as the group of activities through which ideas are transformed into goods and services whose value is determined by their intellectual property content. It is the sector of the economy where “talent and creativity are the primary inputs.”³⁸ IDB Lab locates this area of opportunity within inclusive cities because the creative and cultural industries are intrinsically local.
- 4.13. The average contribution of the creative and cultural industries to the GDP of LAC is estimated at around 2.2%.³⁹
- 4.14. Projects will be developed in three main areas. Development of the creative sector will be supported through acquisition of skills (not just the teaching of new technologies and entrepreneurship),⁴⁰ putting key elements of the ecosystem in place through capacity-building for ecosystem actors to meet this sector’s specific needs. Action will be taken to develop demand by encouraging the use of creativity to generate innovation in traditional sectors (health, infrastructure, education, finance, etc.) or address priority issues (poverty, gender, environment, natural disasters, etc.). Lastly, economic development will build on local artistic and cultural heritage to create opportunities in other sectors, not just within the cultural industries themselves.

Naranja Republik: Digital Creative District (technical cooperation operation HO-T1322)

The historic city center of Tegucigalpa and Comayagüela has been in gradual decline since Hurricane Mitch (1998), leading to depopulation. In spite of this area’s cultural and economic value, perceptions are very negative due to issues like fear for personal safety, mobility, and sanitation.

In this project, IDB Lab is collaborating with CSD/HUD, IFD/CTI, and KIC to support an urban revitalization process that will transform the city center into an innovation ecosystem bringing together citizens, creative entrepreneurs, businesses, universities, and public- and private-sector institutions within the orange economy, with a special focus on youth. The hope is to contribute to restoring the area into one where people can visit, as well as live and work. The project is being implemented by the Foundation of the Museum for National Identity in collaboration with the mayor’s office, the private sector, and public and private universities. IDB Lab is contributing US\$1.5 million, with counterpart funding from the United States Agency for International Development (USAID), the Spanish Agency for International Development Cooperation (AECID), the Andalusian Agency for International Development Cooperation (AACID), and others.

³⁷ UN Post-2015 Development Agenda.

³⁸ Benavente, J. M., and M. Grazzi (2017). [Public Policies for Creativity and Innovation: Promoting the Orange Economy in Latin America and the Caribbean](#). IDB.

³⁹ Lhermitte, M., B. Perrin, and S. Blanc (2015). [Cultural Times: The First Global Map of Cultural and Creative Industries](#). EY.

⁴⁰ One example of this approach is the project in Suriname to promote employment in the creative industries. This project is being implemented by Stichting The Back Lot, to support training for youth in filmmaking, multimedia, and early-stage entrepreneurship by developing a “creative hub” in Paramaribo’s historic city center (document MIF/AT-1489).

V. KNOWLEDGE AGENDA

- 5.1. The Knowledge Agenda will focus on generating projects that address key questions identified for each of the areas of opportunity, as summarized below. The range of lessons learned from the projects implemented in different cities and contexts will help us build high-value knowledge. Based on the synergies in each area, the knowledge agenda will be implemented in collaboration with the IDB, IDB Invest,⁴¹ and KIC.
- 5.2. ***What are the niches of opportunity and effectiveness of involving the private sector in the delivery of sustainable urban services?*** Faced with the risk of growing inequality and urban exclusion, as well as a greater number of inhabitants living in informal settlements with poor access to services, it is essential to accelerate knowledge on how public-private cooperation in the delivery of urban services can furnish innovative solutions to these challenges.⁴² From the standpoint of the end user, mainly poor and vulnerable populations, it is imperative to understand which kinds of strategies are most effective in producing positive impacts for these populations.
- 5.3. In **housing**, the Knowledge Agenda will seek to answer the following questions: What types of financial products channel resources to make the sustainable housing value chain more efficient? What innovative programs are there worldwide for urban land expansion, neighborhood improvement, progressive housing, improved housing, and housing construction? How do urban renewal projects enable inclusive development that benefits poor and vulnerable populations? What innovative materials and ecotechniques are being used for new, self-produced, and improved sustainable housing?
- 5.4. In **urban mobility**, some key questions are: How to promote environmentally sustainable, safe, and integrated transportation systems, and how can they be made accessible to vulnerable and excluded populations? How to exploit technological developments to facilitate shared transport and/or greater efficiency in the use of public transportation? How to incentivize greater use of public and nonmotorized transportation through communication tools and behavioral economic? What is the role of better public transportation in improving living conditions for poor and vulnerable populations, i.e., by facilitating access to employment, shortening travel times, and other development impacts?⁴³
- 5.5. In **water and sanitation** and **energy**, the following questions will be answered: What role does technology play in generation, distribution, cogeneration, measurement, and efficiency of resources, resilience, and self-sufficiency? Can innovations promote a smarter, fairer water system? Can technology tools facilitate the rational use of resources? Can new equipment like new solar panels or turbine technologies be cheaper and more efficient? Can this innovative equipment have more than one use (such as solar panels that capture water) and serve low-income communities?

⁴¹ Based on the service agreement, IDB Invest will supervise implementation of impact evaluations and specialized studies at the project level, as well as general thematic studies.

⁴² World Economic Forum (2017). [Harnessing Public-Private Cooperation to Deliver the New Urban Agenda](#).

⁴³ Two recent publications found positive impacts of improved urban transportation on women's employment (https://idbinvest.org/sites/default/files/2019-02/Conecting%20Economic%20Opportunity_Lima.pdf) and shorter travel times (<https://publications.iadb.org/en/publication/getting-lift-impact-aerial-cable-cars-la-paz-bolivia-1>).

- 5.6. ***What is the role of the circular economy in meeting the low carbon targets set by cities, enhancing their resilience, and promoting economic activity?*** By using resources more efficiently, the circular economy can play a vital role in meeting the Paris Agreement targets.⁴⁴ Accordingly, generate empirical evidence on what circular economy opportunities and business models are most effective in achieving these targets. What types of tools and methodologies will enable urban leaders and authorities to transition to circular economies? What types of business opportunities are there in the circular economy for the private sector? What are the job creation/loss dynamics that arise from these activities?⁴⁵
- 5.7. ***How can productivity, innovation, and competitiveness be promoted in the urban private sector?*** The private sector provides nearly 90% of jobs in developing countries and will be responsible for most of the development and growth of urban areas in the near future.⁴⁶ We should thus improve our understanding of how to increase urban business productivity and what business opportunities can foster such endeavors. For instance, what kinds of programs promote creativity, capitalize on cultural heritage, and generate economic activity? How to promote inclusive participation of all residents in urban productive activities, to help reduce poverty?
- 5.8. These three years of working in the IC thematic area have enabled us to learn about many initiatives for peer-to-peer knowledge sharing, from the IDB Group-led Sustainable Cities Network to other initiatives focusing on specific topics (i.e., the C40 Cities Climate Leadership Group, 100 Resilient Cities, Cities for Mobility, and the Creative Cities Network). This demonstrates an interest in learning from others, recognizing the value of practical experience in other cities.

VI. MEASURING IMPACT

- 6.1 The proposed indicators are aligned with the IDB Group strategies and with the indicators of the Corporate Results Framework (CRF). They are also aligned with the United Nations Sustainable Development Goals (SDGs).⁴⁷ It is important to note that these indicators are as proposed in the MIF Results Framework and Development Effectiveness Approach 2017-2023 (document MIF/GN-217-1), approved by the Donors Committee in 2017, and supplement other indicators not specific to the thematic area that address the mandates of replicability and scalability, which are key to the IDB Lab mandate.⁴⁸ Based on data from IDB Lab's active project

⁴⁴ Circle Economy and EcoFys (2018). [Implementing a Circular Economy Globally Makes Paris Targets Achievable](#).

⁴⁵ Sommerfeld, K., et al. (2015), [Circular Economy and Employment](#), Mannheim.

⁴⁶ <https://gsdrc.org/topic-guides/urban-governance/elements-of-effective-urban-governance/the-role-of-the-private-sector/>.

⁴⁷ For the first time, the SDGs (approved in 2015) include a specific goal for addressing urbanization (Goal 11, "Make cities and human settlements inclusive, safe, resilient, and sustainable"), recognizing that challenges for cities relate not just to housing, but also to climate change and other challenges. Furthermore, work on cities has a direct impact on other SDGs. It specifically affects Goal 1, to eradicate poverty; Goal 6, to improve household access to water and sanitation services; Goal 7, to ensure access to affordable and clean energy; Goal 8, to promote access to decent jobs and inclusive economic growth; Goal 9, to promote industry, innovation, and resilient infrastructure; Goal 12, to promote sustainable consumption and production patterns; and crosscutting SDGs to support gender equality and combat climate change (Goals 5 and 13, respectively).

⁴⁸ According to document MIF/GN-217-1 (paragraph 4.6), "The MIF will review progress toward these indicators in 2019 (a midterm review) and at that time propose adjustments to the Donors Committee, as needed, for the 2019-2023 period. The midterm review will also serve to assess the implementation of the new operational model and review the adequacy of selected indicators."

portfolio, the total number of households with improved living conditions was 57,517 as of December 2017.⁴⁹

Name of Indicator	Alignment with SDGs
Number of households/individuals with improved living conditions ⁵⁰	SDG 11, 1, 6, 7, 8, 9, 10, 12, 13
% of benefiting individuals who are women	SDG 11, 1, 5, 10
% of beneficiaries (households/individuals) from poor or vulnerable populations	SDG 11, 1, 10

6.2 Since there are different types of interventions in this thematic area, a set of additional indicators is proposed, that could be used depending on the type of project and challenge to be addressed.

Name of Indicator ⁵¹	Alignment with SDGs
Number of jobs created as a result of improved urban living conditions ⁵²	SDG 11, 8
Number of new firms providing new and/or improved urban services	SDG 11, 9
Greenhouse gas emissions avoided (in tons of CO ₂ e)	SDG 11, 13
Number of firms adopting climate change resilience measures	SDG 11, 13
Number of households adopting climate change resilience measures	SDG 11, 13

6.3 Reporting on implementation of this document will be part of the quarterly reports, while the advances in impact will be included in IDB Group publications and in thematic presentations known as the IDB Lab Series.

VII. WORKING AS THE IDB GROUP

7.1 The IDB Group is well positioned today to lead the development of sustainable, productive, and inclusive urbanization by offering a model that incorporates new ways of addressing service delivery, housing quality, and local economic development.

7.2 Following the guiding principles established in its 2019-2023 Business Plan, IDB Lab remains actively committed to finding opportunities for synergies at both the operational and strategic levels. By its nature, the thematic area of Inclusive Cities can contribute to the effectiveness of other IDB Group units, as identified in Section IV: Opportunities for Impact, for each area of opportunity. In this thematic area, efforts aligned with the rest of the IDB Group can take the form of working on the same issue or working in the same geographic location with a multisector approach. Such is the case of the Naranja Republik: Digital Creative District project in Honduras

⁴⁹ IDB Lab (2018), MIF Key Performance Indicators, 2017 (document MIF/GN-233). Given the design of the new strategy and the targets originally set for this indicator for 2017-2023 (850,000 households), the targets will need to be adjusted given the new scope and context.

⁵⁰ This includes households improved in terms of: (i) housing conditions; (ii) sustainable transportation solutions; (iii) urban sustainable services (e.g., water, sanitation, waste); and/or (iv) environmental urban amenities.

⁵¹ Other indicators that could be established and added for certain projects, depending on the ease of gathering information and type of project, are levels of noise pollution measured by sound pressure level (Lp) or equivalent continuous sound pressure level (Leq, T). Pollution indicators could also be measured, such as air quality indexes generated from direct measurements on the ground or satellite images, a water quality index, or others.

⁵² This includes jobs created through various urban improvement initiatives within the three areas or opportunity: (i) transformation of urban services; (ii) circular economy; and (iii) orange economy.

(operation HO-T1322), where IDB Lab is providing support to strengthen the creative ecosystem and digital entrepreneurship. At the same time, CTI, KIC, and HUD are supporting the recovery and development of heritage assets and positioning this issue on the public agenda as an instrument for improving competitiveness.

- 7.3 As an avenue for working together more closely in the impact areas of opportunity identified in the previous sections, collaboration will continue with the other laboratories of the IDB Group such as the IDB Cities Laboratory,⁵³ Natural Capital Laboratory,⁵⁴ and Innovation Laboratory (I-Lab).⁵⁵
- 7.4 As a result of working more closely and actively with the IDB and IDB Invest sector divisions, we are identifying specific intervention opportunities where IDB Lab's involvement can make a differential in our value proposition as the IDB Group. Within this thematic area, the first exercise of this type is being carried out with the divisions of the Infrastructure and Energy Sector (INE) under the heading of transformation of urban services and circular economy.
- 7.5 IDB Lab's recent experience has shown that open calls for proposals can be particularly useful for generating a flow of potential innovative operations in areas where IDB Lab is not yet positioned. The starting point for these is a challenge identified together with the IDB and IDB Invest sector divisions, as in the case of the Blue-Tech Challenge competition developed together with the Natural Capital Laboratory and CTI, which identified circular economy operations. A call for proposals is under way with KIC to shortlist proposals related to innovation in the orange economy.

⁵³ The IDB Cities Lab is a platform for innovation, design, experimentation, and lessons learned for the sustainable development of the cities of Latin America and the Caribbean. The starting point for its activities is the realization of urban innovative prototypes that arise from co-design processes with local actors (academia, government, community, etc.).

⁵⁴ The IDB Natural Capital Laboratory serves as a one-stop shop for the IDB Group to drive innovation in the conservation, landscape, regenerative agriculture, biodiversity, and marine ecosystem finance spaces. It seeks to bridge the gap between traditional environmental and financial actors from the public and private sectors to incubate, accelerate, and scale new solutions to pressing problems.

⁵⁵ The I-Lab is an initiative promoted by IFD/CTI that promotes social innovation as a tool to improve equality in Latin America and the Caribbean. Its methodology puts the beneficiaries at the heart of the innovation process, encouraging citizens to identify and prioritize their problems and then connecting them with actors that have the capacity, interest, and resources to propose solutions: governments, companies, universities, and NGOs at the regional and international levels.