



BUSINESS PLAN

2019 - 2021

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ACRONYMS

AUG	:	Office of the Executive Auditor
CCS	:	Climate Change Division
COF	:	Country Office
CRF	:	Corporate Results Framework
DELTA	:	Development Effectiveness Learning Tracking and Assessment Tool
DEO	:	Development Effectiveness Overview
DVF	:	Development Effectiveness Division
ESG	:	Environmental and Social Safeguards
FIN	:	Finance Department
FTE	:	Full-time Equivalent
GCM	:	Grants and Co-financing Management Unit
GRU	:	Grants Unit
HRD	:	Human Resource Department
HQ	:	Headquarters
IDB	:	Inter-American Development Bank
IDBG	:	Inter-American Development Bank Group
KIC	:	Knowledge, Innovation and Communication Sector
KMU	:	Knowledge Management Unit
KPI	:	Key Performance Indicators
LAC	:	Latin America and the Caribbean
LEU	:	Loans and Equity Unit
MIF III	:	Multilateral Investment Fund III
OPU	:	Operations and Programming Unit
SDGs	:	Sustainable Development Goals
SLA	:	Service Level Agreement
SRU	:	Strategy and Resource Management Unit
UIS	:	Update to the Institutional Strategy

EXECUTIVE SUMMARY

The commitments established during the last replenishment and endorsed by IDB Governors in Asunción in 2017, call for the Multilateral Investment Fund to become an innovation lab for the Inter-American Development Bank Group (IDBG). The Fund, under its new trade name, IDB Lab, is mandated to pilot new private sector solutions to development challenges that create opportunities for the poor and vulnerable populations of Latin America and the Caribbean (LAC), while working under a set of guiding principles designed to make the lab more effective and efficient.

The 2019-2021 Business Plan charts a path forward for IDB Lab. To pursue its objectives of accelerating prosperity and the expansion of social inclusion in the Region, IDB Lab will need to undertake a series of steps aimed at sharpening its focus, improving how it works, and exploring new and more dynamic partnerships.

IDB Lab will focus on becoming a purpose-driven platform, utilizing projects, networks, and knowledge to support innovations that generate disproportionately large benefits for poor, vulnerable, and excluded populations. It will favor these opportunities, while taking a balanced approach tailored to country-specific contexts and ecosystems. This will require a shift in focus towards end-clients and the challenges they face, identifying solutions that best fit their needs, and using suitable financing instruments. A mandate for experimentation along with an appetite for risk place IDB Lab in an ideal position within the IDBG to embrace this role.

IDB Lab will need to change the way it works and become a more agile organization, more comfortable with experimentation, tolerant of failure in the learning process, and proficient in iterative business models with fast learning cycles. This will require developing new skills, increasing exposure to vanguard innovation-driven organizations in the region and globally, and generating insights from IDB Lab portfolio and its end-clients through data-rich approaches enabled by new digital technologies.

Another change will be to broaden IDB Lab's role as a connector and innovation broker. IDB Lab will place greater emphasis on generating knowledge from its diverse networks of partners and the clients they serve. It will also promote greater connectivity between LAC and global innovation centers, and among key institutions within the region. The goal will be to build global and intra-regional alliances that can mobilize more resources and accelerate the development of innovation ecosystems across the region.

IDB Lab will also seek to generate greater impact by better leveraging IDBG-wide assets and capabilities. It will move from coordination to a co-creation approach, becoming more proactive in identifying opportunities for co-designing interventions with other parts of the Group. This will lead to richer and more creative combined solutions, and to greater success in scaling-up

innovations financed by IDB Lab. Co-creation will also allow other parts of the IDBG to benefit from IDB Lab's ability to quickly test new business models and technologies for inclusion.

Over the next three years, IDB Lab will pave the way towards a strategy for sustaining operations beyond 2023, which will be formally proposed by IDBG management in 2021. As core steps towards sustainability, IDB Lab will remain committed to delivering more development impact, becoming more catalytic for the IDBG, and maintaining a lean and cost-effective structure. All activities in the proposed Business Plan will be implemented under the budget scenarios established for the Multilateral Investment Fund III (MIF III). The Business Plan is also geared to meet the core programmatic targets defined for the 2019-2021 period during the last replenishment with respect to resource deployment, budget requirements, and cross-cutting areas.

The implementation of the 2019-2021 Business Plan and the related benefits for the region are contingent on timely payments of contributions to MIF III made by Donor countries according to the schedule agreed-upon in Asunción.

I. INTRODUCTION

- 1.1 This Business Plan lays down a pathway to guide IDB Lab activities for the next three years. It identifies steps required to meet the commitments established during the last replenishment and builds upon the operational and structural improvements implemented over the past two years. Accordingly, the path forward seeks to turn IDB Lab into an innovation platform with transformative impact for LAC by taking advantage of extraordinary opportunities brought about by new markets, new business models, and emerging technologies.
- 1.2 Section II discusses the current challenges and opportunities for IDB Lab as an innovation laboratory for the IDBG. It summarizes prevailing gaps that need to be addressed to consolidate the current operating model and increase its agility. The section also discusses opportunities to increase the impact of IDB Lab interventions, derived from both an increased alignment with the rest of the IDBG, and the emergence of innovative market-based solutions enabled by new business models and technologies. These solutions often produce “disproportionate impact”, which refers to the exponential expansion of coverage and outcomes for end-clients, in sharp contrast to conventional models that grow in a linear manner.
- 1.3 Section III proposes key priorities and goals for the 2019-2021 period, which include specific adjustments to improve operational capabilities, further empower field offices, increase response capacity, enhance risk assessments, accelerate the implementation of key processes, and improve knowledge management. Furthermore, this section establishes a roadmap for achieving broader impact by moving towards a purpose-driven model, tapping into IDBG resources, increasing focus on innovations with disproportionately large impact, building global alliances, and developing internal capabilities. Finally, Section IV provides an update on IDB Lab’s financial model.
- 1.4 The 2019-2021 Business Plan will be the first to be implemented under the MIF III Agreement, which is expected to enter into force at the beginning of 2019. If the assumptions of IDB Lab’s financial model hold, the Business Plan for the next three years will cover approximately 60% of activities under MIF III.
- 1.5 It is important to highlight that the implementation of this Business Plan and the corresponding benefits to the region are conditional on the financing assumptions set forth in the MIF III Agreement. These benefits will only be possible to the extent that member countries execute pledges according to the payment schedule stipulated in the Agreement.

II. CHALLENGES AND OPPORTUNITIES

A. Consolidating the IDB Lab Operating Model

- 2.1 In 2016, IDB Lab began its three-year Business Plan with a series of structural reforms addressing efficiency and effectiveness gaps. Early results point towards significant progress in terms of cost-efficiency, structural functionality, and greater alignment with the rest of the IDBG. IDB Lab now operates under a leaner and less costly structure with a greater share of personnel focused on designing, supervising, and supporting operations, and with new knowledge management functions in play. The delivery model has been streamlined, with IDB Lab staff increasingly dedicated to core functions and transactional services provided by other parts of the IDBG. Recently approved projects are more innovative, more likely to propose new business models or to leverage technology, and show improved alignment with the rest of the IDBG. Headquarters (HQ) and country office (COF) specialists are coordinating better, with greater involvement of COF specialists as project team leaders.
- 2.2 Structural reforms have also elevated the profile of the Donors Committee, which is now more focused on strategic matters. The procedure for operation approval has been streamlined so that Donor engagement be more effective, with dialogue centered on providing strategic guidance. Substantive discussions also take place on a quarterly basis when Donors review the performance and impact of IDB Lab's portfolio, new project areas, and knowledge initiatives.
- 2.3 Many of the changes initiated in 2016 have been implemented in full while others are ongoing. The pending challenges for the consolidation of IDB Lab's operational model can be grouped in four broad categories: operational capabilities, data assets, knowledge, and scalability.
- 2.4 **Operational capabilities.** IDB Lab has made progress over the past two years moving toward a business model that is more focused on innovation and knowledge generation, and which allows for higher tolerance for both experimentation and iteration. IDB Lab needs to continue to develop this mindset, increasing learning, systematizing data, and creating feedback loops that can inform the design of new projects. To do so, IDB Lab will have to address pending process issues that have created a temporary strain, as the costs associated with reforms are born up-front while time-saving process efficiencies materialize over time. Addressing this short-term gap will require adjustments and continuous iterations in the implementation of process improvements. These enhancements should produce savings in workload, as well as a more effective model of portfolio supervision and coordination between HQ and COF.
- 2.5 **Data assets.** IDB Lab works with a wide variety of development-minded partners, including social enterprises, accelerators, venture capital funds, cooperatives, and many others. This level of complexity poses a challenge in managing data and leveraging

knowledge, yet it also represents an incredibly rich source of information on clients, models, and impacts. IDB Lab should generate high-quality data about the clients it serves and develop analytic capabilities to convert data into business intelligence and insights. The ability to move from data management to distilling development insights is fundamental for IDB Lab to become more agile and innovative. IDB Lab can also leverage IDBG-wide capabilities, pursuing data sharing initiatives with other IDB departments and IDB Invest.

2.6 **Knowledge.** Learning from its work and that of its partners, and accelerating learning in regional ecosystems are important roles for IDB Lab. In 2017, the Knowledge Management Unit (KMU) was created to sustain these functions, which are closely linked with the IDB's Knowledge, Innovation and Communications Sector (KIC). IDB Lab has begun to explore ways to better generate data from its operations, convert it into insights, and share them with other parts of the IDBG, its development partners, and the broader network of development players. Integrating partner networks for more efficient knowledge dissemination to reach scale is a role that is currently sparsely provided in LAC and could become a differentiating factor for IDB Lab. Recognizing the need to be efficient and lean with its knowledge management, IDB Lab has increasingly relied on other parts of the IDBG, especially KIC and IDB Invest's Development Effectiveness Division (DVF) through service agreements, and will continue to lever the knowledge management assets of external partners.

2.7 **Scalability.** IDB Lab continues to struggle with finding systematic paths to scalability for successful innovations. The recent report on the Corporate Results Framework (MIF-GN-233) found that the percentage of IDB Lab projects scaled or replicated has essentially remained constant at 16%. This highlights the need to seize new opportunities for multiplying the impact of interventions and to better understand the pathways to scalability through both public and private-sector partners. This will include selecting partners who have the capabilities and incentives to scale successful projects and focus on business models and technologies that have a potential to generate value and produce development impacts that extend beyond initial project clients. The recently developed Portfolio Management Tool should help focus implementation efforts and resources in a way that maximizes opportunities for scale and disproportionate impact.

B. Opportunities to Increase Impact

2.8 Multiplying impact is a critical strategic goal for IDB Lab, both to meet the expectations of an increasingly value-centered donor community and to remain relevant as a long-term tool for development. At this juncture, IDB Lab is well-positioned to take advantage of at least two opportunities to achieve larger impacts: (i) increased synergies with other parts of the IDBG; and (ii) the emergence of new markets, business models, and new technologies that have disproportionately large impacts benefiting vulnerable populations when compared to conventional approaches.

2.9 **The IDBG as a platform to increase IDB Lab’s impact.** IDB Lab’s operating model is now more aligned with the rest of the IDBG and therefore better suited to generate greater synergies for impact. IDB Lab is well integrated with the IDBG country strategy and programing process, providing thought leadership in early stage innovation in particular. This is a topic where IDB Lab has established expertise and deep connections with ecosystem and industry players. IDB Lab could also take advantage of the IDBG country strategy process to experiment with joint programming exercises with other IDB departments and IDB Invest. This could translate into more experimental projects finding a path to scalability through the IDBG, more joint initiatives to strengthen ecosystem conditions for innovation, stronger links to markets and public sector actors, and wider pools of expertise being leveraged to enhance IDB Lab interventions. Furthermore, a closer collaboration with other IDBG labs such as the Natural Capital Lab or the Tech Lab will result in more innovations in the portfolio of the Group and expanded opportunities for scaling models financed by IDB Lab. Some examples of highly impactful initiatives co-created between IDB Lab and other parts of the IDBG are described in Table 1.¹

Table 1: Examples of IDBG Synergies Yielding High Impact

Initiative	Description	IDBG Synergy	Impact Potential	Alignment with SDGs
The Natural Capital Lab	A financing and project development platform for initiatives involving natural capital, biodiversity and sustainable development	Builds on IDB Lab’s track-record in natural capital projects. The program is jointly coordinated by IDB Lab and CSD and combines resources from both sources	More funding to support a stream of projects with greater reach, impact and visibility. Greater leverage of donor funding	Climate Action (SDG #13), Life Below Water (SDG #14), Life on Land (SDG #15)
Regional Initiative for Inclusive Recycling	A multi-stakeholder program to improve the recycling value chain and formalize low-income recyclers	Builds on IDB Lab’s track-record in recycling projects. The initiative includes resources from IDB, IDB Invest and external partners (Coca Cola, PepsiCo, Danone)	Expected to reach 17,000 recyclers in 16 countries and 39 municipalities. Nearly \$700 million in loans from IDB and IDB Invest	Responsible Consumption and Production (SDG #12), Sustainable Cities and Communities (SDG #11), No Poverty (SDG #1)
Women Entrepreneurship Banking (weB)	An initiative to support commercial banks in developing their value propositions for women-led businesses	A joint initiative between IDB Lab (technical assistance) and IDB Invest (debt financing). First-of-its-kind offering for commercial banks	Expected to benefit 185,000 women-led businesses through 17 banks. IDB Lab’s \$4 million was complemented by \$242 million from IDB Invest and \$715 million from external sources	Gender Equality (SDG #5), Decent Work and Economic Growth (SDG #8)
Pro-adapt	A technical assistance and financing facility for companies and agribusinesses interested	Builds on IDB Lab’s track record in climate resilience projects. The program’s second phase involves coordination and increased	Projects implemented in 13 countries reaching more than 60,000 beneficiaries, including farmers	Climate Action (SDG #13), Life on Land (SDG #15)

¹¹ The partnership with the Natural Capital Lab is expected to generate a joint program to regenerate the environment through innovations in conservation, biodiversity, and marine ecosystem. The partnership with the Tech Lab will allow IDB Lab to collaborate with IDBG initiatives using digital technologies such as blockchain, quantum computing, and blockchain for inclusion and social impact.

	in improving climate resilience	ownership by the Climate Change Division and possible financing from IDB Invest		
NEO: One Million Youth, One Million Opportunities	A multi-sector alliance promoting employment opportunities for youth	Builds on IDB Lab's track record on youth employment programs. It is jointly led by IDB Lab and LMK, plus external partners (Walmart, Microsoft, Cemex, etc.)	More than 320,000 youth trained and 4,300 businesses offering job opportunities across 12 countries	Decent Work and Economic Growth (SDG #8), Reduced Inequalities (SDG #10)

2.10 Innovations for social inclusion. Technology is increasingly becoming a powerful enabler for innovative solutions that can transform the lives of poor and vulnerable populations. They can be leveraged to dramatically reduce costs and broaden access to essential products and services at an exponential rather than a linear rate. Today's leading development-driven laboratories are using innovations in technologies and new business models to create opportunities for those who are excluded and marginalized. Some examples include blockchain used to provide digital identity to marginalized groups, drone technology used to deliver essential medicine to remote areas, solar energy systems reaching last-mile consumers, and machine learning used to improve educational delivery mechanisms for low-income segments. Innovative technologies and business models can also create new markets and opportunities for income. Examples include market intelligence and aggregation platforms allowing small producers to reach new consumers, affordable tech-enabled training improving the skills of rural and low-income groups, and e-commerce or sharing economy platforms enabling individuals to access new and larger market segments.

2.11 IDB Lab's track-record with technology-enabled business models. IDB Lab is well-positioned to support projects that introduce technology-enabled business models given its unique characteristics, including the ability to test experimental models at a small scale, the flexibility to provide risk-tolerant and long-term financing, and the capacity to mobilize and work with a wide network of ecosystem partners. Moreover, IDB Lab has been exposed to early-stage technologies through its work with venture capital funds and a select number of direct investments, many of which have achieved significant impact in terms of social inclusion.² Over the past few years IDB Lab has increasingly supported innovative projects that introduce new business models leveraging technologies to generate opportunity and promote inclusion. Table 2 contains some examples of projects from the IDB Lab's active portfolio that are aligned with this view

² IDB Lab has supported more than 1,000 early-stage companies and nearly 7,000 entrepreneurs, mostly indirectly through seed and venture capital funds, company builders, angel networks, and accelerators, but also through a select number of direct investments. The majority of these companies either leveraged or launched innovative technologies in diverse areas, including information and communication technologies, life sciences, clean energy, technologies applied to agribusiness, fintech, edu-tech, and health-tech. The growth and impact potential of these companies has been documented by external studies, which found that they tend to: create the majority of jobs in low-income countries; grow at a much faster pace than average companies; reach more customers in shorter periods of time; and achieve a high multiplier effect in the economy.

and which can be taken as a model of the types of projects that will be increasingly financed moving forward.

Table 2: Examples of Technology-enabled Innovations Supported by IDB Lab

Project/ Country	Solution	Description	Reach	Impact	Alignment with SDGs
Villa 31 Argentina	Blockchain	Provides digital identity to underserved segments	Between 1,500 and 20,000 (expected)	Poor residents of marginalized neighborhoods gain access to social and financial services	Sustainable Cities and Communities (SDG #11), Decent Work and Economic Growth (SDG #8), No Poverty (SDG #1)
Jaque Mate Bolivia	Online training platform	Uses online modules to train students in skills for the new economy (programming, robotics, STEM)	>19,000 students (expected)	Low-income students from public schools accessing high-quality training and improving job insertion prospects	Quality Education (SDG #4), Decent Work and Economic Growth (SDG #8)
BoaConsulta Brazil	Digital health platform	Uses proprietary algorithms to connect low-income patients with affordable healthcare	>750,000 patients	Low-income patients with faster access to affordable care	Good Health and Well-Being (SDG #3)
Neoprospecta Brazil	Biotechnology	Uses biotech to detect bacteria and prevent infections in hospitals and food companies	>200,000 patients and consumers	Improved health standards in basic food products and reduced risk of bacterial infections in hospitals	Good Health and Well-Being (SDG #3)
ShellCatch Chile	Market aggregation platform & traceability	Uses an app to connect smallholder fishermen directly with end consumers	>19,000 fishermen (expected)	Artisanal fishermen expand their markets, avoid intermediaries and improve their income by 50%	Life Below Water (SDG #14), Decent Work and Economic Growth (SDG #8)
Sempli Colombia	Fintech	Uses tech platforms and algorithms to assess risk and provide financing to startups	>31,000 new jobs >7,800 startups	Increased access to flexible financing for startups creating new jobs	Decent Work and Economic Growth (SDG #8)
WeRobotics Dominican Republic	Drones	Testing drone technology to deliver essential medical supplies to remote villages	Entire communities living in areas of difficult access such as mountains	Isolated poor communities in the Dominican Republic have quick access to essential medicines and medical supplies	Good Health and Well-Being (SDG #3)
Kingo Guatemala	Off-grid solar energy	Uses solar energy systems to tailor affordable pre-paid solar services in remote communities	>700,000 families	Low-income and isolated rural communities accessing clean energy	Affordable and Clean Energy (SDG #7)

Aquaponics Jamaica	Water-efficient farming system	Uses an innovative climate-smart agricultural system that uses 95% less water and 75% less energy	>300 small farmers in a pilot phase and more than 1,700 during ramp-up	Small-scale farmers increase their productivity 10 times and build resilience to climate change	Decent Work and Economic Growth (SDG #8), Life on Land (SDG #15)
Aqua Natural Mexico	Thermo infusion water grid	Uses thermo infusion technology to purify and distribute clean water	Entire communities with no water distribution systems	Poor communities have access to pure drinking water at affordable prices	Life on Land (SDG #15), No Poverty (SDG #1)
Natural Capital Suriname	New market mechanism for preserving natural capital	Introduces a new market for natural assets that fosters investments in climate-smart ventures that preserve biodiversity	>10,000 jobs >900mm tons of CO2 saved >1.6mm Has under sustainable management	Reduction of carbon emission, preservation of biodiversity, and generation of income opportunities in rural areas	Life on Land (SDG #15), Climate Action (SDG #13)
Satellogic Regional	Hyperspectral imagery	Uses nanosatellites for geo-intelligence that can be used in agriculture, disaster response and to monitor critical infrastructure	Entire rural communities vulnerable to droughts or natural disasters	Improved and real-time information allows to mitigate environmental risks affecting rural communities and ensure food security	Decent Work and Economic Growth (SDG #8), Life on Land (SDG #15)
Kuepa Regional	Machine learning and predictive algorithms	Uses a tech-based platform to provide blended education/training at affordable prices	>25,000 students	Poor and vulnerable students gain access to high-quality training and improve their income	Quality Education (SDG #4), Decent Work and Economic Growth (SDG #8)

III. PRIORITIES AND GOALS FOR 2019-2021

- 3.1 During the 2019-2021 period, IDB Lab will deploy its resources following the strategic guidance set forth during its last replenishment. It will take several measures to better establish itself as an IDBG innovation lab, operating according to the guiding principles³ and scope of interventions defined in the documents establishing MIF III.⁴ IDB Lab will develop projects in three thematic areas: Climate-Smart Agriculture, Inclusive Cities, and Knowledge Economy, seeking to generate disproportionate impacts aligned with the

³ In addition to a focus on innovation and inclusion, the guiding principles include scalability, mobilization of resources, replicability, development impact, knowledge creation, and tight alignment with the IDBG's strategic and operational priorities.

⁴ See CA-581 and MIF/GN-209-3

- common development framework identified in the Sustainable Development Goals (SDGs). These can include impacts on livelihoods, the environment, and other cross-cutting areas.⁵
- 3.2 IDB Lab will also support priority areas identified in the Update to the Institutional Strategy (UIS), which will be discussed by IDBG boards in the last quarter of 2018. The UIS is expected to highlight the importance of technology and innovation, transparency, mobilization of resources, and the future of work. In each of these areas, IDB Lab will intensify ongoing efforts to identify specific solutions that can help the Group address these critical priorities for the region moving forward.
 - 3.3 Through its work, IDB Lab will continue to promote diversity⁶, identifying and addressing gender and other diversity gaps in its operations, partnerships, business intelligence, and across all activities. Likewise, IDB Lab will continue to experiment with innovative models to address pressing environmental challenges, testing private sector approaches that promote environmental regeneration and climate change mitigation. Gender equity and the environment will continue to be cross-cutting priorities aligned with SDGs.
 - 3.4 IDB Lab has aligned its results measurement with the IDBG and reports its contributions to the Group's Corporate Results Framework (CRF) through the Development Effectiveness Overview (DEO). Moving forward, IDB Lab will seek to better integrate its impact measurement model in a manner consistent with the overall Group approach to the SDGs, which is increasingly recognized as the common framework for aligning development work. It will also encourage its clients and partners to more systematically utilize the SDGs to measure and communicate impact and to mobilize resources.
 - 3.5 In addition, IDB Lab will implement a number of adjustments around two main fronts: The first involves enhancements to the its operating model. The second involves broad changes designed to maximize the impact potential of IDB Lab interventions.

A. Enhancements to the IDB Lab Operating Model

- 3.6 **Ensuring operational capabilities.** To address short-term gaps in operational capabilities, IDB Lab will deploy a budget-neutral reinforcement plan consisting of five points: (i) retain and fill open local staff positions; (ii) selectively hire senior consultants in countries with no staff positions; (iii) pilot and roll-out a centralized service center that will provide COFs with support in fiduciary, compliance, and other transactional tasks; (iv) mobilize HQ specialist to provide support to local portfolios where needed; and (v) create incentives for IDBG staff outside IDB Lab to get involved with IDB Lab operations. In

⁵ The SDGs on which IDB Lab will focus include the following: Decent Work and Economic Growth (SDG #8), No Poverty (SDG #1), Good Health and Well-Being (SDG #3), Quality Education (SDG #4), Life on Land (SDG# 15), and Life Below Water (SDG #14). Gender equality (SDG #5) will be a transversal goal.

⁶ Diversity encompasses a broad group, including diversity in gender, race and ethnicity (e.g. indigenous or afro-descendants), sexual orientation, language, religion, national or social origin, age, culture, literacy, social and economic status, disability, among others.

parallel, IDB Lab will seek to expand a clustered supervision model in countries that have clear operational synergies. This model, already tested successfully in the Caribbean region, requires one COF staff in a lead country who can oversee a clustered portfolio of two or three countries with the support of local consultants.

- 3.7 **Promoting a culture of agility and iteration.** In 2018, IDB Lab invested significantly in generating opportunities for staff to explore the frontiers of technology and innovation. It also reviewed how high-performing innovation labs operate, identifying a series of gaps between its own practices and those of high-performing labs.⁷ To address these gaps, IDB Lab will roll-out measures and initiatives to promote a more innovative, agile, and iterative culture of work. Some of the measures being contemplated include: experimenting with more open sourcing of ideas for deal-flow and financing; promoting staff to dedicate time to experimentation outside conventional project models; using shorter experimental cycles that allow for quicker learning processes; increasing the deployment of design thinking, agile approaches, and other methods for a more creative project development process; and fostering joint initiatives with other parts of the IDBG to incentivize inter-disciplinary solutions. IDB Lab will also review options for promoting staff interaction both within and outside the organization, as this too can be an important factor in promoting a culture of innovative and agility.
- 3.8 **Strengthening field offices through a more specialized core.** IDB Lab will continue to adjust the roles of HQ and COF staff to create an optimized model that combines the efficiencies of centralized specialization with the advantages of decentralized functions and decision-making. COF staff will be further empowered to assume greater responsibilities along the project cycle and encouraged to insert themselves into local innovation ecosystems in order to identify potential projects. They will also move towards more technical tasks during supervision, becoming client and performance managers.
- 3.9 **Focusing on IDB Lab's core business.** IDB Lab will continue to strengthen its core by channeling resources and personnel towards technical functions, namely those that can directly yield greater effectiveness of its operations. Efforts will be made to further remove transactional tasks from COF specialists so that they can act as client and portfolio managers focusing more on technical tasks. To this end, IDB Lab will assess the current effectiveness and possible expansion of service arrangements in areas such as communications, budgeting, and fiduciary duties.
- 3.10 **Moving towards instrument-specific risk assessments.** IDB Lab will seek to improve its project risk review process, conducting an assessment and proposing adjustments to

⁷ The following tend to characterize top innovation performers: (i) an ability to work in an agile manner, and to pivot quickly when required; (ii) a degree of tolerance with failure as a normal and necessary aspect of innovation; (iii) a focus on the utilization of data and information for insights; (iv) promotion of inter-disciplinary approaches as a way to generate solutions from unexpected sources; (v) a focus on open sourcing of ideas and open innovation; (vi) a high degree of connectivity and interaction with the innovation ecosystem; (vii) a high degree of technological awareness (dexterity); and (viii) a culture of risk-taking.

ensure review mechanisms are tailored to its financing instruments, risk appetite, and focus on innovation.

- 3.11 **Defining principles for the use of instruments.** IDB Lab will deploy its different financing instruments under certain principles that are consistent with its mandate and which maximize the impact and scalability potential of its projects. Non-reimbursable resources will be directed to projects that build enabling conditions for the type of innovations that are to be promoted under IDB Lab's three thematic areas. Grants are particularly useful to support activities that address market failures and have benefits that reach diverse actors, typically found in ecosystem-building projects. Such projects do not necessarily generate revenues and therefore are usually implemented by private nonprofit organizations or public entities influencing innovation ecosystems.
- 3.12 In a few cases, non-reimbursable funds can also be used to support market-based models at prototype or very early stages. In such cases, parallel or follow-up reimbursable financing could be arranged, or a contingency recovery provision could be included to convert the non-reimbursable portion to reimbursable if the innovation becomes commercially successful.
- 3.13 Reimbursable financing will be allocated directly or indirectly to support market-based products or services, and as such will generally be directed to for-profit entities. IDB Lab will always seek to crowd-in other investors, particularly from the private sector. In cases where private investment may prove difficult due to higher perceived risk, IDB Lab will mobilize non-traditional investors. IDB Lab will generally seek risk-adjusted terms consistent with the markets but will offer flexible tenures and conditions depending on project-specific requirements.
- 3.14 IDB Lab will continue using and further iterating its toolkit of instruments to experiment with innovative financing structures that are best suited to support early-stage innovations. This may include contingency recovery grants, impact-incentivized financing, pay-for-performance arrangements, and simple agreements for future equity (SAFE), in addition to conventional debt or equity products. IDB Lab will report periodically to its Donors Committee on new instruments and their use.
- 3.15 As markets mature, IDB Lab will adjust its financing instruments and move to the edges of the innovation frontier. The case of microfinance is an example of such process. IDB Lab began developing the early formation of this market through grants, to later switch to debt and equity products as other sources of financing strengthened. Today, IDB Lab is looking to develop cutting-edge models in the fintech sector, which is considered the next frontier of financial inclusion.
- 3.16 **Moving towards a data-driven and evidence-based portfolio approach.** IDB Lab will continue to strengthen its ability to manage data and take stock of experiences by generating better and more granular intelligence on its projects. Enhanced data and analytics capabilities will allow to group projects with similar objectives, extract lessons, understand what works and what does not, and more purposefully seek out the next

steps and innovations that should be tested. IDB Lab intends to improve how it tags its projects with even more meaningful cross-cutting characteristics, using discrete dimensions (e.g., beneficiary type, development challenge addressed, industry or sector, geography, type of executing agency or intermediary vehicle, business model, type of technology used for impact, typology or maturity of innovation, pathways to scale, etc.) in order to generate richer portfolio analyses. It will also seek to gain a deeper understanding of end-clients to better identify critical impact drivers. These efforts are among those that will be prioritized in a leaner knowledge management model.

- 3.17 **Aligning our results architecture with global practices.** The SDGs provide a common framework for results and the opportunity for IDB Lab to better align its work to global efforts with a shared language. The Results Framework and Development Effectiveness Approach 2017-2023 (MIF/GN-217-1) showed how some of IDB Lab's key performance indicators (KPIs) contribute to the SDGs. The document also anticipated that IDB Lab may need to adjust its KPIs and their thresholds, and thus called for a mid-term review. An assessment will be presented to the Donors Committee in 2019, and any necessary adjustments will be proposed at that time. This will be done in coordination with the broader IDBG efforts to align with the SDGs.
- 3.18 **Further strengthening Donor engagement on strategic matters.** IDB Lab will continue its dynamic and strategic engagement with Donors. It will seek greater involvement when setting and monitoring key strategic and programmatic decisions, including those related to new areas of intervention, funding instruments, and partnership initiatives. It will continue to provide periodic and in-depth reporting on operational targets, institutional performance, and overall results. IDB Lab will revise the Donors Memorandum template to better communicate how interventions will create opportunities for low-income and vulnerable populations.

B. Maximizing Impact

- 3.19 **Moving from an instrument-centered fund to a purpose-driven lab.** IDB Lab has a development and innovation mandate as well as a versatile set of financing tools yet operates primarily as an instrument-centered fund. It is bound by specific targets involving approval amounts and instrument mix, and follows a structured partnership model in most of its projects. As IDB Lab strengthens its role as an innovation laboratory, this approach will need to shift. A benchmarking exercise involving different innovation labs⁸ led to the conclusion that a purpose-driven model with greater operational flexibility

⁸ Through its work across LAC, IDB Lab has gathered a rich body of insights and lessons from a variety local partners and institutions seeking to promote innovation. Most recently, IDB Lab conducted a stock-taking exercise on the early-stage innovation ecosystem in LAC, identifying cutting-edge partners such as Cubo in Brazil, Bioceres in Argentina, RutaN in Colombia, and Wayra in Peru. To complement this knowledge, IDB Lab visited other international innovation labs/centers considered benchmarks in their respective areas, including the MIT Media Lab, Cambridge Innovation Center, MassRobotics, Artisan's Asylum, Greentown Labs, Flagship Pioneering, MIT Solve, Lab Central, Mass Challenge, The Engine, Cornell Tech, LIFION, BCG Digital Ventures, Singularity University, SkyDeck, SkyAlert, NexBiotics, IndieBio, HAZ, MindsDB, TechStanford and

is fundamental for achieving maximum impact. Under this approach, IDB Lab will shift its focus toward end-clients and the challenges they face, finding and testing scalable solutions that best fit their needs, and using the most suitable funding instruments. As part of this transition, IDB Lab will prepare overview papers for each thematic area that will outline areas of emphasis, the impact(s) the IDB Lab aims to achieve, and how innovation and/or disruptive technology can support these goals. To allow for greater flexibility, IDB Lab will establish ranges for key operational variables, instead of complying with pre-determined and strict targets.

- 3.20 Moving from an instrument-centered to a purpose-driven approach will require flexibility around variables such as project size, instrument mix, and the way in which partners are engaged. For example, an alternative deal sourcing strategy can include open competitions, which can be a cost-effective mechanism for the early detection of innovations and for increasing pipeline. If conducted in partnership with expert organizations, open competitions may also help IDB Lab build capabilities in new areas, while opening avenues for alternative sources of project funding.
- 3.21 Any adjustment to indicative thresholds is expected to remain within reasonable ranges, particularly acknowledging any constraints presented by the IDB Lab's financial model and projections. Adjustments will only be proposed if they help fulfill the IDB Lab's mandate and achieve aspirational goals. Specific initiatives containing innovative origination and implementation mechanisms will be discussed with the Donors Committee in a timely manner.
- 3.22 **Leveraging IDBG synergies through co-creation.** To maximize opportunities for operational synergies with the rest of the IDBG, which would also contribute to more scalable projects, IDB Lab will consider three courses of action. The first involves identifying specific opportunities for cross-collaboration in terms of common spaces of intervention, where IDB Lab and other IDBG departments could combine capabilities to enhance their collective value proposition. This can be achieved with the support of focal points and other IDBG staff becoming involved in IDB Lab projects. Likewise, IDB Lab can promote the participation of its staff in other IDBG project teams. By moving from increased coordination to a model of co-creation, IDB Lab will not only enhance the Group's value to its clients but will also generate efficiencies in the use of limited resources.
- 3.23 Second, IDB Lab will generate greater synergies with the rest of the IDBG by purposefully identifying innovations – in the form of projects, business models, or providers – that can add value to new or existing IDBG projects. These solutions could be derived from IDB Lab's existing portfolio of projects, its network of partners, or the broader innovation ecosystems that may not be readily accessible to other parts of the IDBG. This process

others. IDB Lab also conducted a review of the early-stage innovation ecosystem in Israel, and is planning visits to other centers in Asia, Europe and across LAC.

- will be facilitated by an enhanced capability to generate and manage portfolio intelligence.
- 3.24 Third, IDB Lab will strengthen its investment capabilities focusing on supporting ventures that can scale towards growth stages, potentially feeding pipeline to IDB Invest. This would require a segmentation analysis that identifies high-risk and early-stage spaces where IDB Lab can engage either directly or through venture capital funds.
- 3.25 Furthermore, IDB Lab will build on its ongoing relationships with other part of the IDBG through service arrangements. KIC can play an important role on the knowledge and communication space, and in the promotion of innovation. IDB Lab can draw on its network of partners in the innovation ecosystem to facilitate KIC's role of promoting innovation within the IDBG. Likewise, IDB Lab can become a platform for testing some of KIC's initiatives to promote innovation, an agile mindset, and a more iterative way of working. ORP can play an important role in developing an approach to build networks and to mobilize resources from development partners.
- 3.26 **Expanding the role of connector.** Given that many innovations typically emerge at the intersection of different technologies and sectors, placing greater emphasis on connecting and convening diverse ecosystem actors will allow IDB Lab to become more effective as an innovation laboratory. Ecosystems often cut across countries and therefore are well-suited for support by the IDBG, which has an explicit mandate to promote integration across the region. IDB Lab can help fulfill this goal by bridging relationships among local actors within the region and with influential global innovation networks in the different areas where it intervenes. IDB Lab will can also act as a connector for the IDBG, bringing novel solutions to increase the impact of existing Group initiatives and projects, and convening key actors to promote institutional, market and regulatory changes or public-private partnerships where needed. In many instances this cooperation can be South-South, where countries with expertise can share knowledge to help scale successful models with other LAC countries. IDB Lab's role as connector is highly complementary to its financing arm and will help accelerate the rolling out of innovative development solutions.
- 3.27 **Building global and intra-regional alliances for greater impact.** IDB Lab will heighten its efforts to build a more globally connected LAC, by strengthening global and intra-regional networks. It will support partners that have the ambition and capabilities to lead globally while positioning LAC as a reference. Partnerships will seek to mobilize external resources and will create knowledge sharing platforms so that IDB Lab and other industry players can build expertise in new areas. Such platforms could eventually turn into powerful communities of practice and become pivotal for developing local innovation ecosystems across LAC.
- 3.28 **Focus on emerging regional ecosystems.** IDB Lab will focus efforts on closing the gap between more and less developed innovation ecosystems in LAC. In regions where development challenges are the most pressing, there are greater opportunities for

- innovations to generate disproportional impacts. IDB Lab will collaborate with other parts of the IDBG to accelerate this development.
- 3.29 All activities involving connecting institutions and building alliances will have minimal budget implications. IDB Lab will primarily use its convening power to establish relationships and link networks. It will also rely on the capabilities and resource of its partners in the Region, as well as internal resources such as ORP, KIC and other parts of the IDBG.
- 3.30 **Seeking greater inclusion through transformative innovations.** IDB Lab will increasingly focus on operations with high likelihood of scaling rapidly, producing solutions that can expand at an exponential rather than linear rates. This will mean identifying business models that have the potential to dramatically expand benefits to poor, vulnerable and excluded populations, both in terms of breadth (number of people reached) and depth (degree of positive change achieved). These business models may leverage new technologies to dramatically expand inclusion by reducing the costs of existing products and services or creating unexpected sources of value for poor and vulnerable populations. Innovations will typically be proposed by pioneering, development-minded, and entrepreneurial partners who may be incumbent market participants or new entrants. IDB Lab is uniquely positioned to take on this role, given its risk appetite, innovation mandate, and focus on inclusion.
- 3.31 The selection of new projects will consider the local context when assessing innovation and scalability potential, ensuring IDB Lab resources reach smaller countries. The goal will be to focus on solutions that maximize development impact and scalability using new business models and technologies that are applicable to the specific market conditions found in each country. To this end, IDB Lab will formulate an approach to engage in small and island states and all C&D countries that will be reflected in an overview paper.
- 3.32 **Developing capabilities for greater impact.** IDB Lab will implement a talent development plan to strengthen its capabilities, particularly in new areas of engagement. Not all skills will need to be developed in-house and could be sourced from industry experts, particularly in the case of highly specialized acumen related to vanguard technologies. The plan will be budget-neutral and consist of four key elements: (i) training or reskilling of the current talent pool; (ii) selective recruitment of open positions with “fit for purpose” candidates; (iii) outsourcing temporary high-level experts or entrepreneurs in residence; and (iv) tapping into existing partners and networks to create learning and knowledge sharing platforms. IDB Lab will also continue to experiment with co-working arrangements in innovation spaces in LAC, where staff are in close contact with

entrepreneurs and innovators.⁹ These arrangements help to accelerate the exchange of ideas and the process of discovery and creation.

C. Three-year Operational and Performance Targets

- 3.33 During the 2019-2021 period, IDB Lab will seek to meet the core targets established during its replenishment process, approving around USD 70-85 million a year. This would result in cumulative approvals of USD 210-255 million for the three-year period. The indicative ratio of approved reimbursable instruments to non-reimbursable instruments is expected to be 50:50.
- 3.34 As outlined in the Results Framework and Development Effectiveness Approach 2019-2023 (MIF/GN-217-1), a mid-term review of IDB Lab's results framework is scheduled for 2019. This review may recommend adjustments to KPIs and its thresholds as IDB Lab consolidates its new role. Nonetheless, it is expected that IDB Lab will seek to maintain the share of projects aligned to the three thematic areas (Knowledge Economy, Inclusive Cities and Climate-Smart Agriculture) and to cross-cutting areas. The review will ensure consistency with the new business plan, the IDBG's revised Corporate Results Framework (also scheduled for review during 2019), and the SDGs.
- 3.35 Consistent with its mandate to function as a laboratory of innovation, IDB Lab will seek greater flexibility when setting its targets, establishing indicative ranges for approvals and instruments. This will allow to increase focus on projects that yield large development impacts using tailored financing instruments.
- 3.36 It is important to stress that the increased flexibility in the mix of instruments is being sought with the purpose of allowing greater experimentation in the structuring of projects with high impact potential, and not for improving IDB Lab's financial sustainability. Successful examples from the IDB Lab portfolio show that reimbursable instruments can be effective in helping scale market-based solutions that generate significant impact in terms of social inclusion.
- 3.37 All activities in the 2019-2021 Business Plan will be implemented under the budget scenarios established during the replenishment and included in the IDB Lab's financial model. IDB Lab will continue to identify opportunities to further improve efficiency.

⁹ In 2018, one of IDB Lab's staff members has been assigned to work from Cubo, one of the top co-working innovation spaces for entrepreneurs in LAC. A similar arrangement is being explored in Mexico with Numa, another top innovation space.

Table 3: Proposed Operational and Performance Thresholds for 2019-2021

Indicator	Projected (2019-2021)
Approvals	\$ 210-255 mm
Indicative ratio of reimbursable to non-reimbursable approvals	50:50
Approved projects targeting poor and vulnerable	60%
Approved projects addressing climate change	30%
Approved projects addressing gender	60%
Approved projects addressing diversity	15%
Projects scaled/replicated by IDBG or key partners	20%
Smallholder farmers reached	>300,000
Households/individuals reached	>500,000
New jobs created	>600,000

D. Prospects for Sustaining Operations

- 3.38 IDBG management committed to present in 2021 a document with options for sustaining activities beyond 2023 once MIF III resources for new projects are exhausted (CA-581). Over the next three years, and as part of the proposed Business Plan, IDB Lab will begin exploring and laying the building blocks of some of these alternatives in order to have a more mature proposal in 2021.
- 3.39 The long-term sustainability of IDB Lab will ultimately be linked to its continued relevance as an effective tool for development. Therefore, a core strategic goal for IDB Lab in the coming years will be to multiply the impact of its interventions through the measures described in the prior section. IDB Lab will also continue to explore mechanisms to add value within the IDBG, not only through closer alignment and programmatic synergies, but also by becoming a connector between innovation ecosystems and specific IDBG initiatives and projects.
- 3.40 Other more specific mechanisms for increasing sustainability could include: (i) an alternative mix of instruments with more reimbursable operations; (ii) cost efficiencies using alternative deal sourcing or portfolio supervision models; (iii) monetization of certain high-value services involving advice, events, brokerage of commercial transactions, and knowledge products; and (iv) mobilization of external resources through global alliances and partnerships.

IV. UPDATED FINANCIAL MODEL

- 4.1 As part of its replenishment process IDB Lab developed financial projections based on an agreed asset and liquidity optimization model, and specific assumptions regarding approval levels, encashments, mix of instruments, administrative cost, and provisions (CA-581 and MIF/GN-209-3). While the model is expected to continue to be robust, the efforts to introduce greater flexibility in terms of instrument mix and approval ranges may add a level of variance. To better manage fluctuations, IDB Lab will introduce adjustments involving proactive risk assessment mechanisms and will adopt a financial management approach based on target zones.
- 4.2 **Provision policy.** IDB Lab uses a special basis of accounting that recognizes loans and equity investments as assets, with loans being provisioned at 10% and equity investments at 40% over outstanding amounts. Provision thresholds have been established based on more than 20 years of historical behavior and reflect to a large extent the nature of IDB Lab's risk tolerance at the portfolio level. Nonetheless, the current provision policy does not differentiate among individual transactions or consider other variables such as direct vs. indirect financing, the maturity stage of the solutions being financed, or the track record of investees or borrowers. As IDB Lab engages with more innovations in the early stages of development and explores financing opportunities in new areas involving higher-risk segments where historical data has not yet been accumulated, the provision policy will be revised to see whether adding a new risk category will be merited.
- 4.3 **Portfolio risk management team.** IDB Lab will assemble a team of internal staff that could be advised by external members, to manage the whole portfolio risk by assigning appropriate risk categories for each reimbursable transaction and the required provision coverage ratio. The team will also monitor IDB Lab's liquidity position and fund balance, run sensitivity analyses, review asset and liability positions, and enforce reporting compliance.
- 4.4 **Target zones.** Instead of having fixed yearly targets for the mix of instruments, IDB Lab will establish target zones in order to introduce flexibility in identifying financing structures that are the best fit for the innovative and impactful solutions being supported. The zones or ranges will be determined according to IDB Lab's risk tolerance and the desired liquidity and fund balance.