DEO

Development Effectiveness Overview

2024

IDB IDB | Invest IDB | LAB

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2024

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Acronyms

AI	Artificial Intelligence
CO_2	Carbon dioxide
CRF	Corporate Results Framework
DEF	Development Effectiveness Framework
DELTA	Development Effectiveness, Learning, Tracking, and Assessment
DEM	Development Effectiveness Matrix
DEO	Development Effectiveness Overview
EOM	Early Operating Maturity
IDB	Inter-American Development Bank
LGBTQ+	Lesbian, gay, bisexual, transgender and other sexual orientations and gender identities
MSME	Micro, small, and medium-size enterprise
OVE	Office of Evaluation and Oversight
PBI	Performance-based incentive
PCR	Project Completion Report
PMR	Progress Monitoring Report
PSR	Project Supervision Report
PSU	Project Status Update
SDG	Sustainable Development Goal
SME	Small and medium-size enterprise
TC	Technical Cooperation
XSR	Expanded Supervision Report

Message from the President

This year's Development Effectiveness Overview (DEO) report comes at a historic time for the IDB Group, a time of transformational changes that will enable the entire group to increase the impact and scale of its work.

Impact is central to everything we do at the IDB Group. To fulfill our mission and genuinely improve the lives of people in Latin America and the Caribbean we must aspire to be more effective in delivering concrete measurable results such as reducing poverty and inequality, accelerating growth, and addressing climate change, among others.

As we focus on increasing impact, we must ensure that our work is rooted in rigorous, evidence-based evaluation standards. The centerpiece of this effort will be a new Development Effectiveness Policy Framework for sovereign-guaranteed operations, that will be considered by the Board in the coming months. The new framework will include a new end-to-end tool, called sgDELTA, that will help us more effectively assess, monitor, evaluate, and learn from our projects. As a result, we will be better able to manage risk while taking a more proactive, more transparent approach to improving results that is based on evidence and lessons learned.

The DEO is a crucial element in our impact effort. It shows in a transparent way how we are doing on the effectiveness front. The DEO helps ensure that we are learning not just from our successes but also from our disappointments. It takes an in-depth look at development effectiveness performance at the IDB, IDB Invest, and IDB Lab, helping us understand how we are performing as individual institutions and collectively as a Group.

We must foster synergies and ensure that each of our institutions learns from each other's successes and shortcomings and leverages each other's comparative advantages. Latin America and the Caribbean continues to face what I have been calling a Triple Challenge, which includes rising social demands, including for better public services, scarce fiscal resources to address those demands, and low growth. These challenges are compounded by the increasingly frequent and costly impacts of climate change.

Yet, there is good reason to believe that it could be at an inflection point. That is because it has the potential to be part of the solution to shared global challenges in areas such as clean energy, food security and biodiversity and nature. To help the region seize this potential, the IDB Group itself is also at an inflection point thanks to three transformational changes approved by our Boards of Governors at our last Annual Meetings in Punta Cana.

The three changes include a new institutional strategy that will allow us to increase our impact and scale. The strategy, which we call IDBStrategy+, will allow us to be more strategically selective about the work we focus on. It will guide our work through 2030 and focus it on three core areas: reducing poverty and inequality, promoting growth, and addressing climate change.

The second big change includes a new vision, industry-leading business model, and $3.5 billion capital increase for IDB Invest, our private sector arm. This will Increase the scale and impact of our private sector operations. We call this IDBInvest+.

The third change includes a new vision, business model, and up to $400 million in additional resources for IDB Lab, our innovation laboratory and venture capital arm. We call this IDBLab+.

We call the sum of these changes IDBImpact+. Because of these transformations, we are better positioned to become a better, bigger and more effective partner for countries and clients. We will be able to deliver greater impact at greater scale, including by being better at mobilizing resources and maximizing public-private synergies, not just within our three institutions, but also with our peers in the multilateral system.

Thanks to this new Development Effectiveness Policy Framework, and the three transformational changes, Impact+, the IDB Group will be better equipped than ever to deliver the type of development results – impact –that the region needs.

Today's challenges are simply too big for us to continue taking a business-as-usual approach to impact. So, this DEO is the first report in a new era at the IDB Group, an era characterized by our renewed push to make a difference. With this DEO, we are reaffirming our commitment to hold ourselves to the highest standards of transparency and accountability as we maximize the impact and scale of our work.

I am confident that all of this will help us do measurably more to improve the lives of people across the region.

Ilan Goldfajn
President
IDB Group
July 2024

Executive Summary

For more than a decade, the Development Effectiveness Overview (DEO) has been a space for the IDB Group to jointly reflect on its annual achievements and shortcomings with a view towards accountability and institutional learning.

In 2023, results supported by the IDB Group included 1.1 million beneficiaries of targeted anti-poverty programs, 3.4 million women beneficiaries of economic empowerment initiatives, and 6.6 million beneficiaries of employment support initiatives, among others.

As the IDB Group closes the 2020-2023 period covered under its Second Update to the Institutional Strategy and its Corporate Results Framework (CRF), the 2024 DEO takes stock of the Group's work in 2023 and throughout the four-year period, and provides a window into the opportunities ahead, as it moves toward implementing a new institutional strategy, IDBStrategy+. The 2020-2023 CRF included a set of 52 targets to drive operational delivery and results as well as organizational management and effectiveness. Over this period, 75 percent of CRF targets were met and eight others showed improvement relative to pre-2020 levels. While some areas showed consistent progress over the entire period, others will require continued efforts to improve performance, as discussed in detail throughout the DEO.

The IDB's first-ever Development Effectiveness Framework (DEF) was implemented in 2008 as a set of tools to support the design, implementation, and evaluation of projects to promote the achievement of tangible results. During execution, the Progress Monitoring Report (PMR) is the tool that captures quantitative and qualitative information on project implementation to track performance through physical and financial progress. In 2023, 83 percent of projects had a "satisfactory" performance rating according to the PMR achieving its target for the end of the CRF period. At closure, the Project Completion Report (PCR) is used to evaluate project performance using four core criteria: effectiveness, efficiency, relevance, and sustainability. In 2023, 47 percent of IDB projects received an overall positive rating on the PCR, as validated by the independent Office of Evaluation and Oversight (OVE), a substantial difference to 2022's 59 percent and continuing to fall short of the CRF target of 70 percent. As the IDB Group redoubles on its commitment to continue delivering greater development impact under IDBStrategy+, the IDB is developing improved methodologies and tools for supporting the successful execution of projects, operational learning and high-quality results indicators; measures that begin to address recurring problems with measuring and demonstrating effectiveness. At the same time, IDB is reforming its DEF to achieve a more impactful and adaptive approach to managing projects and portfolios and align incentives to promote greater ownership and delivery of impact.

IDB Invest's Impact Management Framework is an end-to-end series of tools and practices that support the full operation lifecycle from origination and structuring to monitoring, evaluation, learning, and knowledge management. The cornerstone of this framework is the Development Effectiveness Learning, Tracking, and Assessment tool (DELTA), a rigorous, fact-based scoring system that assesses the expected impact of each investment and tracks results achieved over time. In 2023, 63 percent of operations in supervision were classified as "satisfactory." At completion, the Expanded Supervision Report (XSR) compares each project's expected and actual impact using the same criteria as the IDB (relevance, efficiency, effectiveness, and sustainability). In 2023, 69 percent of IDB Invest's XSRs received an overall positive OVE-validated rating, surpassing the 65 percent target for the first time. Finally, in line with IDB Invest's New Vision and Business Model, which emphasizes understanding the drivers of development impact within the portfolio, this year's DEO takes a deep dive into sub-portfolio performance by sector, segment, and region, leveraging data from both mature projects under supervision and at completion.

IDB Lab's Results Management Framework focuses on measuring the results and impact of the innovative solutions it supports and learning from both successes and failures along the way. In terms of the performance of its active loan and equity investment portfolio, in 2023 57 percent of these operations were classified as green flag, or "on track to reach or exceed target projections." Portfolio performance has been affected by the ongoing contraction of the region's venture capital industry both in terms of funding and deal flow. In addition, an assessment of the effectiveness of a sample of completed IDB Lab projects showed that 43 percent were rated positively, meaning that they met all or almost all of their development objectives. Similar to 2022, the distribution of effectiveness ratings is expected given IDB Lab's risk-taking approach. Additionally, an assessment of the scalability of IDB Lab projects found that the most significant determinant of scale is time elapsed since approval. The quality of the project's scalability plan at approval is only modestly correlated with future scale, signaling that the support IDB Lab provides during execution could be a more important lever to promote scale. Finally, as an innovation laboratory, IDB Lab continues to share what it has learned from failed projects, including a project to launch a novel climate risk hedging product and another aiming to create a green hydrogen ecosystem.

Finally, the 2024 DEO ends by taking stock of select lessons from the IDB Group's work in social inclusion and equality, one of the six strategic priorities of the closing institutional strategy. While the review presented here is not intended to be exhaustive, it complements other work aimed at systematically generating and updating the knowledge produced through the Group's operations. As the IDB Group advances on the implementation of IDBStrategy+, this cycle of continuous learning will remain critical to ensuring the Group's enhanced focus on impact and on partnering with governments and private sector clients to strategically select interventions with the highest potential for impact.

Introduction

As the leading source of development finance for Latin America and the Caribbean, the IDB Group seeks to reduce poverty and inequality, address climate change, and bolster sustainable regional growth. The Group is comprised of the IDB, which works with governments throughout the region, IDB Invest, which works through the private sector, and IDB Lab, which works with the innovation ecosystem. The Group provides financial solutions, development expertise, and good practices to public sector institutions and private sector clients, supporting progress towards the Sustainable Development Goals (SDGs) and addressing emerging issues in the region.

The IDB Group understands that focusing on development effectiveness and applying lessons learned over time is critical to maximize its impact in the region. The annual Development Effectiveness Overview is an opportunity to assess the achievement of results in the previous year, reflect on IDB Group support for its strategic priorities and achievement of its targets, and highlight the role of learning in bringing value to the region.

Innovative Intervention Models for the Coffee Sector, Colombia (CO-L1009)

Figure I.1 Selected IDB Group SDG Contributions in 2023

1 NO POVERTY

1.1 million
beneficiaries of targeted anti-poverty programs

2 ZERO HUNGER

2.9 million
farmers with improved access to agricultural services and investments

3 GOOD HEALTH AND WELL-BEING

34.1 million
beneficiaries receiving health services

4 QUALITY EDUCATION

2.2 million
students benefited by education projects

5 GENDER EQUALITY

3.4 million
women beneficiaries of economic empowerment initiatives

6 CLEAN WATER AND SANITATION

1.8 million
households with improved access to water or sanitation

7 AFFORDABLE AND CLEAN ENERGY

4.3 million
households with improved access to energy services

8 DECENT WORK AND ECONOMIC GROWTH

490,000
jobs supported

4.7 million
micro, small, medium enterprises financed

6.6 million
beneficiaries of employment support initiatives

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

2.2 million
beneficiaries with new access to at least a 4G mobile network

2.1 million
enterprises provided with technical assistance

900 km
of roads built or upgraded

10 REDUCED INEQUALITIES

460,000
beneficiaries of initiatives that support migrants and their host communities

9,300
targeted beneficiaries of public services that have been adapted for diverse groups

11 SUSTAINABLE CITIES AND COMMUNITIES

53,000
beneficiaries of enhanced disaster and climate change resilience

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

170 megawatts
installed power generation capacity from renewable sources

13 CLIMATE ACTION

9 million
emissions avoided (annual tons CO_2 equivalent)

$489 million
in investments in resilient and/or low-carbon infrastructure

14 LIFE BELOW WATER **15 LIFE ON LAND**

4 million hectares
of habitat that is sustainably managed using ecosystem-based approaches

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

18,300
public officials trained on citizen security and justice

17 PARTNERSHIPS FOR THE GOALS

$13.1 billion
amount of international trade supported

19
regional integration agreements and cooperation initiatives supported

The 2024 Development Effectiveness Overview consists of the following five chapters:

1 Chapter 1 reviews the IDB Group's final performance against the targets of the Corporate Results Framework from 2020 to 2023. It also touches on the new Impact Framework 2024–2030 that will monitor progress under the new IDB Group Institutional Strategy.

2 Chapter 2 describes the IDB's Development Effectiveness Framework, highlighting project performance during execution and at completion.

3 Chapter 3 presents IDB Invest's Impact Management Framework and describes project performance during execution and at completion, including a deep dive into sub-portfolio performance.

4 Chapter 4 presents IDB Lab's Results Management Framework and describes project performance during execution and at completion, including examples of scaling innovative solutions and learning from project failures.

5 Chapter 5 provides a brief thematic review of learning from IDB Group support for social inclusion and equality, helping build the knowledge base for effective development solutions.

CHAPTER 1

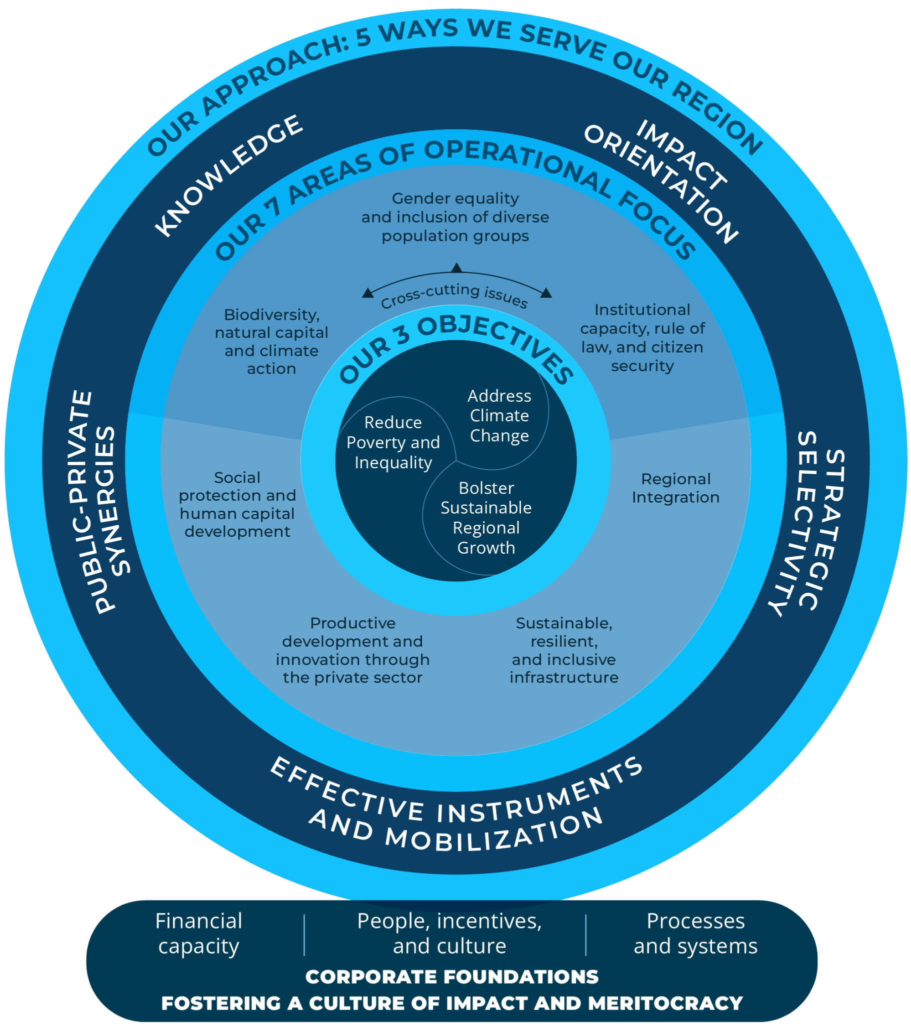
MEASURING PROGRESS TOWARDS CORPORATE TARGETS

Flavors of Ecuador: Food Tech for Innovation in the Food Chain, Ecuador (EC-T1454)

Introduction

The Corporate Results Framework (CRF) was the highest-level tool to monitor progress on the IDB Group's Institutional Strategy between 2020 and 2023. In March 2024, the Boards of Governors approved a new [Institutional Strategy]() known as IDBStrategy+ (Figure 1.1), covering the period from 2024–2030, and will be measured by a new Impact Framework, thus replacing the CRF. However, this Development Effectiveness Overview (DEO) takes stock of the results achieved under the previous strategy and the progress and performance of CRF indicators throughout the 2020–2023 period. This chapter reviews performance against CRF targets at the end of the CRF period, analyzing the trends and drivers of performance. Evaluating achievements under the CRF and the previous strategy is beneficial for learning lessons to better achieve our objectives under the new strategy. This chapter also provides a preview of the new concepts expected to be captured in the Impact Framework.

Figure 1.1. The IDBStrategy+ at a Glance



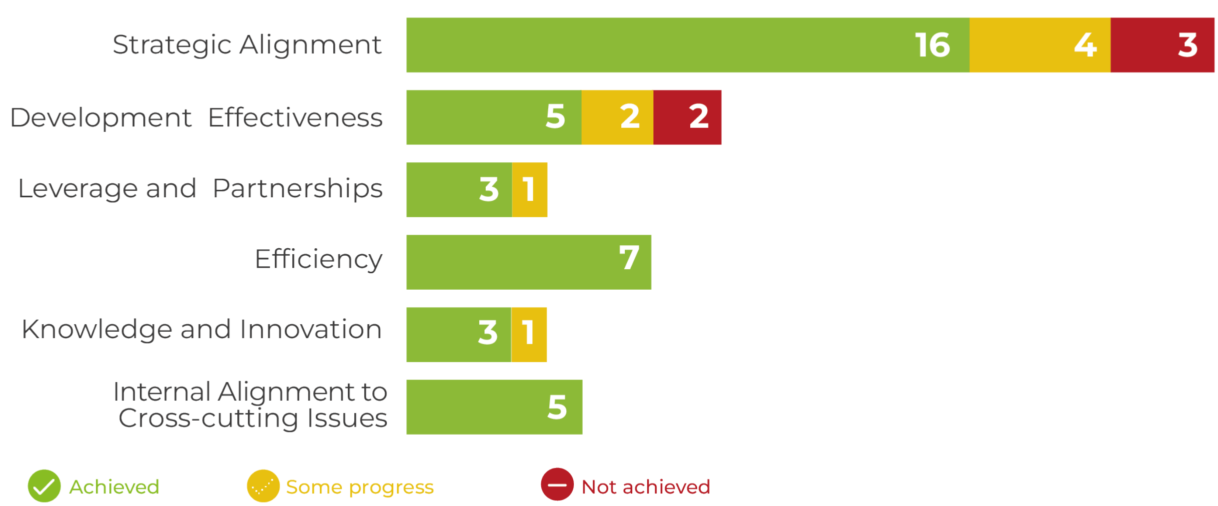
Performance Overview

The CRF included 52 targets to drive operational delivery and results as well as organizational management and effectiveness.[1] Each year, progress towards each target was classified as "On Track," "On Watch," or "Off Track" based on the CRF Traffic Light Methodology.

At the end of the CRF 2020–2023 period, each indicator's performance was compared to its target and baseline following the CRF Traffic Light Methodology. An indicator was classified as "Achieved" when its final performance was greater than or equal to the target or less than or equal to the target when desirable.[2] An indicator was classified as "Some progress" when final performance was below the target, but progress was made during the CRF period in relation to the baseline. Finally, an indicator with performance below both target and baseline was classified as "Not achieved." At the end of the CRF period, 75 percent of targets were achieved (39 total). Although targets were not met for thirteen indicators, performance on eight of those indicators reached levels close to the target or showed some progress when compared to their baselines.

Figure 1.2 provides an overview of the end-of-period performance broken down by the dimensions of strategic alignment, development effectiveness, leverage and partnerships, efficiency, knowledge and innovation, and internal alignment with cross-cutting issues. The remainder of this chapter discusses progress on each of these CRF dimensions.

Figure 1.2. Corporate Results Framework Target Final Assessment by Dimension



[1] The CRF consists of three levels of indicators: Level 1 – Regional Context; Level 2 – IDB Group Contributions to Development Results; and Level 3 – IDB Group Performance. Historical progress for all indicators is available on the CRF website. This chapter focuses on the Level 3 indicators, as these are the only indicators that have targets.

[2] For example, indicator 3.26 (IDB Group facilities and fleet emissions) is an indicator for which a lower value is better.

Strategic Alignment

The strategic alignment indicators aim to provide insight into the extent to which the IDB Group is aligning resources with its strategic priorities, which are social inclusion and equality, productivity and innovation, economic integration, gender equality, diversity, climate change mitigation and adaptation, institutional capacity and the rule of law, and support for small and vulnerable countries. Overall, the performance of those indicators at the end of the CRF 2020–2023 period was positive, with 16 of 23 targets achieved.

The IDB Group made considerable advancements in aligning new projects with its strategic priorities, and progress on many of these indicators increased during the period across all entities, as shown in Table 1.1. In some cases, performance was well above the expected target (e.g., at the IDB, the percentage of projects supporting climate change mitigation and/or adaptation reached 76 percent compared to a target of 65 percent). Of the seven indicators that did not achieve their targets, four showed progress compared to their baselines, and some were close to achieving their ambition.

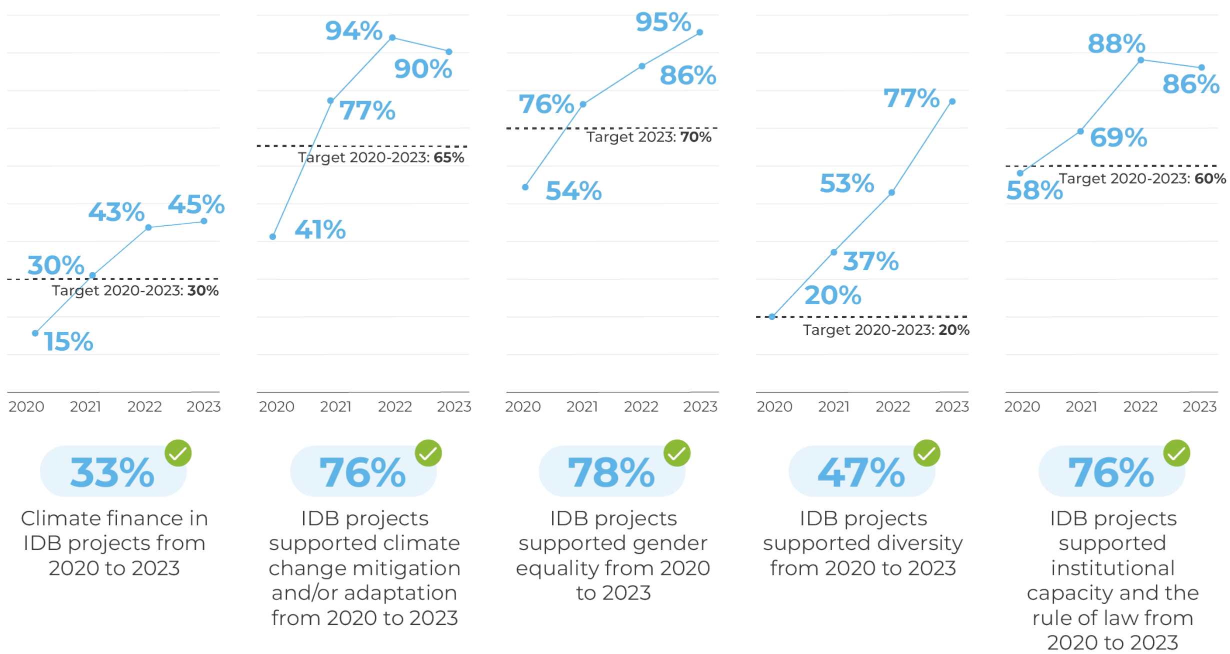
Table 1.1. Strategic Alignment Indicators

	Indicator	Institution	Progress 2020	2021	2022	2023	2020–2023	Target 2020–2023
3.1	Projects supporting social inclusion and equality (% of new approvals/commitments)	IDB	78%	68%	64%	78%	71%	Monitor
		IDB Invest	56%	41%	34%	40%	43%	
		IDB Lab	69%	64%	69%	65%	67%	
3.2	Projects supporting productivity and innovation (% of new approvals/commitments)	IDB	60%	77%	80%	72%	73%	Monitor
		IDB Invest	49%	59%	31%	66%	51%	
		IDB Lab	85%	74%	73%	66%	74%	
3.3	Projects supporting economic integration (% of new approvals/commitments)	IDB	12%	16%	23%	13%	16%	Monitor
		IDB Invest	8%	34%	29%	43%	27%	
		IDB Lab	5%	6%	10%	6%	7%	
3.4	Support for small and vulnerable countries (%)	IDB	56%	40%	46%	38%	45%	≥ 35%
		IDB Invest	40%	35%	33%	34%	36%	≥ 40%
		IDB Lab	44%	45%	45%	42%	44%	≥ 45%
3.5	Climate finance in IDB Group operations (% of approved/committed amount)	IDB	15%	30%	43%	45%	33%	≥ 30%
		IDB Invest	23%	23%	29%	32%	27%	≥ 30%
		IDB Lab	24%	21%	26%	31%	25%	≥ 30%
3.6	Projects supporting climate change mitigation and/or adaptation (% of new approvals/commitments)	IDB	41%	77%	94%	90%	76%	≥ 65%
		IDB Invest	48%	53%	61%	65%	56%	≥ 40%
		IDB Lab	32%	30%	43%	48%	39%	≥ 40%
3.6a	Projects supporting agriculture, forestry, land use, and coastal zone management (% of new approvals/commitments)	IDB	1%	11%	13%	16%	10%	≥ 10%
		IDB Invest	4%	7%	14%	7%	8%	≥ 8%
		IDB Lab	18%	8%	15%	23%	15%	≥ 25%
3.7	Projects supporting gender equality (% of new approvals/commitments)	IDB	54%	76%	86%	95%	78%	≥ 70% (2023)
		IDB Invest	29%	50%	34%	40%	39%	≥ 25%
		IDB Lab	53%	60%	73%	58%	62%	≥ 60%
3.8	Projects supporting diversity (% of new approvals/commitments)	IDB	20%	37%	53%	77%	47%	≥ 20%
		IDB Invest	8%	10%	7%	14%	10%	≥ 5%
		IDB Lab	10%	13%	21%	20%	16%	≥ 20%
3.9	Projects supporting institutional capacity and rule of law (% of new approvals)	IDB	58%	69%	88%	86%	76%	≥ 60%
3.10	Projects aligned to country strategies (% of new approvals/commitments)	IDB	83%	92%	100%	95%	92%	≥ 90%
		IDB Invest	84%	94%	84%	98%	90%	≥ 79%
		IDB Lab	84%	93%	90%	90%	90%	≥ 90%
3.11	New country strategies considering country's official commitments on climate (%)	IDB Group	-	100%	100%	100%	100%	100%

Note: Yearly progress is classified according to the Traffic Light Methodology as On Track, On Watch, or Off Track. Final 2020–2023 performance is classified as Achieved, Some Progress, or Not Achieved, and is applied only to those indicators for which progress data is available and for which targets have been set. The 2020–2023 values reflect the overall value for that period (i.e., the sum of numerators in 2020, 2021, 2022, and 2023 divided by the sum of denominators in 2020, 2021, 2022, and 2023). For baseline information, see the CRF website.

In the case of the IDB, all strategic alignment targets were achieved, with some indicators significantly exceeding their targets. For cross-cutting issues such as support for gender equality (indicator 3.7) and support for diversity (indicator 3.8), record levels were reached in 2023, with 95 percent and 77 percent of approvals supporting these areas, respectively. Climate finance (indicator 3.5) also reached a record level of 45 percent in 2023, while the percentage of projects supporting climate mitigation and/or adaptation reached 90 percent, above the target of 65 percent. Projects supporting institutional capacity and rule of law (indicator 3.9) also achieved the target, with 76 percent in the overall period against a target of 60 percent. This performance can be attributed to several factors, including increased decentralization of specialists to country offices, improved training for employees across the Bank on these topics, and the incorporation of CRF targets into employee workplans and the IDB performance review system. Figure 1.3 illustrates the evolution of each indicator throughout the CRF period.

Figure 1.3. Evolution of IDB Support for Cross-cutting Issues

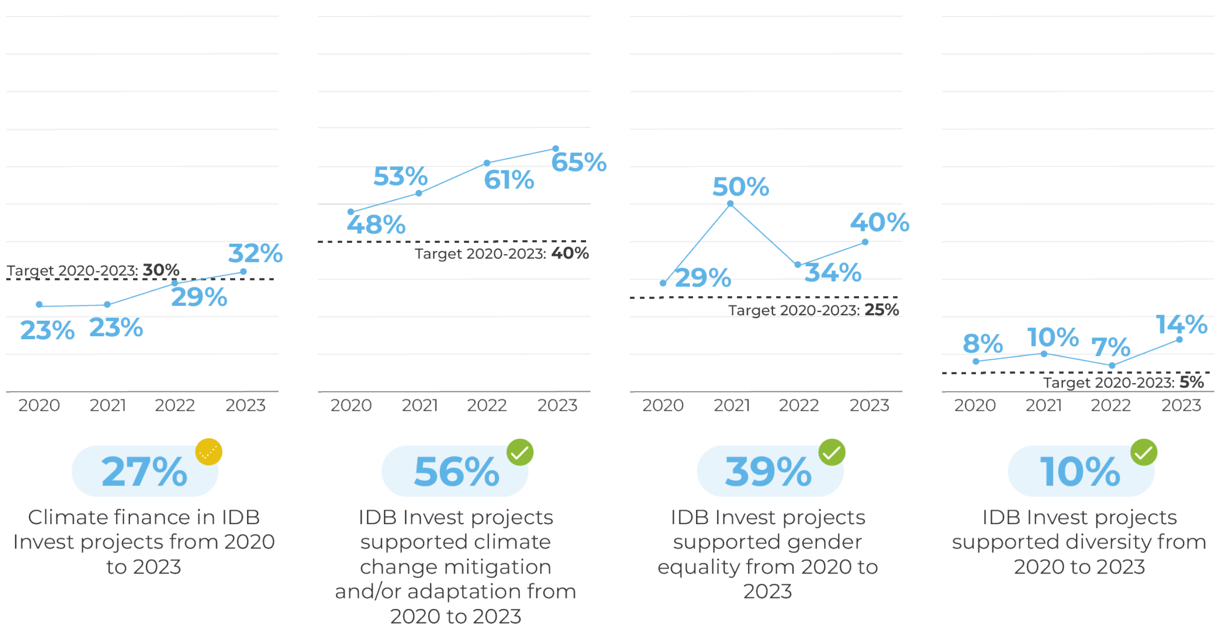


For IDB Invest, five out of seven strategic alignment targets were fully achieved for 2020–2023. For gender equality (indicator 3.7) and diversity (indicator 3.8), 39 percent and 10 percent, respectively, of new IDB Invest commitments supported these cross-cutting issues, well above targets. Similarly, projects supporting climate change (indicator 3.6) reached 56 percent for the period, surpassing the 40 percent target. Regarding climate finance, while IDB Invest surpassed its target for the first time in 2023, it fell short of the 30 percent target for the overall four-year period.[3] This was mainly due to its countercyclical response to the COVID-19 crisis involving high levels of short-term finance and a greater focus on mobilizing funds rather than committing its own resources. However, there is a clear upward trend in climate finance each year, increasing from 23 percent of commitment amounts in 2020 to 32 percent in 2023.

[3] Climate finance for this report is calculated using long-term and short-term finance. Of note, 41 percent of IDB Invest long-term finance for the 2020-2023 period was climate finance.

Figure 1.4 illustrates the trend for these indicators throughout the CRF period for IDB Invest. Despite falling short of the share of commitment amount supporting small and vulnerable countries (indicator 3.4), the share of projects committed in these countries exceeds the 40 percent threshold. This underscores the concerted effort and resource allocation by IDB Invest toward supporting projects in these countries. Furthermore, many opportunities in these countries require greater risk appetite and resources for upstream activities, largely because smaller clients are unfamiliar with development finance institutions. Moving forward, the recently approved IDBInvest+ business model will address these challenges by focusing on efforts such as building client readiness through greater upstream support, implementing a bolder risk approach, and developing local currency solutions to enhance IDB Invest's ability to provide attractive financial terms for projects in these countries.

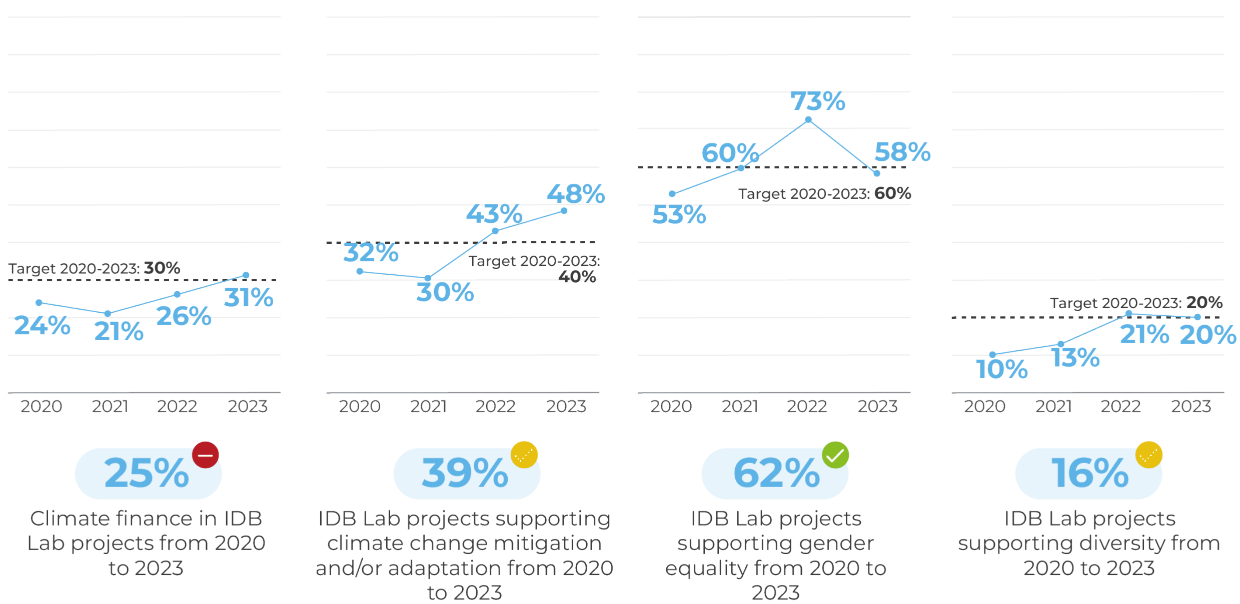
Figure 1.4. Evolution of IDB Invest Support for Cross-cutting Issues



In the case of IDB Lab, two out of seven strategic alignment targets for the 2020–2023 period were met, with some indicators falling just shy of their objectives and others showing significant progress. For example, 44 percent of project approvals supported small and vulnerable countries, just below the 45 percent target. Projects supporting climate change mitigation and/or adaptation reached a record 48 percent in 2023, and an overall period performance of 39 percent against a target of 40 percent (Figure 1.5). This progress is mainly due to IDB Lab initiatives focusing on developing the ecosystem for climate innovation by accelerating early-stage companies and mobilizing co-investors to leverage IDB Lab's limited funds. Projects supporting diversity reached 20 percent of approvals in 2023, with an overall period performance of 16 percent against a 20 percent target. Regarding climate finance, while the overall performance was 25 percent, below the targeted 30 percent, IDB Lab surpassed the target in 2023 at 31 percent. This was in part due to IDB Lab's efforts to clarify how the joint MDB methodologies for tracking climate finance[4] are applied in the case of small-ticket, innovation focused financial instruments to better capture the scope of climate-related activities and business models deployed by IDB Lab projects. This will help IDB Lab more accurately track climate finance moving forward.

Finally, notable progress was achieved in gender, as 62 percent of project approvals in the 2020–2023 period supported gender equality, achieving the 60 percent target, and reaching a historic level in 2022 (73 percent). By the end of the period, almost a third of projects supporting gender directly addressed gender challenges as their main objective. Furthermore, IDB Lab has performed well over the period on strategic goals not tracked by the CRF, including the percentage of projects in small and island countries, and the percentage of projects targeting the poor and vulnerable.

Figure 1.5. Evolution of IDB Lab Support to Cross-cutting Issues



The new Impact Framework is expected to continue to measure the extent to which the IDB Group is aligning resources with a key set of strategic priorities, such as the cross-cutting issues[5] of the strategy as well as support for poor and vulnerable populations.

[4] See the 2022 Joint Report of Multilateral Development Banks Climate Finance, Annex C.2 and C.3.
[5] The three cross-cutting issues approved in the new strategy are (i) biodiversity, natural capital, and climate action, (ii) gender equality and inclusion of diverse population groups, and (iii) institutional capacity, the rule of law, and citizen security.

Development Effectiveness

Ensuring the delivery of results that improve lives in the region is at the core of the IDB Group mission. The development effectiveness indicators captured in the CRF provide insight into the extent to which projects are executed according to plan, achieve development results, and effectively mitigate risks. Table 1.2 provides information on the historical progress of these indicators and final assessment for each.

Table 1.2. Development Effectiveness Indicators

	Indicator	Institution	Progress					Target
			2020	2021	2022	2023	2020–2023	2020–2023
3.12	Active projects with satisfactory performance classification (%)	IDB (Loans)	83%	79%	80%	83%	81%	≥80%
		IDB Invest	61%	58%	65%	63%	62%	≥70%
		IDB Lab (Loans & equity)	77%	70%	67%	57%	67%	≥60%
		IDB (TCs)	54%	62%	67%	70%	64%	≥75%
3.13	Projects with satisfactory development results at completion (%)	IDB	52%	53%	59%	47%	53%	≥70%
		IDB Invest	61%	57%	51%	69%	59%	≥65%
3.14	Projects with higher environmental and social risks rated satisfactory in the implementation of mitigation measures (%)	IDB	90%	88%	94%	91%	-	≥84% (2023)
		IDB Invest	97%	100%	100%	97%	99%	≥90%
3.15	Projects with considerable disaster and climate change risk that applied risk analysis to identify resilience actions (%)	IDB	22%	96%	98%	100%	-	100% (2023)

Note: Yearly progress is classified according to the Traffic Light Methodology as On Track, On Watch, or Off Track.
Final 2020–2023 performance is classified as Achieved, Some Progress, or Not Achieved, and applies only to those indicators for which progress data is available and for which targets have been set. The 2020–2023 values reflect the overall value for that period (i.e., the sum of numerators in 2020, 2021, 2022, and 2023 divided by the sum of denominators in 2020, 2021, 2022, and 2023). For baseline information, see the CRF website.
Starting from 2021, the figures for indicator 3.13 for IDB Invest include impaired Special Assets operations, whether they had an XSR or were considered non-evaluable. The 2021 figure in the series has been revised from 62 percent to 57 percent to reflect this change in reporting.

The development effectiveness indicators that relate to the performance of non-technical cooperation projects during execution (indicator 3.12) and the achievement of results at completion (indicator 3.13) are discussed in detail by each IDB Group entity in the following three chapters, as these indicators are at the heart of the delivery of results. Both the IDB and IDB Lab achieved their targets for performance during execution for the period, while IDB Invest fell short of its target. Project performance during supervision tends to be a good predictor of performance at completion. For results achieved in completed projects, both the IDB and IDB Invest were below their targets. Chapters 2, 3, and 4 discuss the drivers of performance in more detail. Moving forward and considering the importance of impact orientation in IDBStrategy+, the Impact Framework is expected to emphasize the measurement of existing and new indicators of development effectiveness. Building on advances in transparency under the CRF 2020-2023, disaggregated information with the breakdown by country and sector or segment is expected to be publicly reported for development effectiveness indicators. New indicator concepts such as results achievement for some of the cross-cutting issues of the new IDBStrategy+ are also being explored to form part of the new Impact Framework as pilot indicators.

In 2023, both the IDB and IDB Invest continued to surpass targets regarding the mitigation of environmental and social risks during execution (indicator 3.14), reaching 91 percent (against a target of 84 percent) and 97 percent (against a target of 90 percent), respectively. These strong numbers can be attributed to close monitoring of and support for higher-risk operations in recent years with continued field presence of environmental and social specialists and increased portfolio monitoring focusing on key issues. Greater focus on improving the capacity of clients on environmental and social aspects has also been critical. For IDB Invest, in particular, close collaboration between corporate governance specialists and environmental and social specialists has been important given the link between strong governance in a company and its environmental and social performance.

The indicator on projects with considerable disaster and climate change risk that applied risk analysis to identify resilience actions (indicator 3.15) reached its target of 100 percent by 2023. This achievement demonstrates that the IDB ensured that all projects classified with moderate to high disaster and climate change risk underwent a simplified qualitative risk assessment and adopted due diligence strategies aligned with the IDB Environmental and Social Policy Framework.[6] This risk analysis is now anchored in the IDB's internal process to ensure continued consistency in the future, and the IDB will continue to focus on the adequate implementation of plans and strategies during execution.

Satisfactory execution for technical cooperation (TC) operations is measured by the share of the portfolio that delivers at least 75 percent or more of its planned deliverables. The performance of the indicator for active projects with satisfactory classification (indicator 3.12) for TC operations was 64 percent overall for the period. Although it fell short of the target of 75 percent, the indicator showed a consistent upward trajectory from 54 percent

[6] Specifically, this indicator measures the application of the third step of the IDB's Disaster and Climate Change Risk Assessment Methodology (DCCR), consisting of a simplified qualitative analysis for high and moderate classified projects. The DCCR methodology recognizes that the most effective leverage point for investments related to disaster and climate change risks occurs upstream by adequately accounting for these risks and increasing resilience of development investments to these risks starting in the design phase. Beyond facilitating the identification and assessment of disaster and climate change risks, the application of the methodology informs resilience opportunities in all relevant projects during their identification, preparation, and execution phases. The target of 100 percent in 2023 reflects an ambition to shape operations to be disaster- and climate-resilient.

satisfactory in 2020 to 70 percent in 2023. Initial challenges in 2020 and 2021 stemmed from pandemic-related uncertainties that affected disbursements and timely delivery of planned TC deliverables, leading to non-satisfactory performance. Improvements in 2022 and 2023 were driven by greater scrutiny during Quality and Risk Reviews, which focused on realistic output delivery scheduling and early warning indicators. Supervision efforts were directed towards identifying indicators of poor performance and integrating new alert indicators into a new module for early warnings in the TC monitoring and reporting system.

Leverage and Partnerships

Indicators of leverage and partnerships measure the extent to which the IDB Group mobilizes additional resources for development and how partners perceive how the Group fosters public-private synergies. Table 1.3 provides information on the historical progress of these indicators and their final target assessment.

At the end of the CRF period, 71 percent of public and private sector respondents to the IDB Group's satisfaction survey indicated that the IDB Group was effective in fostering public-private synergies (indicator 3.18). While this fell short of the target of 75 percent, the indicator showed an improvement of 3 percentage points compared to the baseline of 68 percent in 2019. The perceptions of public sector respondents declined by 1 percentage point in 2023 as compared to 2022, and perceptions of private sector respondents went from 73 to 71 percent in the same period. Respondents cited a wide range of potential areas for improvement of public-private coordination, such as facilitating more multisectoral alliances, roundtables, and seminars.

Mobilization of resources, particularly private finance, is an area where the IDB Group has made progress over the past four years, with all targets achieved. In 2023, the IDB Group reached a record level of $6.5 billion in direct third-party financing deployed (indicator 3.16). Of that total, $5.7 billion was from private sources on commercial terms (indicator 3.16a), while indirect third-party financing reached a record $10.5 billion in 2023 (indicator 3.17). This performance improved thanks to a variety of factors. For the IDB, it was due to a larger number of guarantees with pioneering approaches such as debt-for-nature swaps and results-based financing with mobilization components. IDB Invest has continued to diversify its instruments to mobilize, with the goal of creating assets that match the appetite of a wider range of co-investors. Additionally, concerted efforts enhanced capabilities and resources to support the expansion of mobilization solutions. Cumulatively, for the 2020–2023 period, the IDB Group mobilized $19.7 billion in direct third-party financing, of which $15.4 billion was private financing. Moving forward, effective instruments and mobilization is one of the core aspects of our approach in IDBStrategy+. As such, the Impact Framework is expected to keep measuring indicators of mobilization of resources and complement the existing indicators with additional concepts that will give a more complete picture of IDB Group mobilization efforts.

Table 1.3. Leverage and Partnerships Indicators

Indicator		Institution	Progress					Target
			2020	2021	2022	2023	2020-2023	2020–2023
3.16	Direct third-party financing deployed ($ billion)	IDB Group	$2.8	$4.4	$6.0	$6.5	$19.7	≥$9.0
3.16a	Private direct third-party financing deployed ($ billion)	IDB Group	$1.7	$3.2	$4.8	$5.7	$15.4	≥$6.0
3.17	Indirect third-party financing deployed ($ billion)	IDB Group	$3.5	$2.3	$5.2	$10.5	$21.6	≥$16.5
3.18	Stakeholders that consider the IDB Group to be effective in fostering public-private synergies (%)	IDB Group	67%	68%	73%	71%	-	75% (2023)

Note: Yearly progress is classified according to the Traffic Light Methodology as On Track, On Watch, or Off Track. Final 2020–2023 performance is classified as Achieved, Some Progress, or Not Achieved, and applies only to those indicators for which progress data is available and for which targets have been set. For baseline information, see the CRF website.

Organizational Management and Effectiveness

The organizational management and effectiveness indicators measure the extent to which the IDB Group is managed effectively, efficiently, and in accordance with its own principles. They are organized around three areas: (i) efficiency, (ii) knowledge and innovation, and (iii) internal alignment to cross-cutting issues. Each of these indicators had a target for 2023, except for indicator 3.28, which had a target for the 2020–2023 period. Table 1.4 provides information on the historical progress of these indicators and the end-of-period assessment for each.

Efficiency indicators look at the degree to which the IDB Group entities are financially sustainable and efficient in their use of resources. At the end of the CRF period, all targets were achieved. Both the IDB and IDB Invest maintained the targeted rating from the credit rating agencies (indicator 3.21). Targets were also achieved for cost-ratio indicators, including (i) IDB and IDB Invest's cost-to-income ratio (indicator 3.19), which compares administrative costs to operating income, and (ii) IDB, IDB Invest, and IDB Lab's cost-to-portfolio ratio (indicator 3.20), which compares administrative costs to the size of the portfolio.[7] As the new strategy emphasizes the importance of corporate foundations to delivering on the Group's objectives, the Impact Framework is expected to capture aspects of our efficiency.

Knowledge and innovation indicators measure the reach of the IDB Group's knowledge products and stakeholder perceptions regarding knowledge-sharing and innovation

[7] The combination of both metrics provides insight into the IDB's level of operational efficiency and productivity. The purpose of monitoring these ratios is to ensure that each remains within a healthy range.

(indicators 3.22, 3.23, 3.24, and 3.25). All targets were achieved except for indicator 3.25 *(*Net Promoter Score: IDB Group as a provider of innovative solutions). Regarding stakeholder perceptions of the IDB Group as a provider of relevant knowledge (indicator 3.24), performance reached 44 points in 2023, well above the target of 38. External survey results show that clients perceive the IDB Group's strengths in projecting reliability, efficient knowledge transfer, and creating training opportunities. Respondents from academia view the organization positively for its efficiency in knowledge-related tools. Regarding stakeholder perceptions of the IDB Group as a provider of innovative solutions (indicator 3.25), performance has improved when compared to the baseline of 14 in 2019 to a result of 22 in 2023, the last year of the CRF. The external survey results show that innovation promoters declined among stakeholders from civil society, but despite this result, IDB Lab and IDB Invest received praise for their innovative solutions and perceived reliability and agility. Stakeholder feedback in this area indicates opportunities to better serve the region by enhancing flexibility, adapting solutions to each context, and improving reaction and response times. Knowledge continues to be a key element of our approach in the new strategy to help foster development at scale. As such, indicators in this space are expected to form part of the new Impact Framework.

Internal alignment to cross-cutting issues indicators measure the application of the IDB Group's strategic priorities for the region to its internal work in terms of climate change mitigation, gender equality, diversity, and transparency (indicators 3.26, 3.27, 3.28, and 3.29). At the end of the CRF period, all targets were met in this category of indicators.

- In 2023, the IDB Group reduced its facilities and fleet emissions (indicator 3.26) to 6,795 tons of CO_2 emissions, achieving its objective of being below 9,600 tons of CO_2 by the end of the CRF period.
- Regarding gender equality, all entities achieved the targets set for mid- and senior-level IDB Group staff who are women (indicator 3.27). The IDB and IDB Lab reached their target of 43 percent in 2023, and IDB Invest reached 39 percent, 1 percentage point above the 38 percent target for the end of the CRF period.
- As for diversity and inclusion, in 2023, the IDB Group carried out 168 actions to promote diversity and inclusion (indicator 3.28), above the target of 80 actions for the 2020–2023 period. These actions capture a range of efforts to attract a diverse workforce and foster an inclusive work environment. In addition, the IDB Group developed a new Diversity, Equity, Inclusion, and Belonging (DEIB) Framework for the 2023–2028 period that sets specific commitments that will help advance the agenda set forth in the IDB Group People Strategy.
- Regarding transparency, the IDB's performance on the Aid Transparency Index (indicator 3.29) is not available for 2023 because the index is only produced every two years. Nevertheless, the target can be considered achieved, as the result in 2022 was 96, exceeding the CRF target of 90 and showing progress in relation to the baseline of 83 in 2018.[8]

[8] The Aid Transparency Index is a measure of the transparency of development cooperation that is conducted periodically by the nongovernmental organization Publish What You Fund.

Continued attention to the areas mentioned above will be important in the implementation of IDBStrategy+ as part of our corporate foundations. As such, the new Impact Framework is expected to capture related areas, such as gender equality in the workforce and our corporate carbon footprint.

Table 1.4. Organizational Management and Effectiveness Indicators

Indicator	Institution	Progress 2020	2021	2022	2023	Target 2023
3.19 Cost to income ratio (%)	IDB	39.9%	40.7%	40.1%	38.7%	<40% (2020-2023)
	IDB Invest	64.8%	27.7%	40.5%	24.9%	< 60% (2020-2023)
3.20 Cost to portfolio ratio (%)	IDB	0.71%	0.69%	0.65%	0.63%	< 0.8% (2020-2023)
	IDB Invest	1.30%	1.21%	1.24%	1.30%	< 1.3% (2020-2023)
	IDB Lab	5.67%	5.69%	5.6%	5.64%	< 7.3% (2020-2023)
3.21 Credit rating agencies granting targeted rating to IDB Group entities (#)	IDB	3	3	3	3	3
	IDB Invest	3	3	3	3	3
3.22 Average downloads of IDB Group publications (#)	IDB Group	2,219	4,758	3,751	5,237	≥ 3,000
3.23 Total IDB Group blog readership (# millions)	IDB Group	11.4	15.3	13.6	9.1	≥ 5.5
3.24 Net Promoter Score: IDB Group as a provider of relevant knowledge (NPS)	IDB Group	34	48	45	44	≥ 38
3.25 Net Promoter Score: IDB Group as a provider of innovative solutions (NPS)	IDB Group	16	31	24	22	≥ 27
3.26 IDB Group facilities and fleet emissions (tons of CO_2 equivalent)	IDB Group	7,135	8,394	7,712	6,795	≤ 9,600
3.27 Mid and senior-level IDB Group staff who are women (%)	IDB and IDB Lab	41%	42%	43%	43%	≥ 43%
	IDB Invest	38%	38%	37%	39%	≥38%
3.28 Actions to promote diversity and inclusion at the IDB Group (#)	IDB Group	38	39	46	168	80 (2020-2023)
3.29 Aid Transparency Index score	IDB	95	Not available	96	Not available	90

Note: Yearly progress is classified according to the Traffic Light Methodology as On Track, On Watch, or Off Track. Final 2020–2023 performance is classified as Achieved, Some Progress, or Not Achieved, and applies only to those indicators for which progress data is available and for which targets have been set. For baseline information, see the CRF website.

Reflections

In summary, over the past four years, 75 percent of CRF targets (39 of 52) were met and eight others showed progress when compared to levels before 2020. Particularly noteworthy is the progress in indicators that measure the mainstreaming of cross-cutting issues such as gender equality, diversity, mitigation of and adaptation to climate change, and institutional capacity into IDB Group projects.

These advancements were made possible through several actions and initiatives to institutionalize a focus on results. First, dedicated action plans to support many CRF targets have increased attention to specific areas (e.g., the Climate Change Action Plan). In addition, the launch of the CRF Indicators Tracker – an internal Group-wide tool that automated the publication of quarterly disaggregated progress data for many indicators – helped identify areas of lagging performance. Incorporating CRF progress into senior IDB leadership's quarterly operational management meetings also supported its use in decision-making. Finally, the Group will continue to report transparent and detailed project data on the public CRF website.

The new Impact Framework leverages lessons learned from the previous CRFs as well as peer learning from the results frameworks of other multilateral development banks. One key lesson is that having a more limited set of targets can enhance focus and align incentives to achieve institutional goals. In addition, given the significant improvement in mainstreaming cross-cutting issues in the past four years, it will be important to include improved standards for measuring support to these areas. This will allow the Group to raise ambition not only by raising targets in numbers, but by strengthening conceptual frameworks and methodologies for measurement. The framework will also have a mid-term review to assess progress and make adjustments as needed. The next DEOs will continue to take stock of performance against institutional targets and lessons learned.

CHAPTER 2

DEVELOPMENT EFFECTIVENESS AT THE IDB

Conservancy & Sustainable Development in Interoceanic Highway, Peru (PE-M1056)

Introduction

The IDB is dedicated to achieving development results for the citizens of Latin America and the Caribbean. The IDB's first-ever Development Effectiveness Framework (DEF) was implemented in 2008 as a set of tools to help project teams design evidence-based interventions, provide transparent data on the achievement of outputs during execution, and systematically analyze results and lessons learned at completion. The DEF was a first step towards improving the IDB's effectiveness and accountability. With the approval of the new IDB Group Institutional Strategy (IDBStrategy+), the IDB is currently developing a more adaptive approach to its development work that will cement its impact orientation, including by revamping the DEF to place development impact at the center of all our efforts (see Figure 1.1 in Chapter 1).

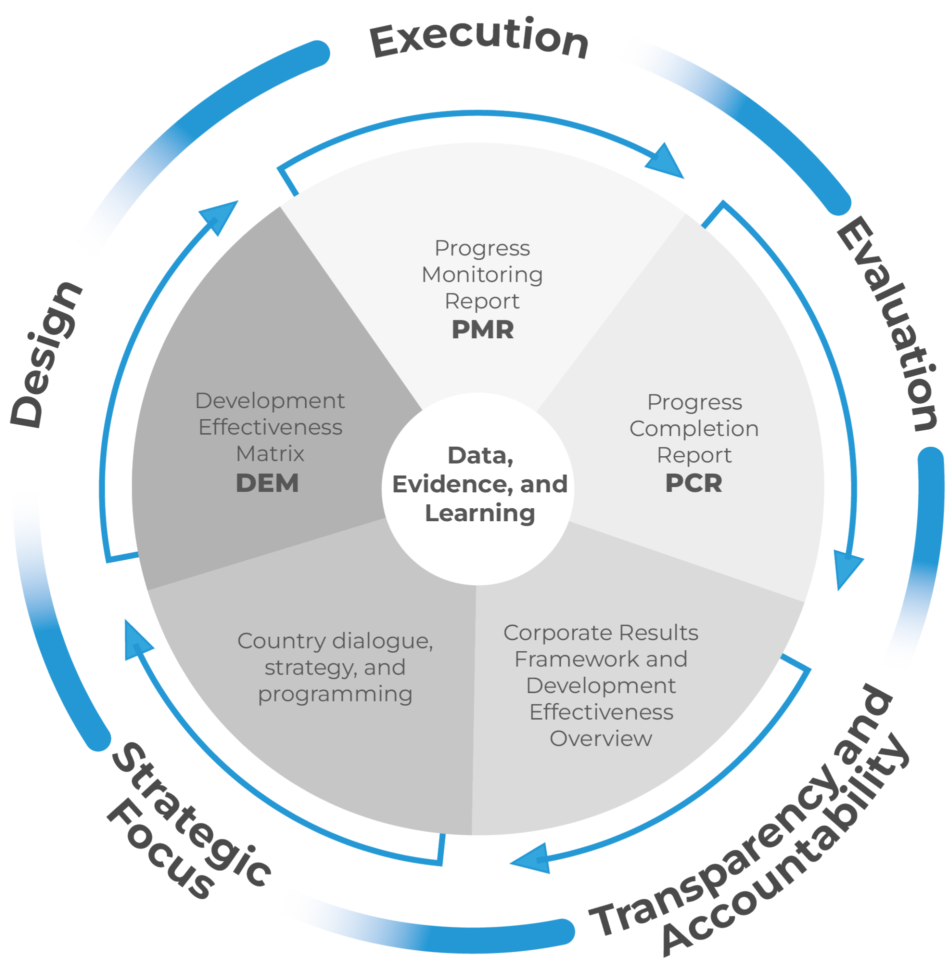
With this context in mind, this chapter reviews the IDB's project performance in 2023 both during execution (indicator 3.12) and at completion (indicator 3.13). As the 2020–2023 CRF period has come to a close, the DEF tools show that projects face challenges to achieve or demonstrate success at closure despite a satisfactory performance during execution. The discussion presented herein shines a light on the highly dynamic nature of development work, and the critical role that monitoring, rigorous change management, and evaluation play in development effectiveness.

As such, this chapter presents three main takeaways. First, since changes in context and major unexpected events (e.g., natural disasters, shifting government priorities, or economic downturns) can significantly alter the course of project execution, rigorous and proactive management of a project's trajectory towards results and impact, including necessary course corrections in response to changes, is essential for measurably delivering development results. Second, clear signals, that are readily interpretable by those whose actions they are meant to influence, are necessary to ensure effective monitoring and evaluation. And third, strong adaptive change management requires both rigor and responsiveness. This implies that clear, evidence-based, transparently established and predictable evaluation standards have to be matched by mechanisms that incentivize proactive adjustments based on operational experience, evidence and learning, setting the achievement of development impact as a priority over adherence to original design.

The IDB Development Effectiveness Framework

The 2008 IDB DEF equips projects with tools to facilitate their design, implementation, and evaluation, with the goal of driving the attainment of tangible outcomes. Figure 2.1 depicts the development effectiveness cycle and its instruments.

Figure 2.1. The Development Effectiveness Cycle



In dialogue with countries, the IDB Group identifies development needs and prioritizes development objectives through country strategies. The identification of priority areas and projects allows the IDB to focus on each country's unique development challenges.

During the design phase, the Development Effectiveness Matrix (DEM) assesses projects with respect to their vertical logic, the evidence presented to substantiate that logic, the quality of their monitoring , and their evaluation mechanisms. The DEM requires teams to establish targets, which remain fixed throughout execution, to verify the achievement of project objectives at closure.

Throughout execution, the Progress Monitoring Report (PMR) furnishes quantitative and qualitative insights into project progress semiannually. The PMR tracks project performance primarily in terms of the delivery of physical and financial outputs. At closure, the Project Completion Report (PCR) serves as a self-evaluation tool, promoting accountability and fostering learning. The Office of Evaluation and Oversight (OVE) then validates the PCR evaluation and rates projects for success.

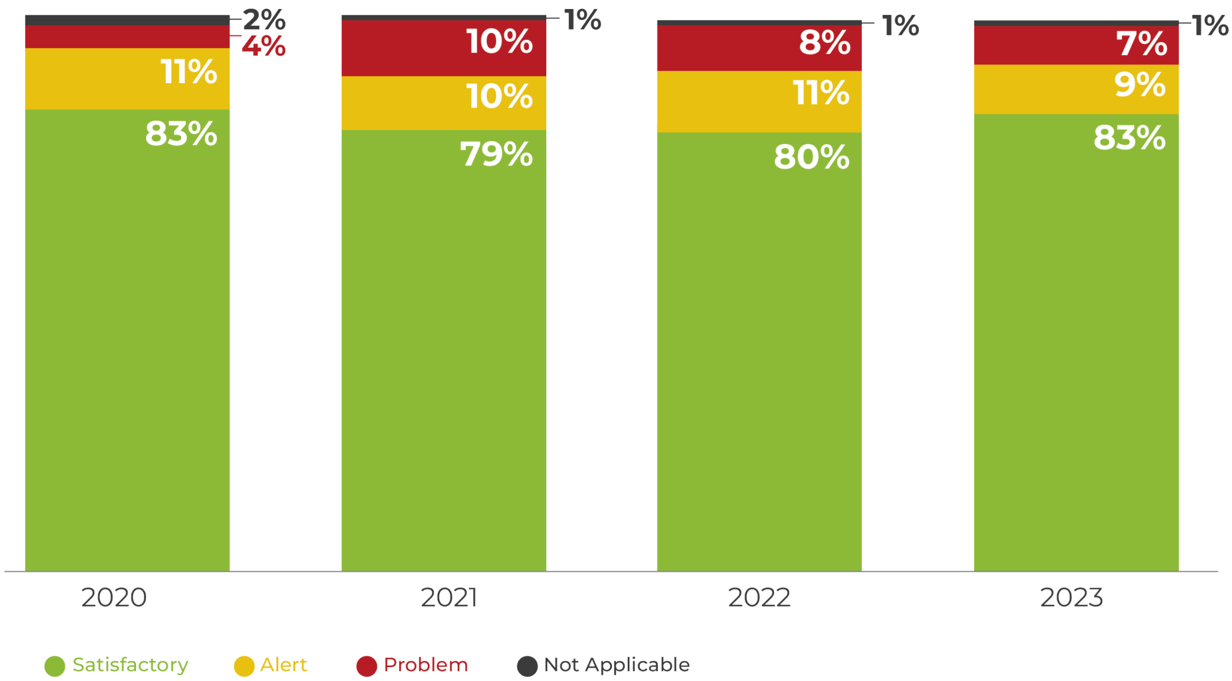
Performance During Execution

The IDB uses the PMR to track project performance during execution. The PMR rates execution as "satisfactory," "alert," or "problem" based on data on output delivery and cumulative disbursements reported by project teams. In 2023, 544 operations in execution received a PMR performance classification, of which 83 percent had a "satisfactory" rating, 9 percent had an "alert" rating, and 7 percent had a "problem" rating.[9] These operations totaled $41 billion and were approved between 2009 and 2023. They covered all sectors, lending instruments, and borrowing member countries.

Figure 2.2 shows how this performance classification has evolved over the last four years. The share of operations not performing satisfactorily has hovered around 20 percent historically, a level that is considered reasonable given that the PMR is precisely intended to shine a light on projects requiring additional management for results. According to qualitative information provided by project teams through the PMR, underperforming projects are affected predominantly by institutional capacity constraints, which translate into challenges to find the right personnel to perform activities, higher demand for project management support, and greater need for training activities. In these cases, pursuing the engagement of high-level local authorities has proven critical to help ease learning curves to address these challenges, and hence reduce delays in project implementation to ultimately improve the performance classification. Also notably, qualitative reports highlight the need to complement monitoring information with information on how unexpected challenges or major changes to the environment may pose risks to the achievement of a project's objectives.

[9] A classification of "not applicable" is given to those operations that report in the PMR cycle but do not have sufficient information to calculate performance indicators.

Figure 2.2. Historical Performance of IDB Projects in Execution, 2020–2023



A closer look into 34 operations that went from "satisfactory" in the previous reporting cycle to either "alert" or "problem" in 2023 reveals some of the most common factors behind declining project performance, namely, high turnover within executing agencies, insufficient budgetary allocations due to fiscal constraints, or shifting priorities at the local level. For example, elections can be particularly challenging, as countries' engagement may temporarily slow down, impacting decision-making.

Conversely, looking at the subset of operations that were upgraded from "alert" or "problem" to "satisfactory" status during 2023 highlights the importance of clear communication and proactive behavior, a lesson which in turn can be used to improve the execution of other projects. More specifically, this includes improved collaboration and communication among team members and executing agencies in charge of implementing projects, the ability to adapt to changing circumstances, and investments in capacity-building to enhance skills and knowledge among team members and stakeholders.

Performance at Closure

While the achievement of outputs during execution is necessary to attain development results, it is not a sufficient condition. This section focuses on the delivery of outcomes, analyzing project performance at completion based on PCRs finalized during 2023. This section addresses both accountability and learning, in line with the dual objective of PCRs.

2023 Project Completion Reports

In 2023, 59 PCRs were prepared across 60 projects completed between 2020 and 2022.[10] These projects totaled $7.75 billion in loans approved between 2009 and 2021 (see Table 2.1) across 21 borrowing member countries and covering a broad range of sectors and lending instruments.[11]

Table 2.1. Validated Projects by Year of Approval and Overall Performance Rating

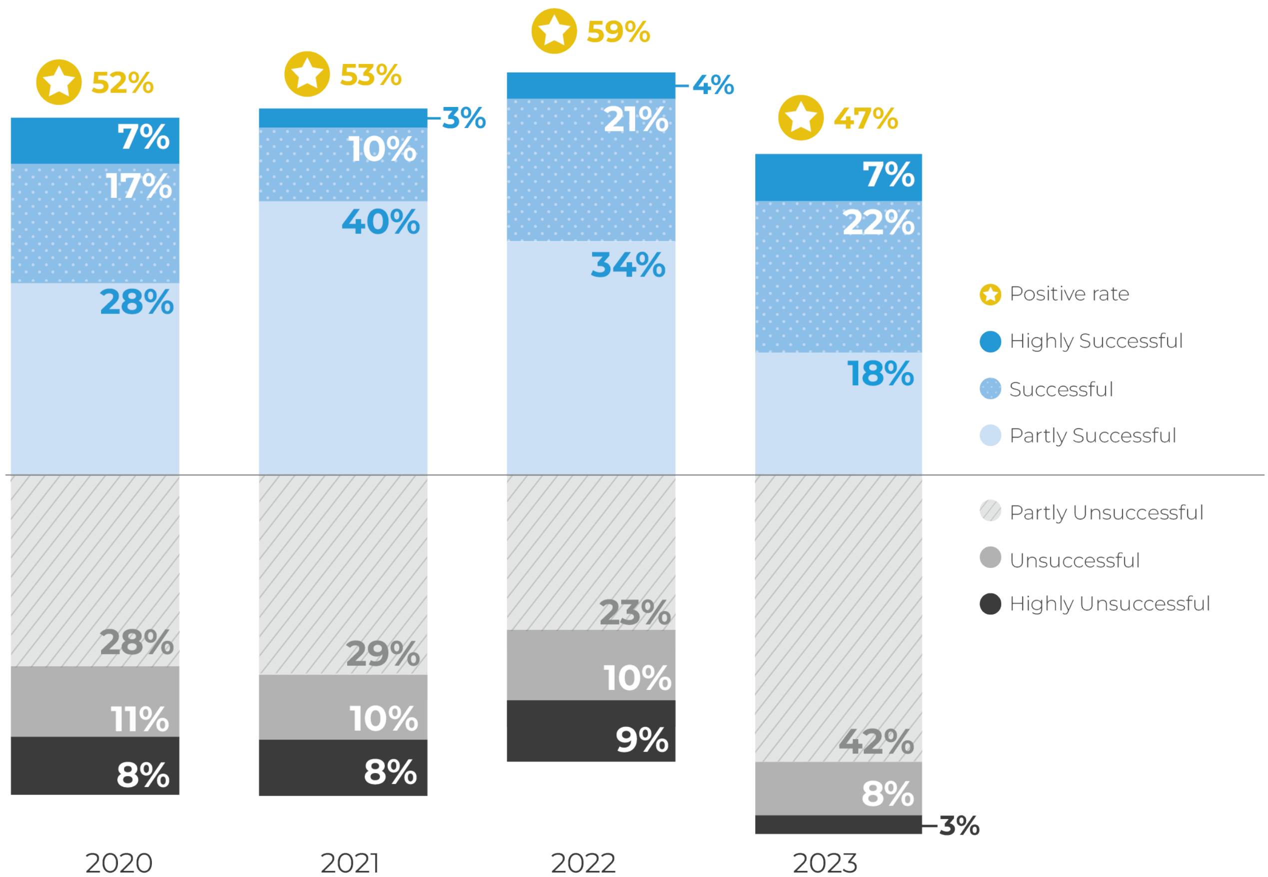
Approval Year	2009	2010	2011	2012	2013	2014	2015	2016	2018	2019	2020	2021
Number of Projects	1	1	4	3	14	12	9	6	1	2	6	1
Positive rating	0%	0%	25%	33%	36%	42%	67%	50%	0%	50%	83%	100%

At closure, projects are rated on a six-point scale and can be classified as "highly successful", "successful", "partly successful", "partly unsuccessful", "unsuccessful", or "highly unsuccessful". For 2023, 47 percent of the validated projects were classified as "highly successful," "successful," or "partly successful." A comparison across the four years covered by the CRF 2020–2023 (Figure 2.3) shows that this decrease, from 59 percent in 2022 to 47 percent in 2023, reverts a three-year positive trend.

[10] The 2023 PCR exercise refers to the set of PCRs that were due to be presented to OVE in 2023 and were validated by OVE in the first semester of 2024. One project, HA-L1055, reached closure in 2017. Management had presented this project as part of a programmatic approach, with a single PCR, for the Industrial Park Program in Haiti (HA-L1055, HA-L1076, HA-L1081, HA-L1091, and HA-G1035). For the validation of this program, OVE prepared a separate validation note for HA-L1055.

[11] The complete list of PCRs and their associated ratings and PCR documents can be found on the CRF website page for the indicator "projects with satisfactory achievement of development results at completion."

Figure 2.3. Overall Performance Ratings of IDB Projects at Closure, 2020–2023



Further analyses are being undertaken to understand the reasons for the substantial decrease from last year, with a view to incorporating this improved understanding into the PCRs currently in elaboration and projects in the end phase of their execution, to ensure that this year's drop will remain an exception. These analyses will also provide additional data and insights for strengthening the IDB's approach to preparing and supervising projects for successful execution, which forms part of the reforms for increasing development effectiveness. Figure 2.3 shows the important shift, compared to 2022, from "partially successful" to "partially unsuccessful" PCRs, which accounts for the decrease in positive overall ratings.

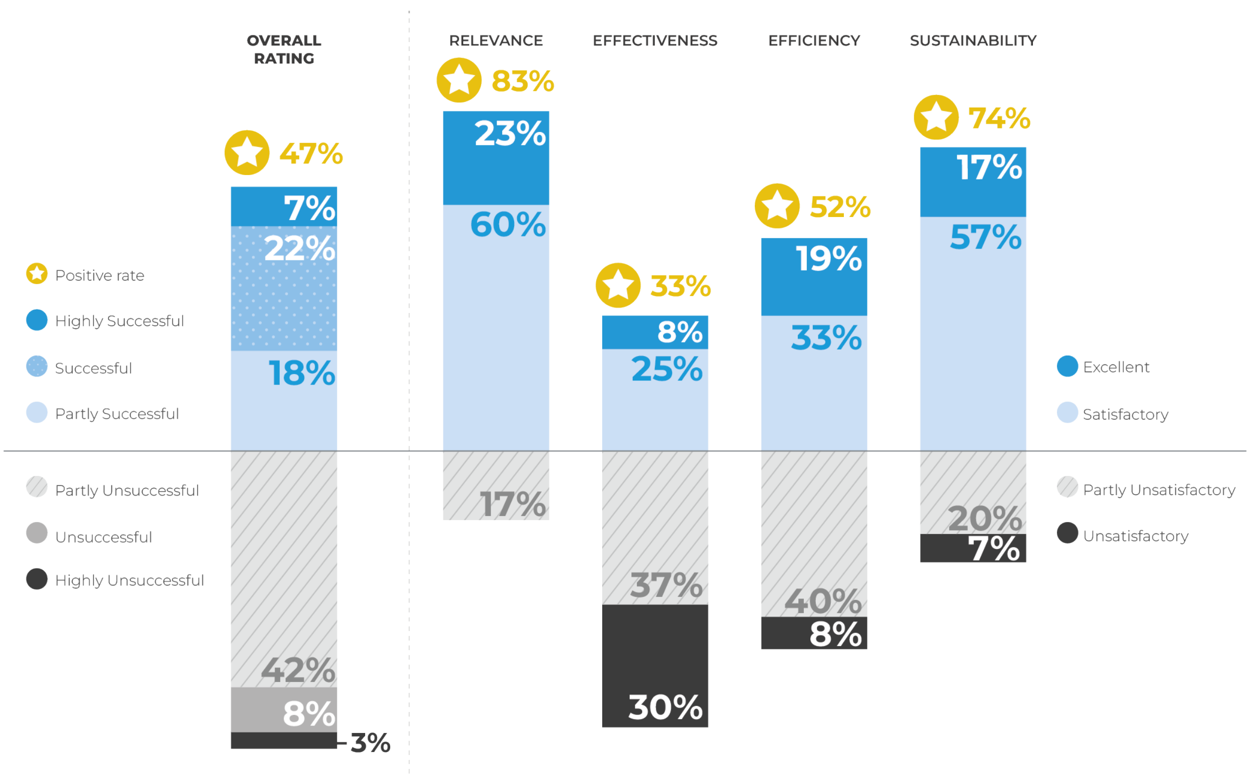
To understand the factors influencing the overall ratings, an analysis of core criteria is required. The overall performance rating at closure is a rule-bound weighted average of scores based on the four core criteria shown in Table 2.2: relevance, effectiveness, efficiency, and sustainability. Each criterion is in turn rated on a four-point scale: "excellent," "satisfactory," "partly unsatisfactory," or "unsatisfactory."

Table 2.2. IDB Project Completion Report Core Criteria and Weights

Relevance	Effectiveness	Efficiency	Sustainability
20 percent	40 percent for investment loans and 60 percent for policy-based loans	20 percent for investment loans and not evaluated for policy-based loans	20 percent
Assesses the alignment of project objectives with country priorities and whether the project's design fits the country context.	Assesses the extent to which a project achieved its objectives, as measured by previously established indicators.	Assesses how project benefits compare with costs.	Assesses the conditions for ensuring the continuity of achieved results in the future.

Figure 2.4 depicts project classifications based on these criteria. Approximately 83 percent of projects received favorable ratings for relevance, up from 79 percent in 2022. Only 33 percent of projects had positive ratings for effectiveness, which is similar to the 32 percent figure last year. Likewise, 74 percent of projects received positive sustainability ratings, which is similar to the 72 percent achieved in 2022. In contrast, only 52 percent of projects achieved positive efficiency ratings, a decrease from the 59 percent achieved in 2022. Therefore, the decrease in efficiency ratings should be noted, although effectiveness remains the main area of concern. [12]

Figure 2.4. Performance of IDB Projects at Closure by Core Criteria, 2023



[12] Since the IDB's methodology for rating performance at completion is 'rule-bound', low ratings in effectiveness affect project's overall ratings in two ways: as a core criteria with a 40-60% weight on the final rating, and because the maximum rating for an operation with an unsuccessful rating in effectiveness is Partly Unsuccessful, the most prevalent rating for the 2023 PCRs.

Zooming in on Effectiveness

Effectiveness refers to the extent to which a project has achieved its specific objectives. There are multiple factors that affect performance in effectiveness. These range from weak coordination among the multiple actors involved in project execution, to major changes in the context where the project is being implemented (such as the COVID-19 pandemic, which affected 97 percent of the 2023 PCRs), to unexpected events.[13] Prior data analysis has shown that performance in effectiveness is lower among projects with a non-satisfactory PMR classification in the first years of execution; substantial extensions of the execution period; and substantial reductions (partial cancellations) in total financing after approval.[14]

Thus, the data reinforce the need to complement reporting during execution with an active management of unexpected challenges, an analysis of how these may affect the strength and relevance of a project's theory of change throughout execution, as well as attention to the project's ability to demonstrate results at closure, in other words, its evaluability assessed during execution. It thus highlights the need for rigorous and proactive management of a project's trajectory towards results and impact, including necessary course corrections in response to changes and new information, all with a view to improving the project's capacity to measurably deliver development results.

A key input for such rigorous and proactive change management is understanding effectiveness from the perspective of those who evaluate it and those who drive it through the execution of development projects. Understanding both perspectives is essential because the achievement of targets and results is not invariably equivalent to achieving effectiveness. To foster this understanding, it is useful to consider effectiveness at three levels: (i) at the project level; (ii) at the project objective level; and (iii) at the result indicator level.

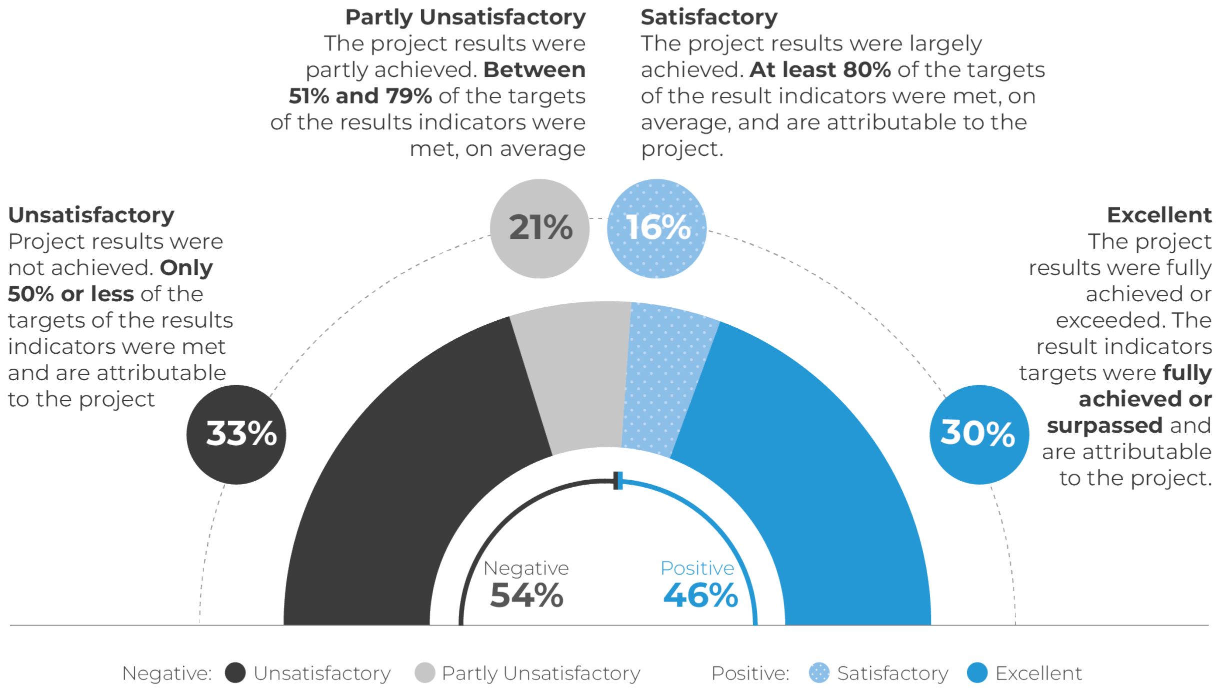
Project-level Effectiveness. In line with the IDB's PCR Guidelines, for a project to receive a positive rating in the effectiveness criteria, more than 50 percent of the project's specific development objectives must be achieved and no objective can be rated "unsatisfactory". In 2023, 33 percent of the 60 validated projects met or exceeded these conditions and were rated "excellent" or "satisfactory" (Figure 2.4).

Objective-level Effectiveness. In line with the Evaluation Policy and the PCR Guidelines, the IDB's evaluation methodology is based on objectives. A project's objectives are included not only in its results matrix, but also in the legal contract signed between Borrower and Bank. The 60 projects assessed in 2023 included a total of 158 specific development objectives. Each of these specific objectives was rated on a four-point scale (see Figure 2.5). For an objective to be rated "excellent" or "satisfactory", the average

[13] See the 2023 DEO for more discussion on this topic.
[14] Álvarez et al., 2021

achievement rate among its indicators must surpass 80 percent. In 2023, 46 percent of the specific objectives met or exceeded this threshold and were rated "excellent" (30 percent) or "satisfactory" (16 percent).

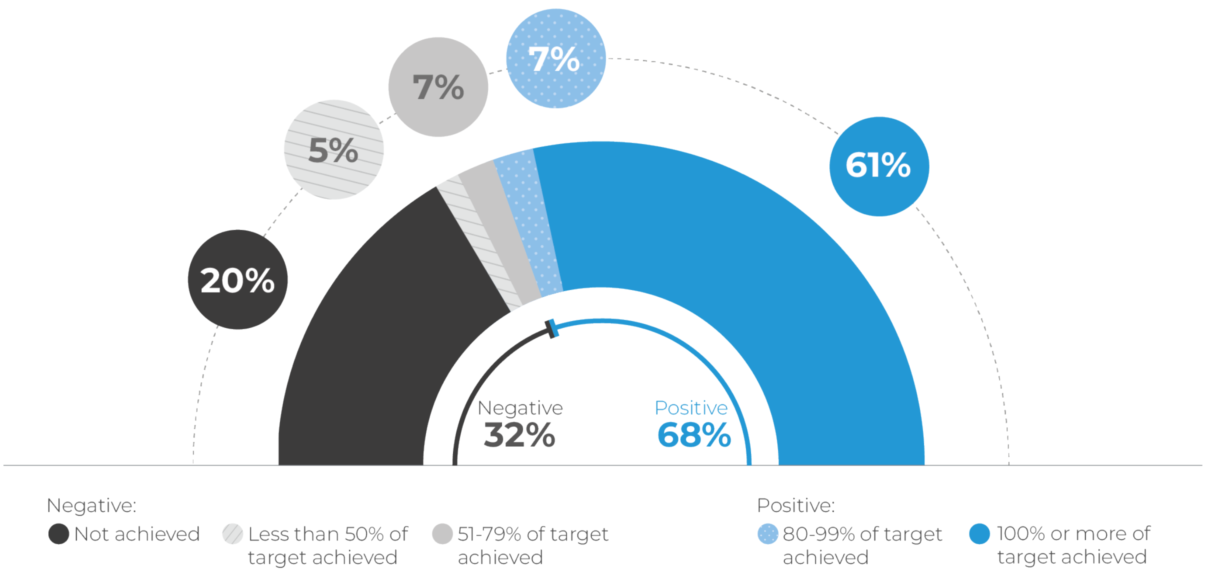
Figure 2.5. Performance at Closure of IDB Projects' Specific Objectives



Indicator-level Effectiveness. The third layer, which is the one most visible to project and client teams that are monitoring a project's results matrix and performance during execution, is achievement at the indicator level. The projects assessed in 2023 reported a total of 621 indicators through the PCRs approved by Management. Of these indicators, 503 indicators were considered for validation. A further 313 indicators were defined during the validation, bringing the total to 816 validated indicators. Figure 2.6 shows attributable achievement of results indicator targets for these 816 validated indicators, grouping indicators into five categories of achievement rate. It was not possible to show attributable results achievement for 20 percent of indicators (compared to 17 percent in 2022). And 12 percent of indicators reached between zero and 79% of their targets (compared to 26 percent in 2022). Meanwhile, targets were substantially achieved, meaning at least 80 percent, for 68 percent of the indicators (compared to 56% in 2022), with targets either fully achieved or exceeded (100 percent or more) for 61 percent of indicators. [15]

[15] To illustrate how the three levels affect a project's effectiveness rating, consider a project in Uruguay with three specific objectives and six indicators. The first specific objective had one indicator that exceeded its target. The second specific objective had three indicators, two of which did not show improvements and one that met its target, resulting in an average 33 percent of targets met (0+0+100 divided by 3). The third specific objective had two indicators, both exceeded its targets. At the indicator level, 4 out of the 6 indicators count toward the 61% in Figure 2.6., with targets 100 percent or more achieved. At the objective-level, the first and third objectives classify as Excellent, while the second objective classifies as Unsatisfactory, in line with the information in Figure 2.5. At the project-level, the Effectives rating is Partly Unsatisfactory because 1 of the 3 objectives classified as Unsatisfactory.

Figure 2.6. Performance at Closure by Achievement of Results Indicator Target



From analyzing these data, complemented by the 83 percent Satisfactory rating from the PMR with its focus on the output level, two important points emerge. The first is directly relevant to rigorous adaptive change management: the system for managing development effectiveness at the project level must contemplate – and make accessible to decision makers – the logical connection between progress in outputs, achievement of results indicators and the attainment of specific development objectives. An exclusive focus on any one of these elements, without considering the connection between them, may provide varying information on performance, as illustrated by the span in satisfactory performance from 83 percent to 68 percent to 46 percent.

The second point, more generally applicable to project monitoring and evaluation, is that signals need to be clear and interpretable by those whose actions they are meant to influence. Client and project teams are frequently surprised by the findings of the self-evaluation at completion because the perception of a project's performance tends to be strongly influenced by its achievement of individual results indicators (reflected in this analysis by Figure 2.6). Thus, clear communication and capacity building, starting early on in the project cycle, are important to generate a correct understanding of the evaluation instrument, as a means for fostering learning and creating incentives for proactive management focused on results and impact.

Adaptive Change Management: Rigor and Responsiveness

Several recent assessments related to the IDB's DEF have brought a spotlight onto current change management practices and the need for strengthening adaptive change management.[16] The IDB Group, like all MDBs, has adopted an objectives-based approach to development effectiveness: the formal agreement between Borrower and Bank centers on development objectives, as does the evaluation at completion. Thus, a rigorous adaptive change management should be motivated by achieving a project's specific objectives in all their intended dimensions while also allowing for sufficient flexibility in the means of achievement and measuring achievement, rewarding proactive and evidence-based management in response to changes in the project's trajectory toward results and impact. In short, adaptive change management requires calibrating rigor and responsiveness.

Rigor comes from clear, evidence-based, transparently established and predictable evaluation standards. For development projects, the approval process commonly sets an evaluation standard, reflected in the project's results matrix. An analysis of project evaluations for 285 operations between 2020 and 2023, covering 2,740 indicators, shows that almost two-thirds of the indicators validated after completion were established during a project's preparation and approval phase (Figure 2.7). (Approved PCRs reported on a further 229 result indicators established at approval.) Overall, the findings of the analysis imply that the IDB's regulations and guidelines incentivize a high level of fidelity to the results indicators (including baselines and targets) established at approval.[17]

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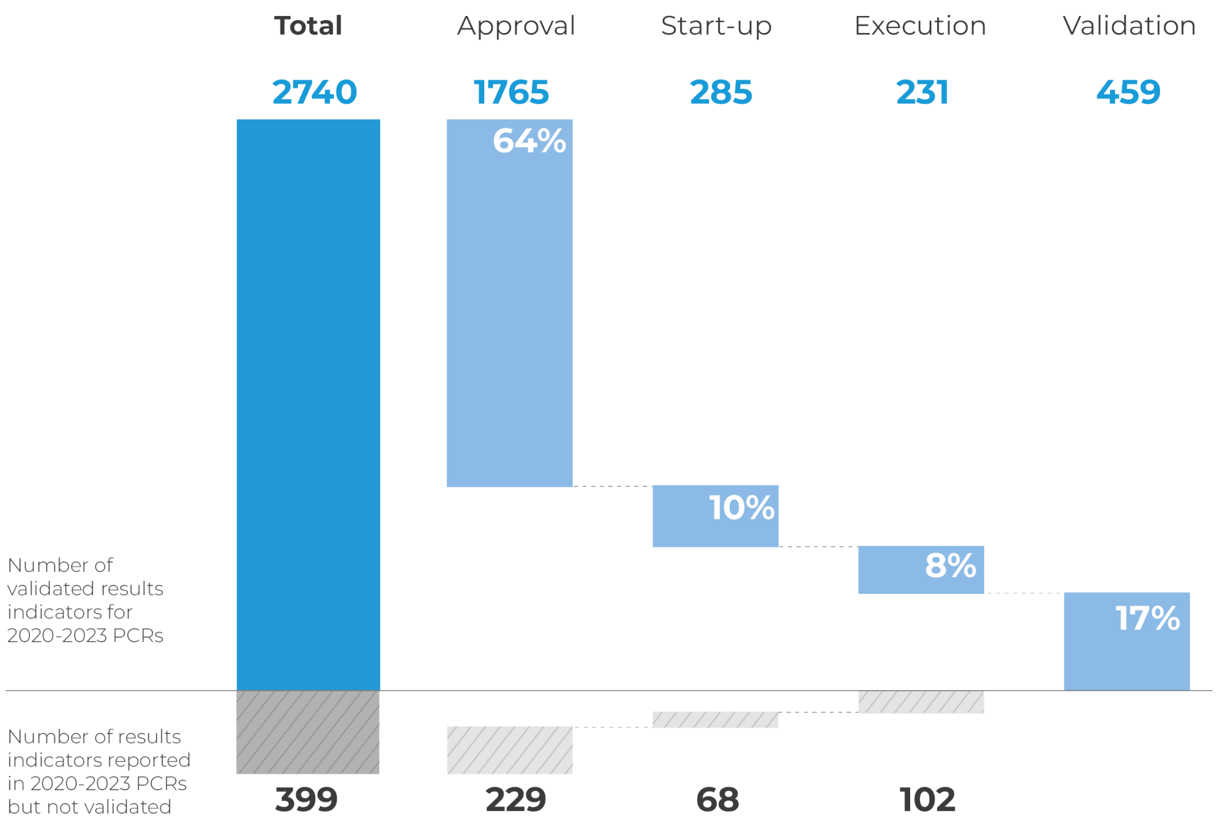
[16] Recent assessments include the Office of Evaluation and Oversight's Review of PCRs and XSRs: the 2023 Validation Cycle (2023), the DEO 2023 (2023), an audit of change processes affecting projects' results matrices by the Office of the Executive Auditor (2024) and OVE's Evaluation of the Development Effectiveness Framework (2024).

[17] In accordance with IDB regulations and guidelines, a project's general and specific development objectives, as well as the nature of the beneficiaries of the project, can only be established (or adjusted) by approval of the Board of Directors. Likewise, results indicators, baselines, targets, and their respective sources of information are established at project approval, though limited adjustments can be made until shortly after the project's legal effectiveness, commonly referred to as the "start-up phase". These limited adjustments must be supported by evidence and validated by the IDB's Office of Strategic Planning and Development Effectiveness. From that point forward, new indicators may be added to the result matrix (again, with the corresponding evidence and validation), but no other changes at the result indicator level can be made. In line with PCR guideline, indicators added during execution may or may not be considered in the PCR validation process. There is substantially greater flexibility with respect to changes at the product-level during execution. The PCR requires a discussion of substantial changes to the results matrix, as part of the evaluation of Relevance.

Figure 2.7. Results Indicators by Stage of Inclusion in Results Matrix



Note: **Approval** denotes the time when a project is approved for execution by the IDB Board of Directors. **Start-up** denotes the time when a project has complied with all conditions to start execution. **Execution** here denotes the period between start-up and closure. **Validation** denotes the period during which the Office of Evaluation and Oversight validates the Project Completion Reports approved by Management. Percentages do not add up to 100 due to rounding.

The analysis further shows that 10 percent of validated indicators were added in the start-up phase, and 8 percent were added during active execution (Figure 2.7). Even when considering all indicators (including those included in results matrices and reported in PCRs but not considered for validation), numbers remain relatively low: for the 285 operations analyzed, a total of 353 indicators were adjusted at start-up (of which 285 were considered for validation). This comparatively small number of adjustments suggests that projects most likely under-utilize the flexibility afforded by IDB regulations and guidelines during the start-up phase.

A total of 333 indicators were added during active execution, of which 231 were considered for validation. Considering the dynamic context in which projects are executed and the increasing understanding of the project that tends to be acquired during execution, this is a very low number and it is likely that important project dynamics that emerge during execution, which could provide learning opportunities and strategic evidence, are not systematically monitored. This may be partially explained by the fact that teams do not have explicit incentives to formally add indicators after start-up, whereas such additions often have explicit costs in terms of change processes by countries and by the Bank.

With respect to the quality of results indicators (regardless of the stage at which they are included in the results matrix), the IDB has begun to strategically address the need for high-quality indicators that can reliably and comparably measure project's specific development objectives. Box 2.1 describes this effort and how it contributes to enhancing development effectiveness. Looking forward, further improvements in support of rigorous adaptive change management include better mechanisms for gathering and analyzing high-quality data, a more profound understanding by all users of the methodological choices that support the evaluation and validation processes,[18] and advances in the transparency and traceability of change management processes.

Box 2.1. Catalog of Results Indicators

An important factor affecting development effectiveness is the evaluator's ability to accurately measure results based on evidence. Measurement challenges include limitations in the availability of data and quality indicators.

The use of non-standardized or non-SMART indicators hampers project teams' ability to design adequate results matrices, monitor performance, and assess results based on evidence.[1] The lack of standardized indicators also hinders comparability across projects with similar development objectives and limits the ability to aggregate results by sector or country.

To address these challenges, the Office of Strategic Planning and Development Effectiveness, in close collaboration with the Vice Presidency of Sectors and the Innovation and Technology Department, have been working on developing an easy-to-use digital Catalog of Results Indicators. During design, this digital solution aims to assist teams in selecting high-quality indicators aligned with strategic objectives, such as the Sustainable Development Goals (SDGs) and the IDB Group's Institutional Strategy. During project start-up and execution, the catalog aims to help teams identify high-quality indicators based on relevant metrics to enhance evaluability, as the project adapts to changes in context. Additionally, the catalog aims to generate a comprehensive database of indicators, allowing the IDB to track indicators' frequency of use, performance, and risks.

[18] OVE and Management have been making efforts to close gaps and support teams to demonstrate success through a continuous supply of online courses, additional guidelines, and regular hands-on training through the Operations Learning Program. Every year training resources are subject to review by OVE and Management in preparation for these hands-on training sessions. Another helpful tool used by other multilaterals are validation guidelines, complementing the guidelines for the preparation of project completion reports.

Throughout 2023, the IDB focused on the conceptualization and development of this digital solution. This work combined the use of natural language processing techniques and generative Artificial Intelligence to identify a set of standardized indicators derived from evaluation plans of projects implemented in the last decade.[2] Relying on the knowledge of sector experts, this machine-generated list was refined for relevance, accuracy, and consistency. The interactive online platform, currently under development and testing, will enable users to search, select, and customize indicators from the catalog. At the same time, the platform will provide full traceability of individual indicators across all areas and interventions.

The Catalog of Results Indicators promises to enhance the quality and efficiency of indicator selection, strengthening the monitoring and evaluation systems of IDB operations.

[1] SMART stands for Specific, Measurable, Achievable, Relevant, and Time-Bound. These attributes ensure that indicators are unambiguous, susceptible to measurement, realistic, accurate, and sensitive to project impacts.
[2] For this exercise, the catalog used the information from the results matrices of projects since 2012 recorded in the IDB's Convergence system.

Responsiveness is equally critical for delivering development results and impact, especially in light of the changes in context and unexpected events that projects invariably experience between approval of the project proposal and approval of the project completion report. Efforts carried out during 2023 to strengthen the focus on measurement and results throughout the project lifecycle (see Box 2.2 for details) showed that these changes and events frequently affect project activities and products, though the repercussions of these effects on results indicators are often not apparent to those implementing and supervising projects in execution. (This may partially explain why the effect of changes in project context are hardly reflected at the level of results indicators, as shown by the analysis summarized in Figure 2.7.) The conclusions from the IDB's efforts to strengthen the focus on measurement and results are consistent with the point that emerged from the closer analysis of Effectiveness for the 2023 PCRs: the system for managing development effectiveness at the project level must contemplate – and make accessible to decision makers – the logical connection between progress in outputs, achievement of results indicators and the attainment of specific development objectives. Without clarity on these connections, the ability to respond adequately to changes in project context is limited.

Insights from the IDB's efforts to strengthen the focus on measurement and results also confirmed the link between responsiveness to change and learning: experience and evidence around performance drivers gained from operations must inform not only the design of new operations but also the execution of active operations. One promising approach developed in 2023, that focuses on closing the learning loop on frequently recurring challenges encountered during execution, is From Lesson to Action (see Box 2.3 for details). Other approaches are currently under development. All of these approaches will contribute to improved change management, by fostering learning from operations, transparency in the triggers for changes and responsiveness to changes in a project's context.

Box 2.2. Strengthening the Focus on Measurement and Results

The contexts in which projects are implemented are dynamic. Projects can be affected both by intrinsic factors, associated with complex or poor design, and by exogenous factors, such as shifting priorities in public agendas, economic shocks, or climate change and natural disasters. As a result, the challenges faced by operations during their execution are many and varied. Previous diagnoses have shown that in 29 percent of cases, the effectiveness of projects was limited by unforeseen obstacles in complex circumstances, and that 21 percent of cases experienced a change in the environment in which they operated (IDB 2023b).

To respond to the challenges of a changing environment with a focus on results, projects require tools that allow the impact of these changes to be identified in a timely manner and for corrective actions to be proactively implemented. To this end, in 2023, the IDB advanced towards creating a model to co-create a tool to strengthen a focus on the achievement of results.[1] The tool aims to help teams reflect on a project's theory of change to overcome challenges during execution and maintain relevant monitoring and evaluation mechanisms. It is based on a collaborative model in which reflection and learning are generated among technical and operational teams around how unexpected events may threaten the delivery of a project´s goods and services to beneficiaries to produce development outcomes. The tool starts with the analysis of the main execution challenges. It then allows project teams to analyze how changes could impact outcomes and whether the project's theory of change still holds, and how to overcome monitoring and evaluation challenges. The exercise culminates with the identification of actionable steps, each paired with responsible parties and completion dates. The tool aims to help teams steer project execution toward development outcomes when the evaluation or monitoring plans become obsolete due to unexpected changes. Furthermore, its use is accompanied by enhanced technical support for evaluation and monitoring.

The tool was implemented in 2023 in projects selected by operation chiefs in four prioritized countries in the IDB's Andean Group Country Department (Bolivia, Colombia, Ecuador, and Peru) and three in the Central American Country Department (Panama, Guatemala, and the Dominican Republic). As a result, the evaluability of over 20 projects improved. One example is the Urban and Tourism Development of the Colonial City of Santo Domingo Project (DR-L1084). Due to delays in achieving eligibility after its approval, the project was affected by a substantial increase in costs that required a reallocation of resources between products. The use of the tool provided an in-depth analysis of the impacts of this reallocation on the potential scope of the results and on the project's overall ability to demonstrate results. Based on this exercise, the team and the executing agency committed to strengthening the training of tourism entrepreneurs and to schedule the business census, both of which are key actions to achieve and measure intervention results.

[1] This tool further builds on the model put forth in the "Shifting the Focus: From Implementation to Effectiveness" Initiative launched in June 2021. The model aims to enhance project effectiveness by raising environmental awareness and promoting a forward-looking management approach. Executing units and teams reflect on objectives and targets, assess progress, and propose actions to overcome challenges or address potential threats to the achievements of development outcomes or their measurement.

Box 2.3. From Lesson to Action

Lesson to Action is an approach to finding solutions to recurring challenges that repeatedly have affected or are affecting the IDB's project portfolio and that have not been addressed and examined in a collective manner. Through crowd-sourcing practices, Lesson to Action seeks to identify proven solutions and lessons learned to address these challenges, tap into the intrinsic motivation of stakeholders to promote development, and to offer practical operational knowledge to teams that are facing, or are at risk of facing, the same challenges in their operations.

The approach aims to strengthen learning feedback loops to help solve implementation problems that eventually become obstacles to effectiveness, through a "matchmaking" of challenges and solutions approach, taking advantage of the operational know-how and experiential knowledge of IDB staff. Lesson to Action recognizes that tacit knowledge and lessons learned are better transmitted and captured through personal interactions, and that team leaders alone might not have the perspective or time to reflect and report on their experience when they are facing day-to-day events. Lesson to Action offers the methodological guidance, support, and safe space necessary to distill valuable learning, systematize viable courses of action, and draw on useful resources in a collective manner.

The starting point of Lesson to Action is the selection of the recurrent operational challenge. This is done using a battery of tools to diagnose and screen execution problems that do not present with "tags" and to understand how widespread they are in the portfolio. For this, Artificial Intelligence analysis techniques are applied to the qualitative information in current project reports, in addition to the use of personal interviews, quick tailored surveys, and other quantitative proxies that are available to diagnose the extent of the problem at hand. Then, the solution crowd-sourcing happens at different levels (interviews and quick surveys), and finally, the systematization of potential courses of actions offers a common framework for the teams facing the challenge.

To illustrate, think of a typical recurrent challenge reported both in the Project Monitoring Report and Project Completion Report that is not "tagged" in systems, such as fiscal space allocation and/or a change of high-level authorities in executing units. How many projects have faced these challenges, and how many have solved them successfully? How do experienced team leaders handle these recurrent situations? What is the due diligence recommended, and when is the time to trigger a last-resort solution? What lessons have been learned in the process? All these are issues that the Lesson to Action practice aims to tackle.

Development Effectiveness Reform

The IDB is implementing reforms crafted to complement IDBStrategy+ and foster constructive dialogue with partner countries, channeling resources in a manner poised to maximize impact. The IDB Group is placing impact and development effectiveness at the heart of its new strategy. The development effectiveness reforms represent a major step towards a coordinated approach to drive impact and foster an impact culture, targeting key areas for change within the IDB to enhance development effectiveness. The reforms take into account the necessity to improve dialogue with clients, project management, and the selection of impactful projects, emphasizing a shift towards result-oriented approaches. By focusing on preparing and supervising projects for successful execution, the reforms aim to address existing shortcomings by maintaining a development-focused perspective amid changing country contexts. The focus on successful execution is further supported by digital solutions, assessing development effectiveness in a consistent, forward-looking manner and enhancing data collection and analysis to ensure better decision-making, learning, and accountability. Moreover, the reforms underscore the importance of turning knowledge, data, and experience into actionable intelligence to drive development effectiveness. Finally, the reforms integrate considerations of development effectiveness and impact into building and managing sector or country portfolios, aligning with broader institutional strategies for positive change. Overall, these reforms represent a comprehensive response to identified needs for improvement within the IDB, aiming to foster a more impactful and adaptive approach to development work.

Reflections

The IDB is committed to delivering concrete development outcomes in Latin America and the Caribbean, with a focus on project performance and the delivery of results throughout all project stages. The DEF, initiated in 2008, provides a strategic approach to project design, implementation, and evaluation, emphasizing evidence-based strategies, resource stewardship, and sustainable development. This chapter reflects on opportunities to strengthen monitoring and evaluation systems, especially with respect to rigorous adaptive change management. It argues monitoring can be strengthened by fostering a better understanding of the causal connections between monitored progress in outputs, achievement of results targets and attainment of development objectives. It also argues the importance of clear, interpretable signals from monitoring and evaluations. Finally, it argues that transparent and dynamic mechanisms are central to aligning incentives across stakeholders to achieve common goals, maintaining realistic expectations, and empowering teams to take ownership of their performance.

As discussed at more length in the final section of this document, the Bank is engaged in a comprehensive reform to redefine its three DEF instruments to assess performance (DEM, PMR, and PCR) into an end-to-end tool that prioritizes a clear, strong theory of change jointly agreed by Borrower and Bank, as well as proactive, transparent, and traceable change management based on evidence and learning. The reform also involves initiatives to prioritize learning and accountability, as evidenced by initiatives such as the Catalog of Results Indicators, the tool to promote Evaluability in Execution, and the Lesson to Action practice to enhance measurement, adaptation, and knowledge-sharing to maximize development impact across the region.

CHAPTER 3

DEVELOPMENT EFFECTIVENESS AT IDB INVEST

Introduction

IDB Invest, a member of the IDB Group, is a multilateral development bank committed to promoting the sustainable economic and social development of its member countries in Latin America and the Caribbean through the private sector. IDB Invest finances sustainable companies and projects to achieve financial results and maximize economic, social, and environmental development in the region.

IDB Invest's Impact Management Framework is an end-to-end series of tools and practices that support the full operation lifecycle from origination and structuring to monitoring, evaluation, learning, and knowledge management. It allows IDB Invest to build, measure, and manage a portfolio of financially sustainable investments that maximize development impact and contribute to reaching the SDGs in the region.

This chapter focuses on the development effectiveness performance of IDB Invest projects during supervision (indicator 3.12) and at completion (indicator 3.13). It starts with an overview of how IDB Invest manages impact, followed by reporting on 2023 performance and a look at the evolution of performance over time. Finally, in line with IDB Invest's New Vision and Business Model approved by the IDB Governors in March 2024, which emphasizes understanding the drivers of development impact within the portfolio, the chapter takes a deep dive into sub-portfolio performance by sector, segment, and region, leveraging data from both projects under supervision and at completion.

The Impact Management Framework

This section provides a brief description of the tools that make up the Impact Management Framework[19] across the project cycle, as illustrated in Figure 3.1.

Figure 3.1. The IDB Invest Impact Management Framework

Note: ASR: Annual Supervision Report; DEA: Development Effectiveness Analytics; DELTA: Development Effectiveness, Learning, Tracking, and Assessment tool; DEO: Development Effectiveness Overview; FCR: Financial Contribution Rating; IEs: Impact Evaluations; XSR: Expanded Supervision Report.

1. Selecting the right operations and clients

At the origination stage, a Strategic Selectivity Scorecard is used to steer investments towards areas within each sector and country with the most significant development gaps, and areas that support institutional priorities such as climate change, gender equality and diversity, and serving small and island countries.

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[19] In line with its New Vision and Business Model, ongoing enhancements to IDB Invest's Impact Management Framework have been informed by the 2023 OVE Evaluation of IDB Invest (OVE 2023) and the Multilateral Organization Performance Assessment Network's assessment of IDB Invest (MOPAN 2023), as well as an internal review.

2. Assessing potential impact and designing development-related investments for results

The cornerstone of the framework is the Development Effectiveness Learning, Tracking, and Assessment (DELTA) tool – a rigorous, fact-based scoring system that assesses the expected impact of each investment and tracks results achieved over time. At origination, each project is assigned a score ranging from zero to 10, which is updated annually until the project exits the portfolio.

The DELTA score is a key decision-making factor in IDB Invest's portfolio approach, together with the Financial Contribution Rating, which assesses the contribution of each investment to IDB Invest's long-term financial sustainability, based on the risk-adjusted return on capital. Proposed investments need to meet certain impact and financial rating thresholds to advance, with decreasing financial contribution requirements for highly impactful investments.

3. Managing, evaluating, and reporting portfolio impact

Supervision

The DELTA tool is also used during the supervision phase to track and measure progress against the achievement of impact targets set at approval, including each operation's contribution to specific SDG targets, and to identify areas where clients may need additional support to reach development objectives. The DELTA score assigned at origination is updated annually based on performance. Lessons learned are also captured during supervision to feed back into existing and new operations for active portfolio management.

Evaluation and reporting

IDB Invest conducts a mandatory final self-evaluation for each operation in the portfolio once it reaches early operating maturity.[20] This evaluation, better known as the Expanded Supervision Report (XSR), compares the expected and actual impact of each project through a systematic assessment of its relevance, efficiency, effectiveness, and sustainability. It also captures the main lessons learned. The final performance rating of each evaluation is validated by the IDB Group's independent Office of Evaluation and Oversight (OVE), strengthening both the transparency and credibility of the operational knowledge produced. The lessons learned from these evaluations are classified and stored into an internal knowledge management system to feed into the design of new operations.

[20] Following the Good Practice Standards, Early Operating Maturity (EOM) is defined as the earliest date when a loan has been fully disbursed, the project has been implemented, and the project has started having development impact. An XSR is prepared one year after reaching EOM (e.g., projects that achieved EOM in 2022 had their XSR prepared in 2023).

4. Generating and sharing actionable knowledge

IDB Invest selects some investments for impact evaluations and disseminates the results through various channels. In other cases, IDB Invest works with clients in the early stages of an investment to test whether an innovative product, service, or approach with development impact is effective before scaling it up. IDB Invest also provides tailored support to clients to build their capacity to measure, manage, and report on the social and environmental impact of their operations.

5. Applying operational learning

IDB Invest employs multiple tools to capture and apply operational data to create continuous learning loops. The Development Effectiveness Analytics platform includes a series of dashboards to produce portfolio-level insights from a development impact perspective to inform decision-making. The results of final evaluations and lessons learned from completed operations are also captured by the system, which currently houses over 1,000 lessons from more than 600 operations. This learning is then fed back into new operations with the help of an Automated Virtual Assistant, which automatically matches relevant lessons to new investments in the pipeline.

Performance During Supervision

During the supervision stage, the results matrix and the monitoring and evaluation plan serve as the foundation for monitoring and reporting on development results. The results matrix outlines the operation's objectives, vertical logic (how development objectives are expected to be achieved), and relevant outcome and output indicators with associated targets. These indicators contribute to the scores in the DELTA Impact Rating System, which also assesses contributions to specific SDGs. The monitoring and evaluation plan includes additional indicators aligned with institutional priorities, project components (including nonfinancial aspects such as advisory services or environmental and social action plans), and context indicators.

Data collected for each indicator is used to compare actual results against targets in the results matrix, allowing IDB Invest to update the DELTA score annually. The performance of each operation is classified as "satisfactory," "alert," or "problem"[21] based on deviations from the approval score. These assessments are documented in Annual Supervision Reports and consolidated in quarterly Development Impact Supervision Reports presented to the IDB Invest Portfolio Supervision Committee. For funds, equity, and mezzanine projects, supervision results are shared biannually at Active Equity Committee meetings. As would be expected, performance during supervision is a solid predictor of an operation's results at completion.

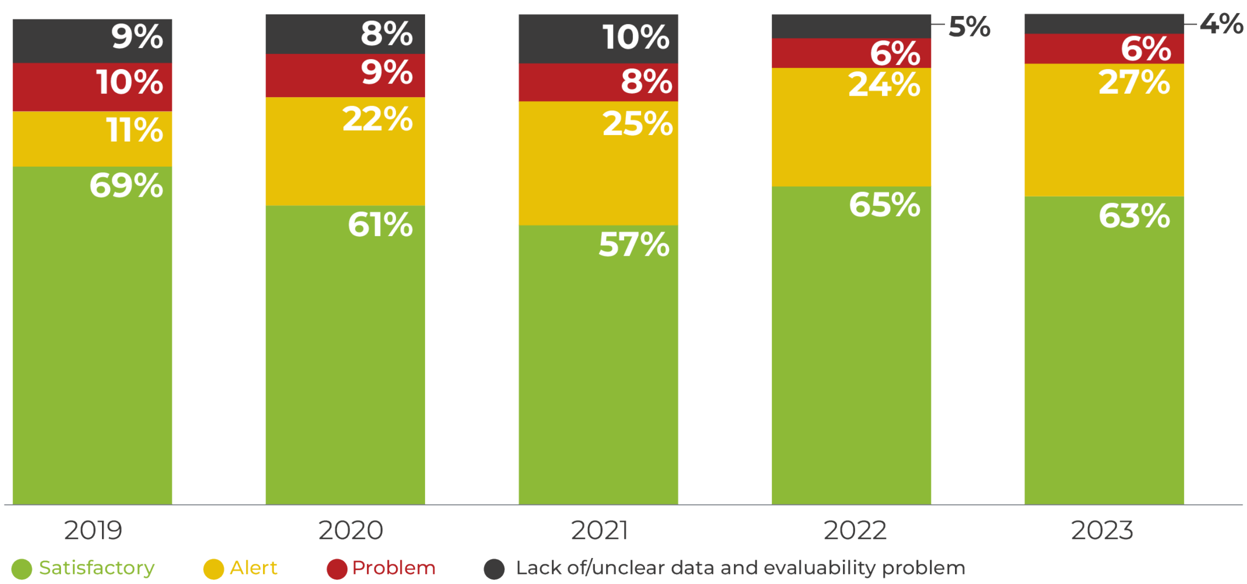
[21] An "alert" classification refers to operations that have the potential to achieve their targets, but closer supervision is recommended. When an operation is at high risk of not reaching its development goals, it is classified as "problem." These classifications are not necessarily related to the financial performance of the operation.

2023 Results and Evolution of the Portfolio

As of year-end 2023, IDB Invest had 289 operations in supervision,[22] representing $34.8 billion in disbursements from 2016 to 2023, plus $40.3 billion in mobilized resources,[23] encompassing three business segments, 13 sectors, and all financial instruments. Of these operations, 63 percent were classified as "satisfactory," 27 percent as "alert," 6 percent as "problem," and 4 percent "lacking sufficient or clear data."

Overall, portfolio performance was similar to 2022, with a marginal decline of 2 percentage points. While the share of operations classified as "alert" slightly increased, those categorized as "problem" remained unchanged. Notably, projects lacking sufficient or clear data dropped from 10 percent in 2021 to 4 percent in 2023, reflecting ongoing efforts to address this issue.

Figure 3.2. Overall Classifications and Portfolio Evolution, 2019–2023



Results by Segment

The IDB Invest portfolio includes three business segments: Infrastructure and Energy, Corporates, and Financial Institutions (FIs).[24] Performance by segment varies each year, as shown in Figure 3.3 and briefly explained below.

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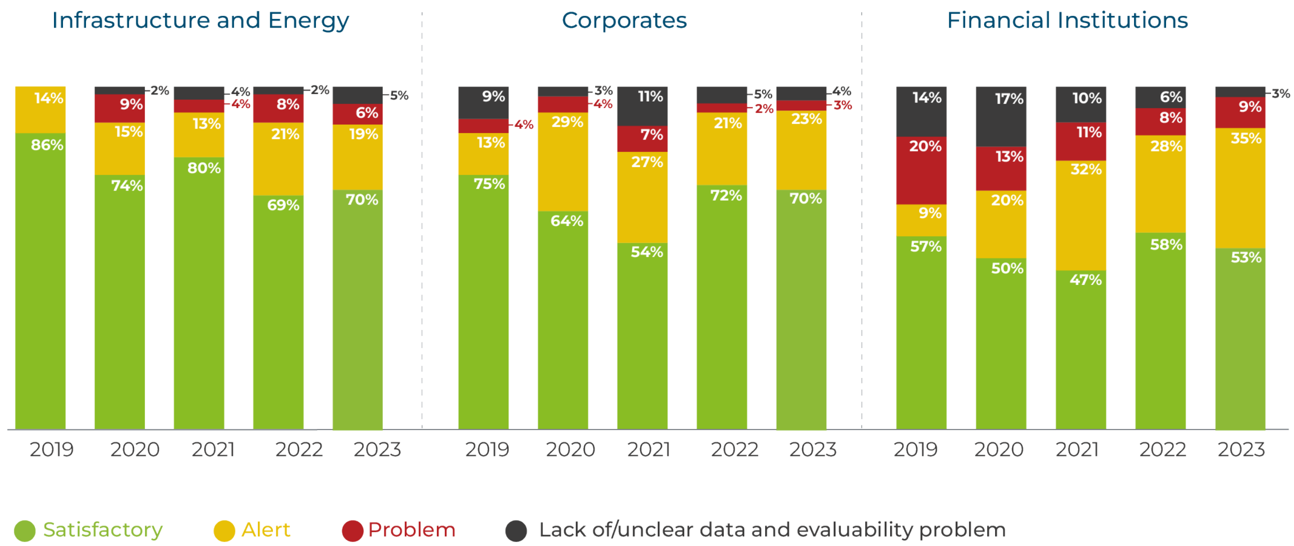
[22] Operations in supervision are those in the active (outstanding) portfolio, which do not have an Expanded Supervision Report (XSR) validated.

[23] Approximately $8.1 billion in core mobilization and $32.2 billion in catalytic mobilization.

[24] The Infrastructure and Energy segment includes energy, transport, water and sanitation, and social infrastructure (education and health) projects. The Corporates segment includes agribusiness, manufacturing, telecommunications, and tourism projects. The Financial Institutions segment includes projects with financial intermediaries and investment funds.

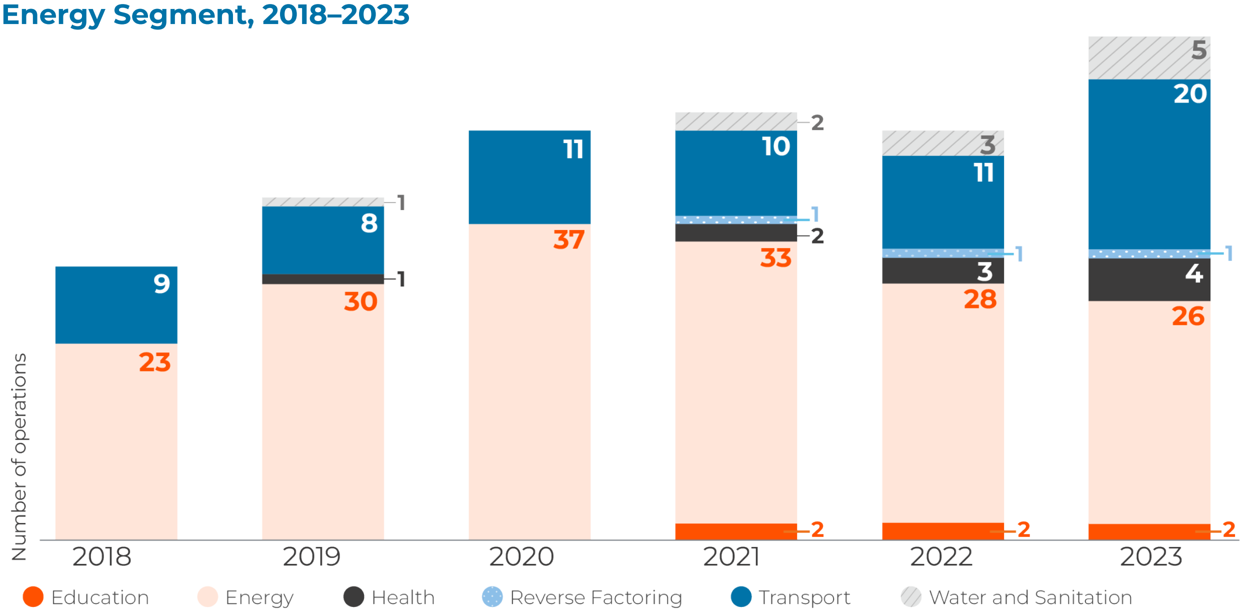
Figure 3.3. Portfolio Classification Evolution by Segment, 2019–2023



Infrastructure and Energy

This segment has consistently demonstrated robust performance. As of year-end 2023, 70 percent of operations were classified as "satisfactory," slightly up from 2022. However, the share of satisfactory operations in 2022 and 2023 was lower than the average during the 2019–2021 period. This may be explained by the increasing diversity of sectors such as transport and social infrastructure (education, health) in this portfolio since 2021 (Figure 3.4), which have more mixed performance compared to renewable energy projects.

Figure 3.4. Evolution of the Supervision Portfolio by Sector in the Infrastructure and Energy Segment, 2018–2023



Corporates

As of year-end 2023, 70 percent of Corporate operations were classified as "satisfactory," slightly down from 2022. Performance in this segment is closely linked to the macroeconomic context, therefore it was significantly affected by the COVID-19 pandemic in 2020 and 2021, as shown in Figure 3.3. It is important to note that annual supervision assessments primarily rely on data from the preceding year (i.e., comparing year-end targets with achieved year-end results, so 2021 supervision assessments were mainly based on 2020 data). Overall, this segment performed well in 2022 and 2023 despite volatile commodity prices, rising inflation, high interest rates, and, in the agribusiness sector, weather shocks.

Financial Institutions

In 2023, 53 percent of FI operations were classified as "satisfactory." This segment was also heavily affected by the COVID-19 pandemic. By the end of the 2021 supervision exercise, fewer than half of operations were "satisfactory." After recovering steadily in 2022, the segment faced additional challenges in 2023 due to adverse macroeconomic conditions and high interest rates, exacerbating the lingering effects of the pandemic in some cases.

Other Supervision Highlights

In 2023, IDB Invest deployed and trained employees on two new sets of supervision guidelines.[25] The first was a protocol to improve projects that are off track, including instructions to identify the causes of performance issues, define corrective actions, establish timelines and responsibilities, and ensure follow-up. The second set of guidelines builds on IDB Invest's strong system for systematizing and sharing lessons learned from final evaluations within the organization, to put in place a similar process for supervision. This is in line with IDB Invest's ongoing commitment to shorten the learning cycle from supervision to origination. Both corrective actions and lessons learned are being tracked in IDB Invest's Business Process Management system, ensuring accountability and knowledge-sharing across the organization and with clients.

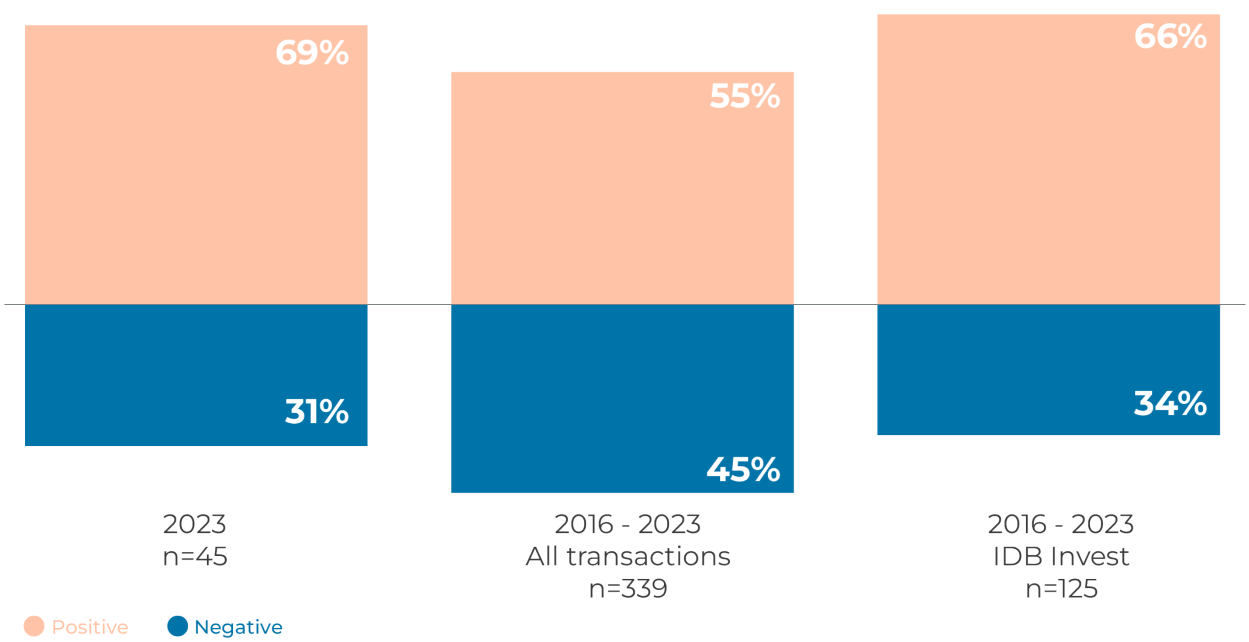
[25] In line with OVE recommendations.

Performance at Completion

2023 Results and Evolution of the Portfolio

In 2023, IDB Invest produced 45 XSRs covering 45 transactions, including two impaired projects that exited the portfolio after being in Special Assets.[26] The transactions were approved between 2011 and 2020 for a total of $4.5 billion ($2.8 billion in long-term approvals and $1.7 billion in short-term approvals), plus $2.5 billion in core mobilization.[27] Results validated by OVE show that 69 percent of projects received a positive development outcome rating,[28] well above the 51 percent in the last XSR cycle and surpassing the CRF target of 65 percent for the first time. Moreover, as shown in Figure 3.5, current performance slightly exceeds the historical performance of projects approved since the merge-out in 2016 (referred to as "IDB Invest projects" in the figure) (66 percent positive) and significantly surpasses historical performance when including both IDB Invest and legacy projects (55 percent positive).[29]

Figure 3.5. XSR Results, 2023 and Historical



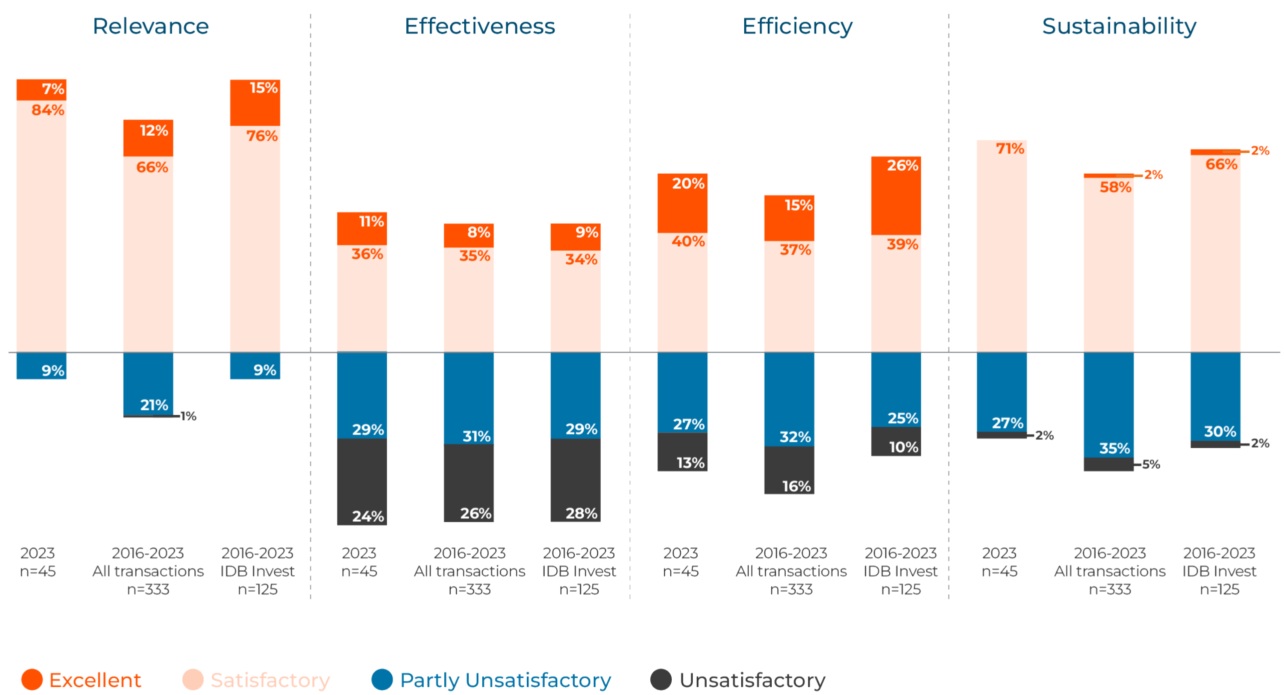
Note: This figure includes projects with an XSR completed since 2016. In addition, since 2021, the sample also includes impaired projects that exited IDB Invest's portfolio after being in Special Assets, which may have an XSR or may be deemed non-evaluable (in which case they are assigned a negative overall rating). "All transactions" includes all the projects as defined above, regardless of their approval year. Several of these projects were approved before 2016, referred to as "Legacy" operations. The category "IDB Invest" includes only projects approved since 2016. In the case of multiple transactions with a joint evaluation, the earliest approval year is used to determine if the project is considered as "Legacy" or "IDB Invest."

[26] The 45 XSRs include projects in 14 countries with EOM dates mainly in 2022 (89 percent, 40 XSRs, including one Special Assets project), followed by 2021 (9 percent, 4 XSRs), and with another Special Assets project that reached EOM in 2015. Special Assets refer to impaired loans and equity investments.
[27] The total includes only amounts approved until December 31, 2023.
[28] The positive classification includes all XSRs rated in their Overall Project Outcome as "partly successful," "successful," and "highly successful."
[29] Legacy projects were approved prior to 2016 and before the creation of IDB Invest.

When analyzing performance by core evaluation criteria,[30] 91 percent of projects received a positive rating in relevance, 71 percent in sustainability, 60 percent in efficiency, and 47 percent in effectiveness (Figure 3.6). Under effectiveness, it is worth noting that of the 24 projects with negative performance, 13 were rated as "partly unsatisfactory," meaning they did deliver some impact even though they did not attain all of their development objectives. More specifically, of the 29 development objectives expected to be achieved by these projects, only six were deemed not achieved.

The effectiveness results for this XSR cycle are higher compared to historical levels, considering that 43 percent of projects evaluated over the 2016-2023 period had a positive rating for this criterion. A deeper look into the impact delivered by all evaluated projects in this cycle shows that of the 97 development objectives evaluated in 2023, 54 percent were achieved. In addition, at the indicator level, 56 percent of the 203 outcome indicators evaluated received a positive rating.

Figure 3.6. Summary of XSR Results by Core Criteria, 2023 and Historical (Percent)



Note: "All transactions" includes all projects with a rating assigned in the core criteria since 2016, regardless of their approval year. Several of these projects were approved before 2016, referred to as "Legacy" operations. The category "IDB Invest" includes all projects approved since 2016 and with a rating assigned in these core criteria. Impaired projects that exited the IDB Invest portfolio after being in Special Assets and were deemed non-evaluable are not included.

[30] The overall XSR rating is computed based on four main evaluation criteria, with a weight of 20 percent for relevance, 40 percent for effectiveness, 20 percent for efficiency, and 20 percent for sustainability. The calculation of the overall rating is also subject to additional conditions. For instance, with an "unsatisfactory" rating for either relevance, effectiveness, or sustainability, the highest achievable overall rating is "partly unsatisfactory."

In addition to the 45 XSRs, IDB Invest prepared two Cancellation Notes and one Early Prepayment Note in 2023 for the first time.[31] Two were cases of low disbursement due to either the deterioration of the client's financial position or changes in the client's financing needs, which ended up being lower than expected when the project was originally approved during the COVID-19 pandemic. The early prepayment was also due to the client's changing financial needs post-pandemic.

Finally, two impaired Special Asset operations exited the portfolio in 2022, and both were deemed to be evaluable in the 2023 cycle and rated negatively.[32] If these operations were excluded from the sample, particularly since they were older operations that were approved in 2011 and 2013, the percentage of positively rated transactions would rise to 72 percent, compared to 51 percent reported in 2022.

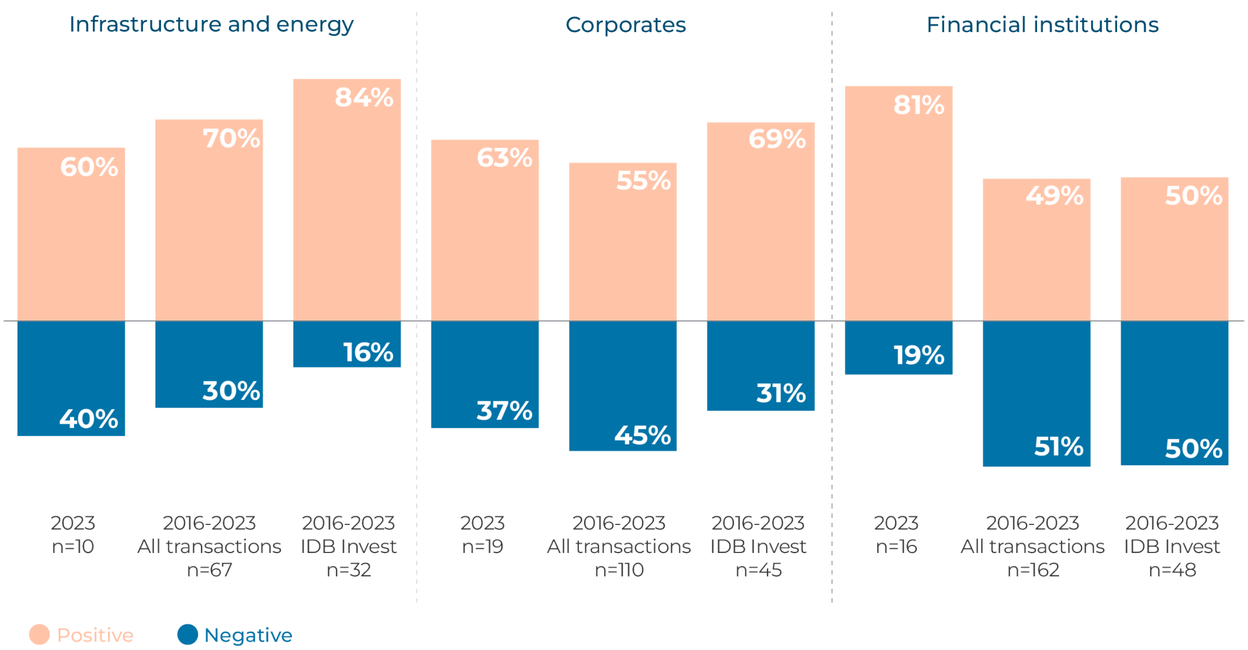
Results by Segment

In terms of sample composition, 42 percent of XSRs (19 XSRs) were from the Corporates segment, 36 percent (16 XSRs) were from the FI segment, and 22 percent (10 XSRs) were from the Infrastructure and Energy segment (Figure 3.7). The performance of the FI segment was exceptionally strong, with 81 percent of projects resulting in a positive development outcome, compared to 33 percent in 2022. This significant increase underscores how year-to-year results can vary widely depending on the cohort of projects evaluated in each cycle. Overall, the positive results in 2023 mark a 32 percentage point increase over historical performance for this segment.

For Corporates segment projects, 63 percent received a positive development outcome in 2023, an 8 percentage point increase compared with the historical value. Sixty percent of Infrastructure and Energy segment projects were rated positively, 10 percentage points below historical performance. This is mostly explained by a smaller and more diverse sample of transactions in this cycle, including two negatively rated hydropower projects that faced multiple challenges such as cost overruns, construction delays, and environmental issues.

[31] As agreed upon with OVE, a Cancellation Note should be prepared for operations when the total disbursed amount is less than or equal to 30 percent of the approved amount. An Early Prepayment Note is prepared for operations that are prepaid too soon and did not have at least one supervision cycle.
[32] Since 2022, IDB Invest has conducted XSRs for Special Assets operations deemed evaluable. See the 2023 DEO for more information (IDB 2023b, p. 42).

Figure 3.7. XSR Results by Segment, 2023 and Historical



The significant improvement in the performance of FI projects can be explained by multiple factors. First, there was a general improvement in macroeconomic conditions after the COVID pandemic. Second, other external factors related to the country composition within the XSR sample could also explain why this cycle was stronger. Previous XSR samples included several FIs operating in countries strongly affected by adverse external or political conditions, which is not as prevalent in the current cycle. Third, the positive evaluations of operations with new financial products, such as thematic bonds, in this XSR cohort was another factor. While thematic bond projects are evaluated in the same way as other FI segment projects based on the growth of the relevant portfolios (e.g., green, SME lending), as part of the design of the bond framework, it is key that FIs have a clear segmentation or definition of the relevant portfolios and a well-defined strategy to serve the targeted segments.[33] Despite the overall positive results for thematic bond projects in this cycle, it is important to acknowledge that they also faced challenges some due to general issues in the financial sector and their capacity to generate quality data to measure social and environmental impacts. See Box 3.3 for more information on the performance of thematic bond operations.

Finally, several of the projects evaluated in this cycle were with FIs that showed strong commitment to the segments of interest, such as dedicated microfinance institutions or FIs that have a clear strategic focus on the targeted segments and are increasingly

[33] According to available data, overall, 55 percent of all XSRs produced between 2016-2023 were rated positively. Among thematic bond projects evaluated over the same period, 82 percent were rated positively across all segments, and in the FI segment in particular, 75 percent were rated positively.

positioning themselves in impact topics. This highlights the importance of strategically selecting clients. Indeed, data collected on the drivers of performance, which was systematically included for the first time in the 2023 XSR cycle, confirms that client capabilities and business strategy connected to the targeted segments are among the key success factors for FI projects.

As outlined in the 2023 DEO, IDB Invest is continuing to implement an Action Plan to conduct an end-to-end review of origination, supervision, and evaluation processes to identify opportunities for improvement and support a solid performance of FI operations. Key actions underway include: (1) the creation of more spaces to share knowledge and lessons learned across all IDB Invest teams to work on enhancing methodologies and processes for project design, supervision and evaluation; (2) deepening results reporting and the capture of lessons learned during supervision and from XSRs; and (3) further identification of opportunities to provide advisory services to clients to strengthen their impact results and impact measurement capacities.

Other Evaluation Highlights

Sometimes projects are significantly affected by changes in the external context that are difficult to anticipate during design. Managing for impact requires constant monitoring, learning, and adjusting. Accordingly, IDB Invest has been working to make project evaluation more dynamic. In 2023, IDB Invest prepared draft Guidelines for Project Restructuring at First Disbursement following OVE's recommendation and based on evidence showing that projects starting with an outdated design are more likely to fail, particularly those that had substantial delays between approval and disbursement. The guidelines establish which changes are allowed and define a clear process for doing so to ensure accountability. IDB Invest will continue working with OVE to finalize these guidelines and include them in IDB Invest's Operations Manual, and to develop other alternatives that allow for a more dynamic evaluation approach for projects significantly impacted by external conditions, facilitating a more accurate depiction of their true performance, while ensuring accountability. Finally, automation also helps make IDB Invest's evaluation and supervision processes more dynamic, as discussed in Box 3.1.

Box 3.1. More and Better Automation in Supervision and Evaluation Processes

In 2023, IDB Invest continued its efforts to automate supervision and evaluation processes. It systematized lessons learned and corrective actions in supervision and key drivers of performance both for supervision and XSRs. In addition, it enhanced the automation of identifying XSR due dates, improving the predictability of future cycles and resource allocation. A new functionality was also developed to automatically compile necessary information for XSRs, leveraging all structuring and supervision data stored in systems. IDB Invest also focused on improving its results matrix module, aligning it with final evaluation needs. Results matrices were enhanced to automatically visualize monetary indicators in real terms (documenting underlying inflation assumptions) and calculate achievement rates, facilitating early assessment and prompt action. The results matrix module was also enhanced to allow for greater automation and efficiency in the assessment of SDG contributions tied to indicators.

Managing a Portfolio for Impact

With its end-to-end Impact Management Framework firmly in place, IDB Invest is well-positioned to deliver ongoing reporting on impact results, including at the sub-portfolio level. A sub-portfolio perspective allows IDB Invest to analyze performance trends and drivers by sector and region and capture industry-specific lessons learned to inform new investments, a key priority of the New Vision and Business Model.

To provide a fuller picture of performance, and considering that IDB Invest's supervision system has proved to be a strong predictor of performance at completion, the following analysis combines two types of operations: (i) those that have already undergone a final evaluation; and (ii) those that have had more than two supervision assessments and will have a final evaluation in the next two years. For the latter, their expected final XSR rating is estimated based on historical supervision and evaluation data.[34] It highlights a selection of sector sub-portfolios within each of IDB Invest's three business segments.[35]

[34] For supervision, the focus is on operations with predicted EOM dates in 2023 and 2024, which should have XSRs in 2024 and 2025. For XSRs, the 2016–2023 period is considered.

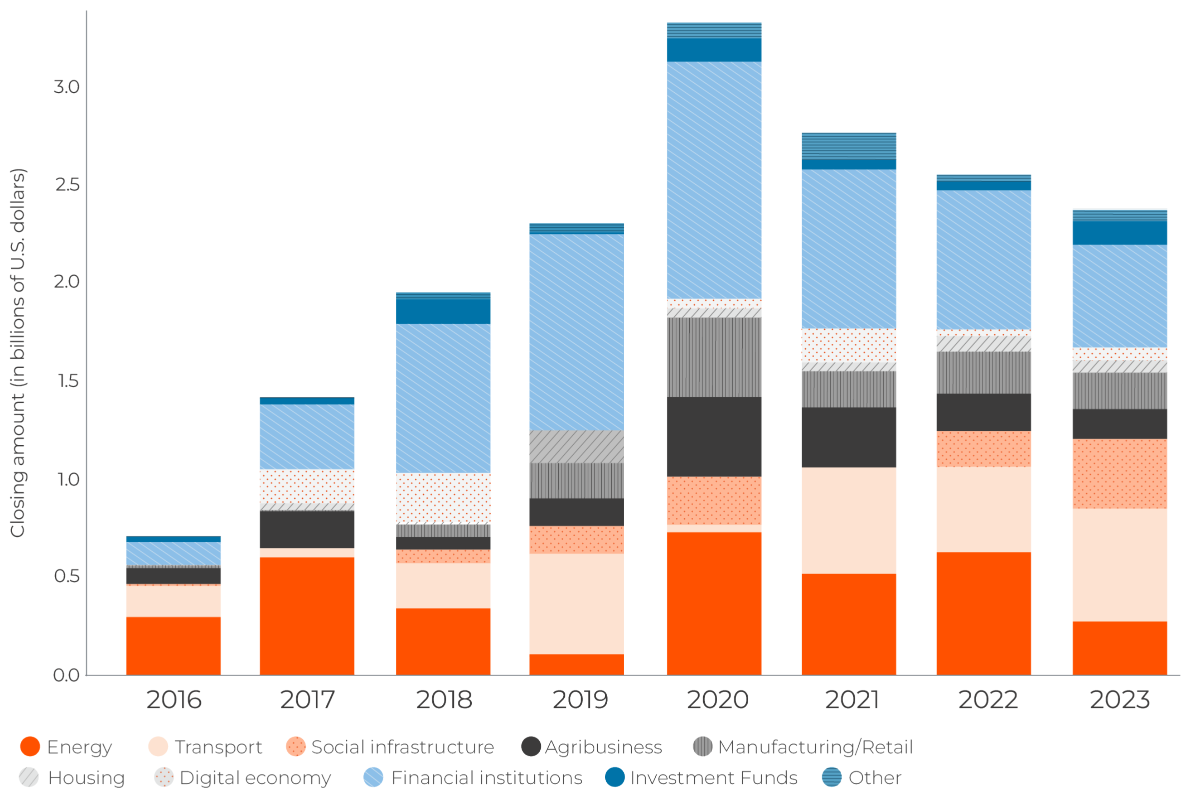
[35] The selection of sectors was done considering that a sufficient number of observations were present both for supervision and XSR samples. This means that sectors with few observations were either merged with other sectors, when applicable, or left in a category of "Other" and not presented in the current analysis.

Sub-portfolio Analysis

Portfolio Diversification Over Time

In building a balanced portfolio, the sectors of IDB Invest operations have become more diverse over time (Figure 3.8). For instance, the Infrastructure and Energy segment has notably shifted towards more investments in transport[36] and social infrastructure in recent years. Manufacturing/retail and agribusiness have continued to dominate the Corporates segment, followed by housing and the digital economy. At the same time, the portfolio has gotten more balanced across segments, after a surge in financing for FIs in 2020 due to expanded short-term trade finance during the COVID-19 response, while long-term finance operations remained stable.

Figure 3.8. Evolution of Sector Composition by Financing Amount of Operations at Closing, 2016–2023



Development Impact Performance Trends by Sector

Given the changes in sectoral approaches, operational structuring, and impact assessment tools since the creation of IDB Invest in 2016, Figures 3.9 and 3.10 present results for only post-merge-out projects (referred to as "IDB Invest" projects) in addition

[36] Activity in the transportation infrastructure sector can vary significantly from year-to-year due to the inherent nature of the sector, which involves bidding processes for new concessions and public-private partnerships, as well as long structuring periods that generally take more than one year from the mandate to financial closing.

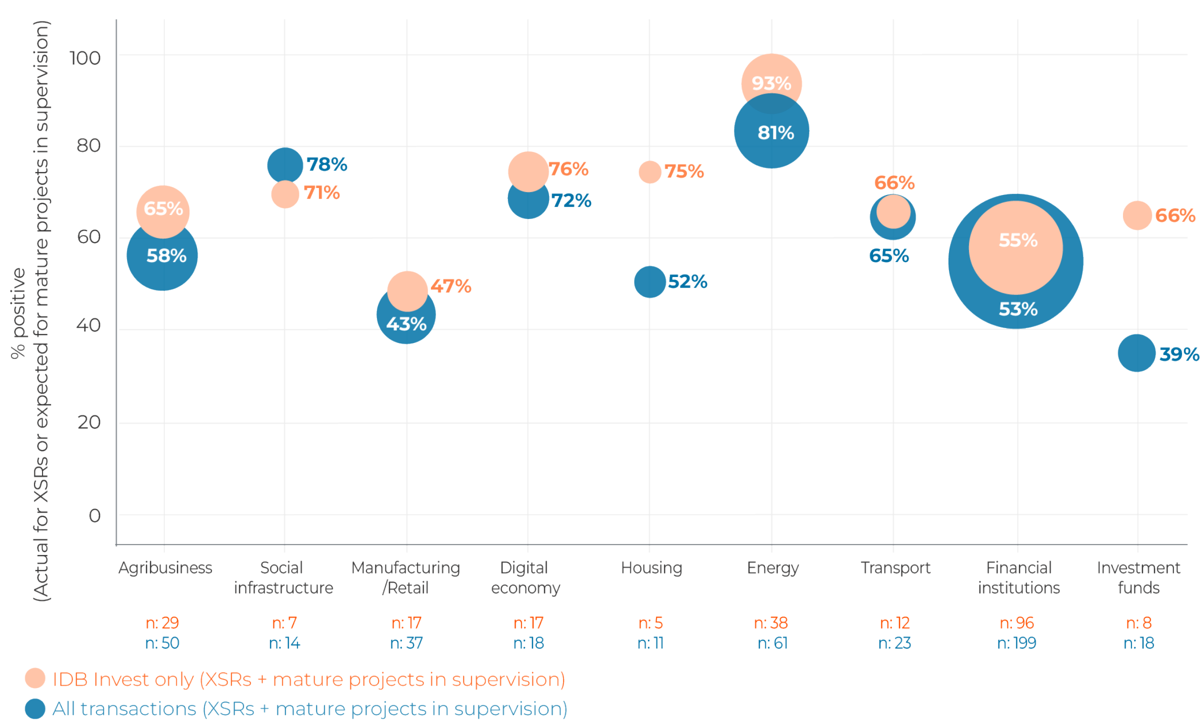
to results for the full sample. In general, the trends are quite consistent across both samples and any differences are discussed below.

Figure 3.9 illustrates the percentage of operations with positive results by sector. The bubble size corresponds to the number of operations within each sector. Overall, the energy sector consistently shows high performance, with positive outcomes above 80 percent, and higher for IDB Invest operations, at 93 percent positive. Social infrastructure operations (including health, education, and water and sanitation) also perform strongly (around 71 percent for IDB invest operations). Transport operations, as well as operations in the digital economy and agribusiness show good results (around 64 percent). Notably, housing and investment funds perform significantly better for IDB Invest operations.

Keeping in mind the overarching institutional (CRF) target of 65 percent of projects with positive performance at completion, the analysis shows that most sectors are on track to meet or exceed that target. On the other hand, IDB Invest manufacturing operations and those through financial intermediaries still show lower positive performance at 47 percent and 55 percent, respectively.

The following section presents the drivers of both project performance and underperformance in more detail. In general, it is important to keep in mind that the sample is still small for some of these sectors, and that the analysis will keep evolving as the sample size increases in the coming years.

Figure 3.9. Portfolio Performance by Sector



Note: The figure shows the percentage of positive results by sector for mature projects with either XSRs in 2016–2023 or Early Operating Maturity in 2023–2024.

Drivers of Impact Performance by Sector

The main drivers of performance for a selection of sectors are presented below. As IDB Invest continues to reinforce its DELTA Impact Rating System in line with the New Vision and Business Model, "DELTA 2.0" will more explicitly integrate development impact risks into the ex-ante analysis and into project monitoring during supervision, aiming to improve both project design and performance.

- **Infrastructure and Energy**

The **energy sector** has performed solidly over time, contributing to almost half of the 64.8 million tons of carbon emissions reduced by IDB Invest from 2016–2023 and helping spur the green transition in various countries by installing 6,319 megawatts from renewable energy sources. This track record of high performance is largely due to a prevalence of medium-sized projects that use proven technology (wind and solar) in countries with stronger regulatory frameworks. IDB Group support to strengthen frameworks for public-private partnerships in the energy sector has been key to helping projects mitigate risk and achieve expected impact results. Nonetheless, larger energy projects are always more complex, and those with innovative business models or more challenging country contexts are riskier. For instance, some large greenfield projects have faced implementation challenges and cost overruns partly due to the social risks of building and operating these projects near local communities, underscoring the importance of strong stakeholder engagement strategies. Similarly, project performance has been affected by merchant risk due to lower energy prices, regulatory, political, and social instability in some countries, geological conditions affecting construction, and climate-related events.

IDB Invest **transport projects** have ranged from financing port terminals and roads to railway, metro, airport, and Panama Canal projects, contributing to key development impact results. Ports and their terminals have increased cargo volume handled and port productivity, while also alleviating the congestion of other ports, creating jobs, and fostering trade and competitiveness. Similarly, the roads and highways financed have helped reduce travel times and the frequency of accidents, and the railway project has connected a key industry with a port. The airport that was financed increased passenger traffic in a tourism area, while the metro project increased capacity and service quality in a major metropolitan area. More recently, IDB Invest financed electric buses and an electric vehicle charging station, helping mitigate climate change. Overall, IDB Invest has financed truly transformative projects in this sector with significant systemic effects, such as the expansion of the Panama Canal which catalyzed billions in private investment in Panama (IDB, 2023b). Transport projects have performed well historically but are more prone to extended delays and cost overruns, since they are typically complex greenfield projects. It is important to note that restricted mobility and disrupted value chains during the COVID-19 pandemic hampered the performance of several transport projects in particular, while the macroeconomic and political context in some countries affected outcomes of other operations.

The impact achieved in **social infrastructure** includes improved access to water and sanitation services for more than 345,000 people, educational opportunities for over 344,000 students, and health services for 2.7 million people. While water and sanitation projects have performed well, education and health projects have had more mixed results. Regarding education, projects focusing on building new or expanding existing infrastructure such as schools have typically been executed on time and on budget, but some projects have fallen short of expected targets for student enrollment and graduation rates. Some IDB Invest education operations (approved since 2016) were also affected by the pandemic, which largely explains the difference with the full sample. Similarly, health projects focusing on hospital infrastructure and strengthening the capacity of health providers or increasing production of medicine have shown positive performance. On the other hand, projects that take on more risk by supporting innovative business models for educational programs or health services faced more challenges during implementation. In general, projecting demand and outcomes for education and health projects has proved to be challenging, prompting IDB Invest to better account for ramp-up periods (e.g., time from construction completion/service launch to student enrollment/take up of health services) when setting ex ante targets.

- **Corporates**

Overall, from 2016–2023, the Corporates segment has contributed to supporting close to 500,000 jobs and provided employment training to approximately 143,000 people, in addition to the sector-specific impacts outlined below.

Projects in the **agribusiness sector** have had positive impacts, from promoting food security and increasing the productivity and value-added of agricultural exports to creating jobs in rural areas and strengthening agricultural value chains by improving access to services and investments for almost 33,000 farmers. In recent years, the sector has benefited from increasing global demand for food. However, at the same time, increasing agricultural input prices (e.g., due to the pandemic and the war in Ukraine) have resulted in higher production costs. In addition, high price volatility and falling commodity prices have affected some of the region's main commodities such as soy, wheat, and maize. Other factors affecting project performance include climate shocks (prolonged droughts and floods, and more severe periods of El Niño and La Niña) and the challenges agribusinesses face with encouraging suppliers to adopt best practices and comply with environmental and social requirements. Finally, market distortions (import tariffs, subsidies, monopoly, and monopsony power) can have unintended effects on project stakeholders. When distortions are identified during the final evaluation, but were not considered in project design, ratings are likely to be affected.

Operations with **manufacturing/retail** companies are contributing to development impact by supporting increased productivity, adoption of new technologies and innovation, more complex exports, job creation, and stronger value chains. This includes benefits for micro, small, and medium-size enterprise (MSME) suppliers; about 70 percent of MSMEs to which IDB Invest provides non-financial support are in this sector. In addition, many clients have improved their sustainability by implementing cleaner production processes and transitioning towards renewable energy sources. Project performance in this sector has been affected by macroeconomic downturns and volatility because the business cycles of industrial companies are highly correlated with the overall economy. Likewise, achieving targets can be especially challenging for companies introducing innovation in products or services, or when a detailed demand-analysis is not carried out, such as for smaller projects or those with certain types of credit guarantees to ensure repayment. Uncertainty of future scenarios also poses a challenge for companies to estimate the size and composition of their supply chains. The current small subset of projects in the **retail sector** (e.g., supermarkets, distributors, and wholesalers) have faced similar challenges, resulting in mixed performance. However, these types of projects have delivered important benefits in terms of access to affordable, quality products, job creation, and strengthening of MSMEs within the value chain of larger companies. Another benefit for MSMEs in the value chains of larger companies is access to credit on better terms through the use of reverse factoring, as discussed in Box 3.2.

In the **housing sector,** operations with positive performance increase both access to and the quality of housing, often incorporating sustainability features such as energy and water savings. In recent years, IDB Invest has facilitated financing for approximately 90,000 homes. Social housing projects have also expanded the availability of affordable housing. Moreover, growth of the housing sector positively affects the construction industry's supply chain. However, in other cases, several factors affected the achievement of expected results: (1) inflation and increased input prices; (2) limited availability of mortgages at reasonable interest rates; (3) phase-out of government subsidies in Mexico where various operations are located; (4) stricter regulations, particularly in response to water and energy shortages, which have influenced the size of housing developments; (5) electoral cycles, with delays in establishing new mortgage policies; and (6) target-setting, as most developers update their definition of social interest housing on an annual or bi-annual basis, and their growth strategy is based on this evolving definition, making projections difficult. Although the sample is relatively small, IDB Invest operations have improved the quality of indicators and projections established in results matrices, which largely explains the difference with the full sample.

The **digital economy sector** includes telecommunications infrastructure projects, smartphone financing, and online mobility platform services. Infrastructure projects have successfully expanded or improved network productivity and geographic coverage, reaching over 11.7 million people with at least 4G mobile coverage. Their performance is mainly tied to two factors: market conditions, which dictate the pace of network deployment and user adoption; and regulatory frameworks, which are crucial for enabling project feasibility and execution. Smartphone financing projects have had mixed results due to consumer income fluctuations, which affect purchasing power, and increased market competition, which, in general, negatively affects project performance. Finally, the performance of projects supporting online mobility services companies was mainly affected by the pandemic and issues related to companies' reluctance to report strategic information on end-users to IDB Invest.

Box 3.2. Reverse Factoring: Boosting MSME Access to Finance through Supply Chains

Increasing access to alternative sources of financing for credit-constrained MSMEs is critical, and supply chain finance has emerged as a viable solution. Reverse factoring allows suppliers to borrow against the value of accounts receivable at lower interest rates because the discount rate is based on the creditworthiness of the buyer (an anchor company with a high credit rating) rather than the supplier (usually MSMEs with higher credit risk).[a]

This instrument provides MSMEs with better financial conditions than those generally available in the market. This was particularly evident during the COVID-19 pandemic, when traditional lending became more stringent and MSMEs increased their use of reverse factoring lines. The use of digital platforms also makes the process more efficient for all parties involved. IDB Invest has used this instrument in projects across all of its business segments, mostly in Mexico, where regulation is already in place for reverse factoring. It is aiming to introduce this model to other countries where it is not yet available.

In terms of performance, reverse factoring projects have had positive results to date, confirming the improvements in financing terms and conditions for MSME suppliers and with especially notable impacts in anchor companies that create new supply chain finance programs. In addition, given the more standardized nature of reverse factoring projects, IDB Invest has developed impact assessment guidelines specifically for this type of operation, which has strengthened project design. At the same time, client reporting and capacity to segment data on MSMEs in their supply chain has affected the performance of some projects, particularly the early ones. Finally, since MSMEs in supply chains may not be familiar with reverse factoring lines, lessons learned have shown that it takes time to raise awareness and get them registered with the digital platforms, which can lead to lower take up than expected in some cases.

[a] See IDB Invest, 2022. Reverse Factoring for MSMEs: A Financial Tool for Supply Chain Development?

- **Financial Institutions**

The FI segment includes both projects through FIs (e.g., banks, cooperatives, microfinance institutions) and projects through investment funds. Overall, since 2016, operations in the FI segment have financed close to 5.5 million MSMEs, including nearly 1 million women-led MSMEs, seeking to boost job creation and economic development in the region.

Financial institution clients currently in the supervision portfolio have increased average loan tenors for targeted portfolios by 11 percent. Offering MSMEs longer payback periods than those typically available in the market helps support their investment capacity and growth. The median loan amount disbursed by IDB Invest clients to MSMEs has been around $50,000 in recent years (and around $6,000 for microfinance), with a median tenor between 40 and 50 months.

IDB Invest work through FIs has also helped enhance the financial sector's focus on key development priorities for the region, such as gender, inclusion, diversity, green investments, and digitalization. It has also helped build the region's thematic bond market, as described in Box 3.3.

Success factors among FI operations include ensuring the alignment of project development objectives with client strategies. It is fundamental that the FI clearly segment the targeted portfolio, define roles and responsibilities, and establish key performance indicators aligned with its objectives for the segment, or be provided with support to do so. Including clear definitions in legal documentation also helps ensure accountability and minimize evaluability issues at final evaluation. Furthermore, performance is strongly correlated with macroeconomic trends, signaling the need to adapt strategies and target-setting to broader economic conditions.

Financial institution operations face various ongoing challenges. First, projecting and measuring the impact of innovative projects or new portfolios is complex, posing significant hurdles for FIs. Setting medium- and long-term targets, particularly in uncertain or volatile external contexts, can also be difficult. Another factor affecting performance is when development outcome targets for projects are tied to the successful implementation of parallel technical assistance. If the technical assistance is delayed, it can affect the project's ability to achieve its goals. Therefore, it is crucial to capitalize more on upstream work to better prepare FI clients prior to a given transaction. Finally, when mergers among FIs occur during project execution, they require special consideration. The specific market strategies for serving the target segment post-merger should be carefully analyzed to mitigate potential short-term disruptions in the provision of financing and to ensure that final beneficiaries are not worse off once the merger takes place.

Regarding investment funds, IDB Invest operations exhibit better performance than the full sample, mainly due to the improvement in impact measurement standards in more recent operations.

Box 3.3. Building the Region's Thematic Bond Market

Thematic bonds, which catalyze dedicated financing to green or social projects, have been surging in recent years. Global thematic bond issuances reached a cumulative $4.4 trillion at the end of 2023, $187 billion of which was in Latin America and the Caribbean.

Since 2017, IDB Invest has structured, purchased, or guaranteed 40 thematic bond issuances, including eight green bonds, 18 social bonds, 11 sustainable bonds, and three sustainability-linked bonds valued at $3.4 billion, which includes the mobilization of $1.6 billion in private capital. IDB Invest has played an instrumental role in the development of this market in Latin America and the Caribbean by supporting first issuances with technical assistance, acting as investor, mobilizing additional resources, helping set standards, and promoting the adoption of best environmental, social, and governance practices in collaboration with local regulatory bodies. These efforts have facilitated replicability, as evidenced by subsequent issuances in some countries.

Most of the thematic bonds supported by IDB Invest were issued by FIs aiming to promote the financial inclusion of underserved groups such as MSMEs and women-led MSMEs, as well as to support climate change mitigation and adaption. While thematic bond projects evaluated to date have performed well overall, these types of projects have been affected by volatile economic contexts in the aftermath of the COVID-19 pandemic that have affected credit supply and demand and portfolio quality. The client's capacity to manage environmental and social risks and to monitor and measure impact, which is more limited among first-time issuers, has also been a challenge in some cases. In the infrastructure sector, thematic bonds, structured as project bonds, have enabled access to long-term financing on improved terms for large-scale assets in energy and transportation. This is promoting sustainable and inclusive infrastructure and the transition to the green economy while helping the region reduce its large infrastructure investment gap.

Performance by Region and Country Group

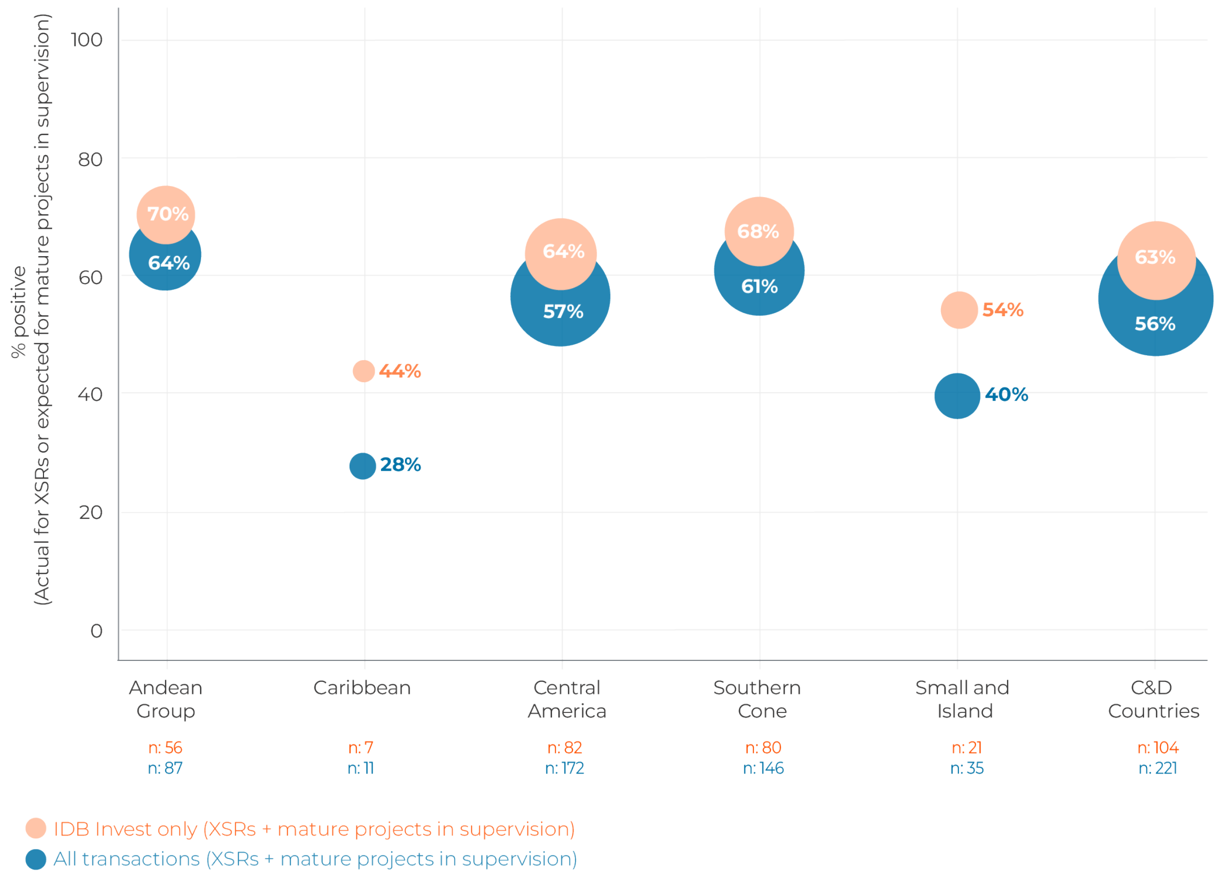
Figure 3.10 illustrates performance across regions. IDB Invest operations in the Andean region, [37] Central America,[38] and the Southern Cone,[39] as well as in C&D countries (smaller countries), [40] are close to meeting or exceeding the overall target of 65 percent positive performance at completion. Conversely, the Caribbean region [41] shows lower performance levels. This trend is consistent with the performance observed for Small and Island countries.[42] It is worth highlighting that the sample size in the Caribbean is relatively small, therefore results should be interpreted with caution. Moreover, projects in this region approved since 2016 have performed better than legacy operations, although they still fall below average.

Several challenges affected operations in the Caribbean, and consequently in the Small and Island country group. In the FI segment, some operations aiming to increase housing mortgage portfolios failed to meet their targets largely due to the macroeconomic context. Instability and social unrest, especially in Haiti, were also significant factors that contributed to the underperformance of some corporate and infrastructure operations. The absence of adequate regulatory frameworks was another challenge for some operations in the Infrastructure segment, such as a solar energy park which was not built as planned.

Despite challenging conditions, several transactions have performed well. Various fund and corporate operations aiming to increase access to finance for micro and small enterprises in Small and Island countries have achieved their objectives, reaching the intended beneficiaries and demonstrating their economic sustainability. Moreover, projects designed to support self-generated electricity by industrial firms have made significant contributions to the growth of clean energy, the reduction of GHG emissions, and the realization of energy cost savings. Notably, a pioneering solar project in The Bahamas has set a precedent for self-energy generation in the country's industrial sector.

[37] The Andean region sample includes Bolivia, Colombia, Ecuador, and Peru.
[38] The Central American region sample includes Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, and Panama.
[39] The Southern Cone region sample includes Argentina, Brazil, Chile, Paraguay, and Uruguay.
[40] The C&D country sample includes The Bahamas, Belize, Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Trinidad and Tobago, and Uruguay, as well as regional projects in more than one of these countries.
[41] The Caribbean region sample includes The Bahamas, Jamaica, Suriname, and Trinidad and Tobago.
[42] The Small and Island country sample includes The Bahamas, Belize, the Dominican Republic, Haiti, Jamaica, Suriname, Trinidad and Tobago, as well as regional projects in more than one of these countries.

Figure 3.10. Portfolio Performance by Region and Country Group



Note: The figure shows the percentage of positive results by geographic area for mature projects with XSRs in 2016–2023 or Early Operating Maturity in 2023–2024.

Looking at segment performance by region provides further insights. Figure 3.11 shows that the Infrastructure and Energy segment performs strongly across most regions, except the Caribbean. This is partly due to the prevalence of port projects in this region, which focus on increasing productivity and improving waste management. They faced execution delays and fell below targets for cargo and productivity indicators, as well as for meeting sustainability standards.

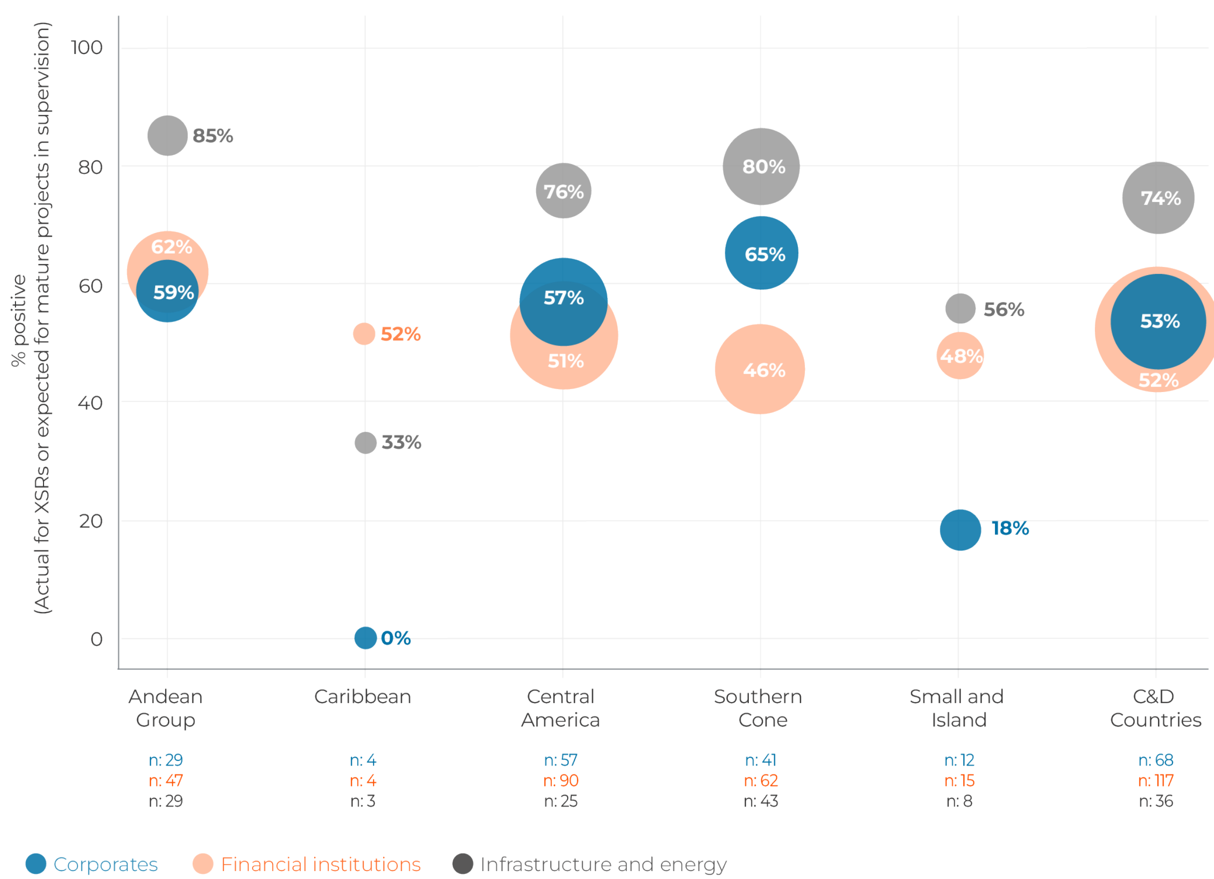
In the Corporates segment, performance varies considerably by region, influenced by socioeconomic conditions. Projects in the Southern Cone, Andean region, and Central America have contributed strongly to supporting and generating jobs. Projects in the Southern Cone and Central America also show significant impact on strengthening value chains, increasing exports, and expanding connectivity, among other areas. These two regions account for 90 percent of the international trade promoted by IDB Invest. In the Caribbean, while corporate projects appear to underperform, as mentioned before the sample size is small,[43] therefore it is early to generalize these findings.

[43] There are only 4 corporate operations in the Caribbean out of a total of 131 operations in the Corporate segment.

Corporate operations in Small and Island countries, which were mostly in the food industry, have shown mixed results. Some operations have been adversely affected by external factors, such as increasing grain prices, which are an essential input for production. In addition, unfavorable climatic conditions affected sugar cane producers, and as mentioned before, the macroeconomic context in Haiti represented another challenge.

Lastly, the performance of operations in the FI segment varies, with above average performance in the Andean region. Positive results in this region were mainly due to clients maintaining a strong strategic focus on serving vulnerable groups and MSMEs, coupled with successful implementation of technical assistance. These clients also implemented environmental and social action plans, including corporate governance actions.

Figure 3.11. Portfolio Performance by Region and Segment



Note: The figure shows the percentage of positive results by geographic area and segment for mature projects with XSRs in 2016–2023 or Early Operating Maturity in 2023–2024, including both IDB Invest and legacy projects.

Reflections

As outlined in this chapter, IDB Invest's end-to-end Impact Management Framework has proved to be a strong system for systematically assessing, monitoring, and evaluating operations throughout their lifecycle. It is also key for ensuring that the lessons learned captured from supervision and evaluation are shared and applied to improve the structuring and implementation of other operations in the portfolio. Overall, the portfolio in supervision is healthy and performance at completion was the strongest yet, surpassing IDB Invest's CRF target for the first time. These results also underscore how IDB Invest's supervision system continues to be a good predictor of the performance of operations at completion.

Similarly, the sub-portfolio analysis presented in this DEO for the first time offers a glimpse of how IDB Invest has strengthened its ability to analyze performance data from both supervision and evaluation to identify trends and drivers of performance. IDB Invest is committed to deepening how this information is used to inform strategic decision-making and truly manage the portfolio for impact, which is at the heart of its ambitious New Vision and Business Model (IDBInvest+). As discussed in the final section of this report, as IDB Invest lays the groundwork for IDBInvest+, which aims to significantly scale impact and resource mobilization in the region, it is also reinforcing how it measures and manages impact, continuing to refine the tools that make up its framework in line with industry standards in impact management. This includes improvements to the DELTA Impact Rating System (DELTA 2.0), a strengthened sustainable portfolio approach, a consolidated Additionality Framework, and a renewed Selectivity Framework.

CHAPTER 4

DEVELOPMENT EFFECTIVENESS AT IDB LAB

Highly Diversified Agroforestry Model for Coffee in Nicaragua, Nicaragua (NI-T1231)

Introduction

IDB Lab is the innovation and venture laboratory of the IDB Group. Its purpose is to discover new ways to drive social inclusion, environmental action, and productivity in Latin America and the Caribbean. IDB Lab leverages financing, knowledge, and connections to support early-stage entrepreneurship, foster the development of new technologies, activate innovative markets, and catalyze existing sectors.

IDB Lab's Results Management Framework (known as the Innovation Results Framework) focuses on measuring the results and impact of the innovative solutions it supports and learning from both successes and failures along the way. The framework supports the selection and preparation of highly innovative operations with the greatest potential for development impact, replication or scale, and resource mobilization; monitors results to facilitate decision-making both at the operation and portfolio levels; facilitates knowledge generation and dissemination; and ensures accountability and timely and transparent reporting to stakeholders.

This chapter focuses on the development effectiveness performance of IDB Lab projects during supervision (indicator 3.12) and at completion. It discusses the results of an analysis conducted in 2023 on the effectiveness of a sample of completed IDB Lab projects and provides examples of learning from failed projects. It also explores the key drivers behind the scalability of innovations supported by IDB Lab and shares examples of successfully scaled projects.

Results Management Framework

IDB Lab has a series of tools to measure and manage impact throughout the project lifecycle, as shown in Figure 4.1. Since 2023, all tools have been integrated into the same digital platform, strengthening IDB Lab's impact data collection and analysis capabilities.

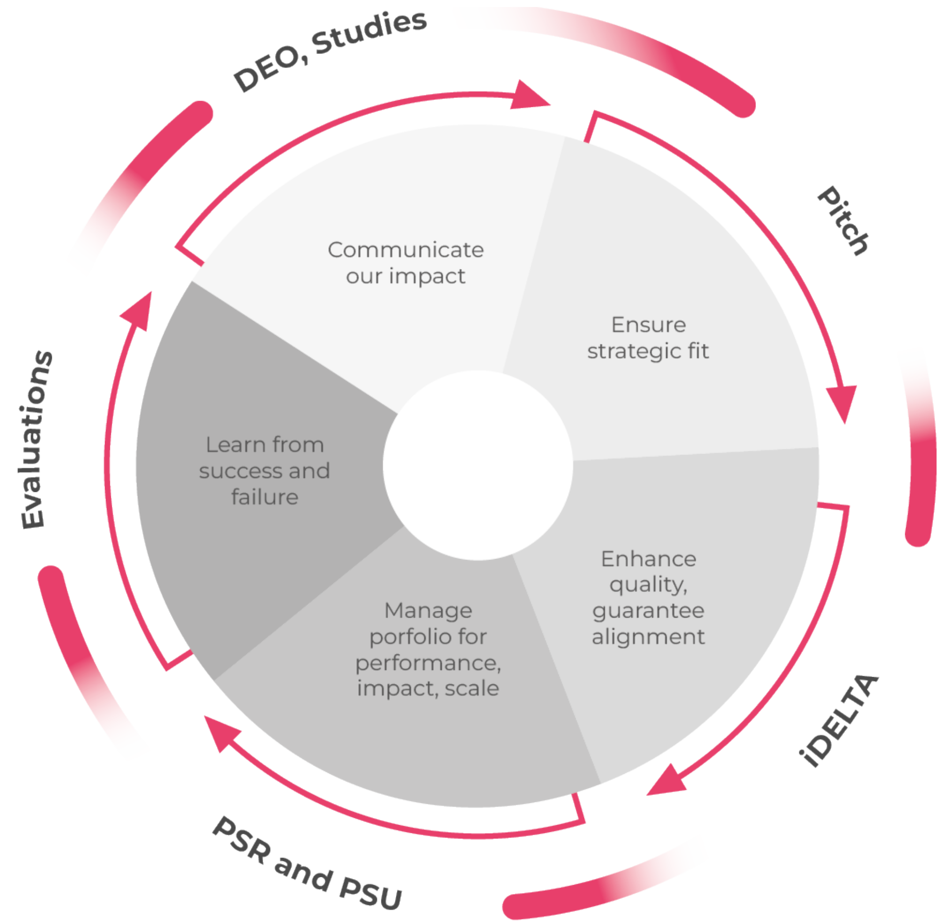
To originate new projects, a pre-pipeline opportunities module allows IDB Lab to explore ideas with potential clients and partners, developing the most promising and strategically aligned ones into proposals for financing. During the design stage, the "innovation DELTA", or iDELTA tool is used to score projects in terms of development impact, innovation, scale potential, and resource mobilization. It also assesses the quality of project design.

Once a project is in the active portfolio, the Project Supervision Report (PSR) for grants and the Project Status Update (PSU) for loans and equity investments track progress in terms of execution and achievement of milestones and targets, as well as financial performance in the case of investments. These supervision instruments have a shared set of indicators on knowledge, learning, risks, portfolio results, and scale, and they also feature a client portal where implementing partners and companies can update progress on implementation. In addition, mid-term evaluations are deployed to provide the sector expertise needed to realign or redesign projects that are off track.

The Final PSR is used to evaluate projects at completion and capture lessons learned. These final results are complemented by an annual evaluation of a sample of closed projects that is conducted by IDB Invest's Development Effectiveness Division as part of a service-level agreement with IDB Lab.

Finally, generating knowledge and learning from its experiments is core to IDB Lab's approach. Knowledge products, including studies about groups of IDB Lab projects, coupled with analyses on market trends, are used to disseminate lessons and highlight new project opportunities. Knowledge-sharing events such as the IDB Lab Series create opportunities for authors of studies and practitioners to share their project experiences within the IDB Group. In addition, IDB Lab's Portfolio Genome leverages semantic search engines and natural language processing to help operational teams identify past and present projects that are most relevant for extracting lessons.

Figure 4.1. IDB Lab: Results Management Framework



Note: DEO: Development Effectiveness Overview; iDELTA: innovation DELTA; PSR: Project Supervision Report; PSU: Project Status Update.

Performance During Supervision

Throughout 2023, IDB Lab continued to consolidate its portfolio supervision tools, processes, and systems in line with OVE and Internal Audit recommendations and ongoing IDB Group development effectiveness reforms in the context of the new Institutional Strategy.

For instance, IDB Lab deployed its Integrated Risk Management Framework, which guides the identification of project-related risks and their management during implementation. In addition, the full digitalization of the iDELTA and the supervision tools for both non-reimbursable and reimbursable operations (PSR and PSU, respectively) has led to greater efficiency in project design and supervision. Moreover, with the new digital Results Matrix module now up and running, including an updated catalog of standardized impact indicators, IDB Lab is advancing on key improvements as part of the broader IDB Group development effectiveness reforms. Several dashboards have also been developed for portfolio monitoring, consolidating the most up-to-date data for analyses of portfolio-level risks, financial performance, and impact.

Supervision Results

Non-reimbursable Portfolio

Regarding IDB Lab's non-reimbursable operations (grants and contingent recovery grants), the portfolio consisted of 335 active operations as of end-December 2023, for a total approved amount of $225.7 million. IDB Lab monitors the development impact results achieved by these operations through the biannual PSR. Based on the results captured by PSRs for 2023, 68 percent of projects were classified as "green flag" ("on track to reach or exceed target projections"), slightly above 2022 levels. The share of "yellow flag" operations was 30 percent, just below 31 percent in 2022, and operations classified as "red flag" were 2 percent, continuing a declining trend in that category for the past two years.

In 2023, IDB Lab continued testing improvements to the PSR flagging system – which automatically generates scores based on the achievement of milestones identified in the results matrix for each project – by piloting the inclusion of a qualified supervision team leader opinion on project performance. Overall, team leader views correlate well with the performance flags produced by the system, even as they add additional information that can improve the accuracy of the flag system. The team leader's expert opinion provides a more comprehensive view of actual performance. The inclusion of team leader views would make the PSR process more consistent with the PSU scoring process for the investment portfolio, which always includes the opinion of the investment officer. An enhanced supervision flag system is scheduled to enter production in 2024. IDB Lab also launched a new initiative to better manage its climate and nature portfolio, as described in Box 4.1.

Box 4.1. The Green Entrepreneurial Engine: A Hub Approach to Managing IDB Lab's Climate and Nature Portfolio

IDB Lab has been financing climate innovation and leveraging global climate funds for many years. At the same time, it has a long track record of catalyzing early-stage entrepreneurs in the region. By combining these two strengths – and deepening the continuum from grant to investment financing – IDB Lab can better address the urgent need for innovative climate solutions in Latin America and the Caribbean.

To better target its own resources and mobilize those of others, IDB Lab launched the Green Entrepreneurial Engine in 2023, an ambitious initiative to address climate change and biodiversity loss by creating early-stage investment opportunities and mitigating risk in new climate markets in the region.

With an initial commitment of $46 million from 26 partners, the initiative seeks to create value through innovative natural capital and nature-based solutions. IDB Lab leverages these funds with its own resources, approving $43.4 million for 51 new operations in 2023. These investments focus on digital solutions and innovations in finance for climate and nature, sustainable agriculture and food systems, promotion of the circular economy, improvements in air quality, ecosystem and biodiversity protection, and responsible use of water and marine resources.

The Green Entrepreneurial Engine is a smarter, more comprehensive way to manage IDB Lab's "green portfolio" across thematic verticals, countries, and financial instruments. By the end of 2023, the green portfolio was comprised of 198 operations representing a total of $188.5 million in 22 countries, 33 percent of which ($61.8 million) are core mobilization resources, demonstrating the initiative's ability to effectively attract external financing.

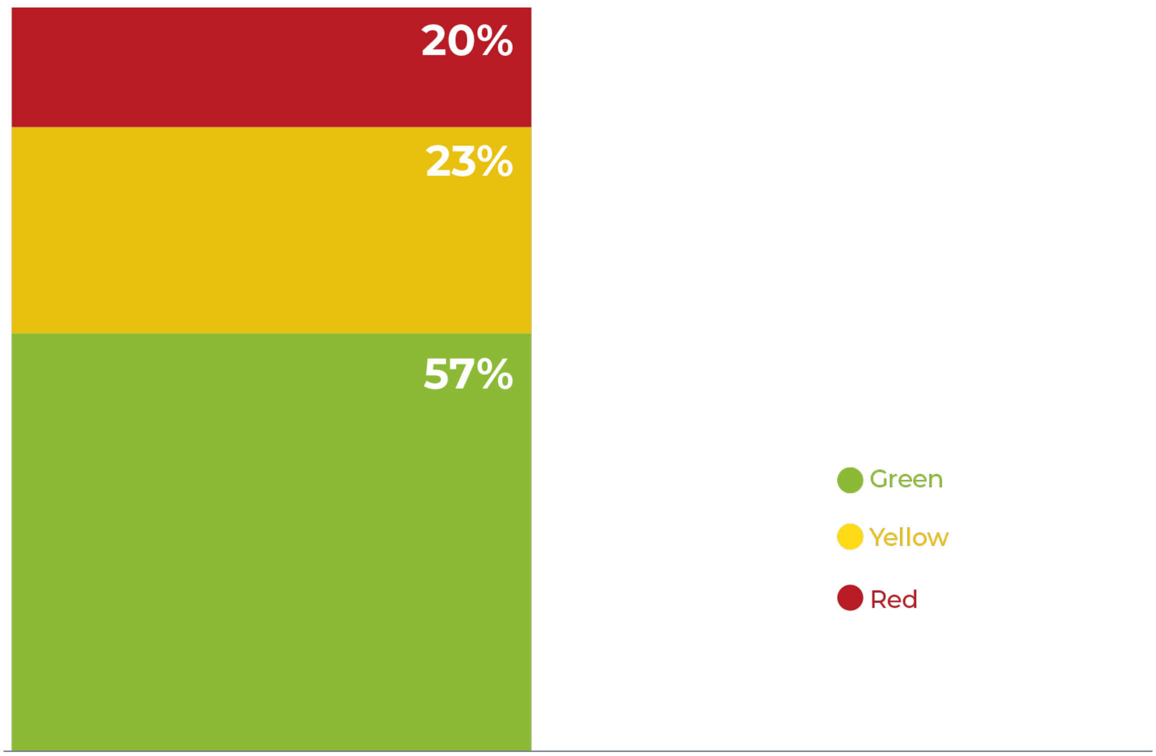
Finally, from a portfolio perspective, the Green Entrepreneurial Engine has been instrumental in achieving IDB Lab's ambitious inclusion and poverty goals for 2023: 48 percent of projects under the initiative support diversity and 58 percent benefit poor and vulnerable populations.

Reimbursable Portfolio

The financial and operational performance of IDB Lab's outstanding loan and equity investment operations is monitored through the PSU. As of December 2023, IDB Lab's outstanding loan and equity investment portfolio had a balance of $265 million, distributed among 141 operations.[44] In terms of portfolio quality, 57 percent of operations were classified as green flag ("on track to reach or exceed target projections"), versus 67 percent in 2022; 23 percent as yellow flag ("underperforming; minor losses less than provision level expected"), versus 17 percent in 2022; and 20 percent as red flag ("underperforming; major losses less than provision level expected"), up from 16 percent in 2022 (Figure 4.2).

[44] Including loan operations under the Social Entrepreneurship Program approved in or after 2017.

Figure 4.2 Performance of Loan and Equity Investment Portfolio



Red flag operations represented $69 million in risk exposure, or 26 percent of the outstanding amount at the end of 2023. Performance data (as of December 2023) reflect IDB Lab's risk appetite and continues to be consistent with its current provision policy and long-term financial projections.

Similar to 2022, the deterioration in portfolio performance is in part due to the ongoing contraction of the region's venture capital industry both in terms of funding and deal flow. The slowdown throughout 2023 has also led the industry to recalibrate expectations across the early-stage venture financing community. Moreover, current market conditions have caused some of IDB Lab's direct investment clients to shift from an "expansion-first" mentality to a "consolidating gross margin" mindset to extend the operational time available between funding rounds. At the same time, several venture capital funds in IDB Lab's portfolio have faced a lack of exit opportunities, electing to hold onto their investments. Since venture capital market conditions are expected to gradually pick up, the valuation of IDB Lab's venture capital fund portfolio companies does not seem to be heavily affected, but the situation will be closely monitored.

Results Achieved by IDB Lab's Active Portfolio in 2023

IDB Lab tracks and reports on the results of projects in the active portfolio as part of its annual review of key performance indicators, some of which are highlighted below.

- **132,000 jobs created**, 37 percent of which are held by women. Companies offering accessible working capital financing to traditionally marginalized groups – such as women and migrants – were instrumental in generating 35 percent of the jobs, while WorkerTech platforms providing upskilling and employment support for independent workers accounted for 8 percent.

- **1.2 million households with improved living conditions**, 55 percent of which are headed by women, mainly through improved access to health and housing solutions as well as to higher-quality jobs. These results are driven by many of the same types of operations seen in the past, but this year's data also reflect results from relatively novel areas, such as the financing for climate-resilient home improvements and the development of digital platforms aimed at upskilling.

- **3.9 million people with improved access to services such as financial services and education,** 55 percent of whom are women, mainly through IDB Lab's direct investments in companies.

- **2.6 million women benefited from economic empowerment support**, a two-fold increase over 2022, reflecting ongoing improvements among clients in disaggregating the results of their projects by gender. Similar to the prior year, many of these empowered women saw improvements in digital financial access and employability, both through direct project interventions and indirectly through companies in the venture fund portfolio.

- **2.2 million companies benefited through improved productivity or business performance**, with 24 percent of those companies women-led. This significant increase from 2022 (47,000) is mainly due to IDB Lab's focus on the digitalization of MSMEs, expanding benefits to many more companies. One project working with the digitalization of more than two million shopkeepers accounts for most of the increase year over year.

- **5 million people positively affected through the impact of IDB Lab's indirect investment portfolio,** while maintaining gender parity. These efforts spanned diverse areas, ranging from energy solutions to employment and finance. [45]

[45] Venture funds do not systematically report on the results and impacts of the companies they invest in. Therefore, these estimates may not fully reflect the magnitude of the impact of investee companies.

Finally, IDB Lab projects are delivering on their goal to benefit poor and vulnerable communities during implementation. While the 56 percent of projects that reported having reached poor and vulnerable populations marks a slight decline of 2 percentage points from 2022, the impact on this demographic continues to grow. Reported data indicates that an overwhelming majority of the benefits – 99 percent of company assistance and 93 percent of improvements in access to essential services or living conditions – were directed toward this segment.

Performance at Project Completion

Since 2022, IDB Lab has been assessing the effectiveness of a sample of projects each year in terms of reaching their development objectives.[46] In 2023, the sample included 67 closed operations approved between 2016 and 2021 across five thematic verticals.[47] In terms of instruments, the sample includes mostly non-reimbursable technical cooperation projects (44), along with 13 loans, five equity investments, and five investment grants.

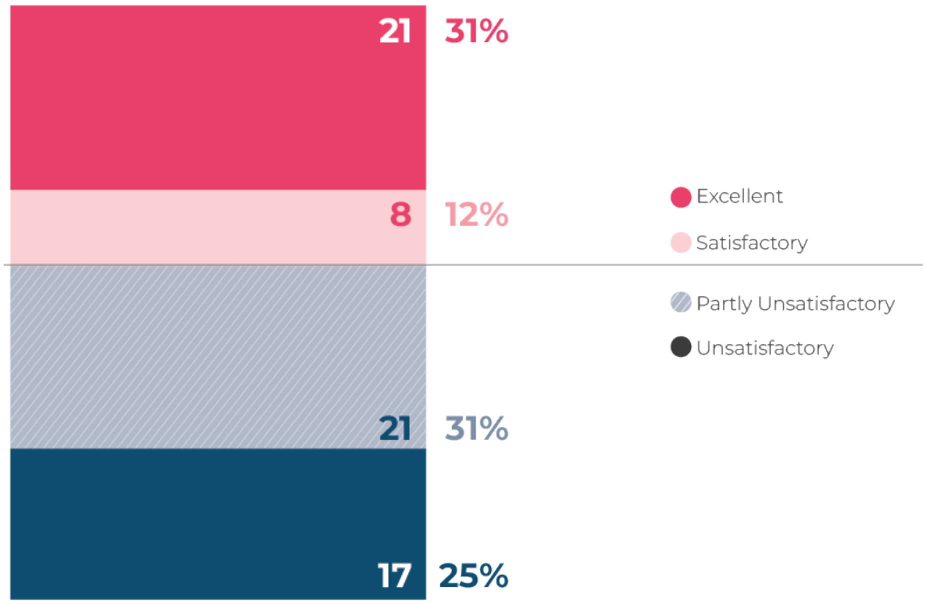
The analysis was based on a systematic review of PSRs for non-reimbursable projects, PSUs for reimbursable projects, and other supporting documents, as well as interviews with clients and executing agencies. The methodology is consistent with that used by the IDB Group for the evaluation of its operations. However, IDB Lab's analysis focuses only on the effectiveness dimension of the evaluation methodology and does not include the other dimensions (relevance, efficiency, and sustainability) used by the IDB and IDB Invest in their self-evaluations. Another distinction is that IDB Lab's effectiveness assessment is conducted by a third party (IDB Invest's Development Effectiveness Division) and the performance ratings are not validated by OVE. It is also important to note that as a lab mandated to test innovative, risky solutions to solve development challenges, IDB Lab supports types of projects that differ from those of the rest of the IDB Group.

Overall Results: 2023 Effectiveness Assessment

As shown in Figure 4.3, 43 percent of projects were rated positively in terms of effectiveness, meaning that they met all or almost all of their development objectives.[48] The performance has been consistent over time, albeit this year's results are somewhat lower than the results for last year. As was the case in prior years, IDB Lab's effectiveness performance is comparable to that of IDB Invest.

[46] This analysis is conducted by IDB Invest's Development Effectiveness Division. As reported in the 2023 DEO, the previous sample included 121 projects, both active and completed (IDB 2023b).
[47] The initial 2023 sample included 20 completed operations. Given the small sample size, it was broadened to incorporate the 47 closed projects that were included in the 2022 effectiveness assessment. Moving forward, IDB Lab will assess the effectiveness of closed operations based on rolling two-year samples.
[48] Positive ratings include "satisfactory" and "excellent;" negative ratings include "unsatisfactory" and "partly unsatisfactory."

Figure 4.3. Project Performance for Effectiveness (Percent)



Note: Figures may not add to 100 percent due to rounding.

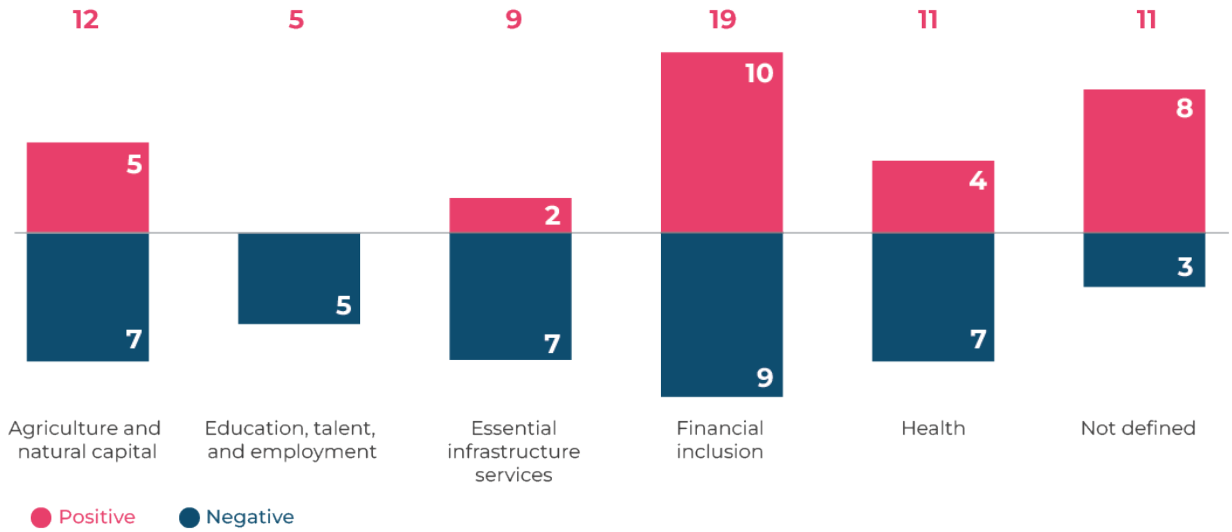
Similar to last year, IDB Lab results tend to be concentrated in the tails—with a high percentage of unsatisfactory projects and a large share of excellent projects. This means that projects that do well, do really well: two-thirds of the projects rated as "excellent" had exceptional performance, meaning that they exceeded all relevant project objectives. This is a characteristic shared with innovation-focused investment organizations, which have a high failure rate, but which also have a significant number of projects that scale quickly, and which can drive portfolio impacts.

In addition, the data show a reduction in the percentage of projects with data issues. This improvement is due to IDB Lab's efforts to tackle evaluability challenges in the portfolio. For example, IDB Lab specialists are reviewing project results matrices together with clients to encourage accurate and timely reporting. Moreover, since the PSR and PSU reporting systems are now fully digital, IDB Lab management is able to track incomplete reports in the supervision portfolio, which further incentivizes supervision team leaders to work with their clients to report on time.

Results by Thematic Vertical

While it is difficult to draw general conclusions about drivers of performance by vertical given the small sample size and the diversity of the types of projects in each vertical, a look at specific cases can help illustrate key factors contributing to project success or failure. In general, technical cooperation projects tended to have higher effectiveness ratings than investment projects.

Figure 4.4. Project Effectiveness by Thematic Vertical (Number of Projects)



Financial inclusion projects represent the largest share of the sample, and they also performed better overall than those in other verticals, with 53 percent rated positively (Figure 4.4). Of those rated positively, 60 percent introduced innovations through new products and services, such as savings products that helped reduce the vulnerability of remittance-receiving households in Guatemala (GU-M1057) that reported increased spending on household, health, or educational expenses. The design of these products, based on thorough market research to understand user needs, along with the approach of the Guatemalan cooperative to piloting the products before rolling them out, contributed to their successful adoption.

In contrast, projects that aimed to introduce innovation through improved processes in the financial sector tended to have lower performance. For example, a project with an online insurance broker and aggregator in Ecuador aimed to expand its tech platform to distribute affordable insurance products to low-income customers (EC-L1259). However, the company has had limited success in co-creating the expected tailored health insurance products with insurance companies and marketing these products to women and low-income consumers. The company was initially able to expand its auto insurance offering more quickly in Mexico by partnering with a consumer lender, suggesting that a business-to-business-to-consumer model might be more feasible than the business-to-consumer model deployed in Ecuador.

Projects that support **agriculture and natural capital** have a range of positive impacts, including increased productivity of smallholder farmers and improved incomes, reduced use of resources and more efficient business models, improved resilience to climate change, and reduced or avoided CO_2 emissions. They also pioneer innovative financing approaches, such as pay-for-results models aiming to reduce the financing gap for high-risk, high-impact, and early-stage agricultural SMEs. An example is a regional project (RG-G1018) that essentially compensated the lender (Root Capital) for the risk and cost associated with serving early-stage agricultural SMEs. As a result, 39 firms received loans, over half of them grew their annual revenues, and did so very quickly (by 41 percent on average), and nearly half subsequently obtained larger loans from Root Capital or accessed other sources of finance after 18 months (9 percent). In turn, these benefits enable the SMEs to better serve small farmers.

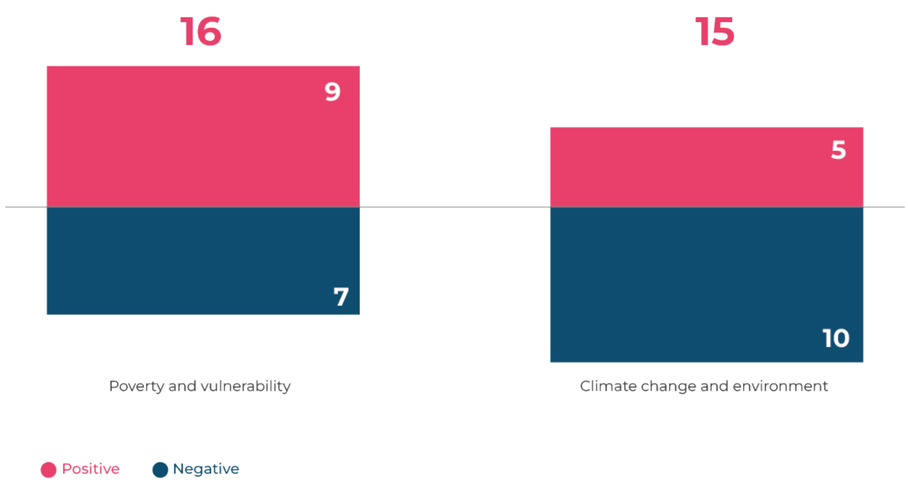
These highly impactful projects notwithstanding, the vertical saw a lower effectiveness rate in 2023 (42 percent of projects were rated positively, compared to 73 percent in 2022). Although there is no one factor that explains the lower performance, three main issues were identified. First, lower performance is due to difficulties in adapting technologies developed in other contexts to Latin America and the Caribbean, which included deployment of technologies in Colombia and Mexico where smallholders were unconvinced of the benefits versus costs (CO-T1488; ME-T1385). Second, in some cases where the value proposition was clearly demonstrated, adoption was hindered by the complexity of the solution, or by behavioral factors impeding adoption. And lastly, external shocks, such as the pandemic, negatively impacted implementation. These challenges also offer important learning opportunities. For instance, a prototype project (PR-T1282) that had an "excellent" rating tested an AI-powered irrigation technology with small Paraguayan tomato farmers. While a controlled experiment showed that the technology increased crop yields with less water, adapting it to the needs of small farmers unaccustomed to using apps and smartphones to monitor their crops was the biggest hurdle. Ultimately, this experience showed that the solution may be more appropriate for larger farmers.

In **health**, 36 percent of projects were rated positively. The low percentage is driven by the cohort of small-ticket, high-risk projects approved during the pandemic, which are now coming to maturity. Those projects were extremely experimental, and as a result had high failure rates. This was the case, for instance, for a health tech project in the Dominican Republic (DR-T1212) that aimed to adapt an existing telemedicine platform to decongest healthcare facilities during the pandemic and broaden its reach. The platform had limited take-up from doctors and insurance companies, and ultimately failed. Other projects in the vertical did much better. Among these, health tech projects stand out in Colombia and Brazil for their ability to scale services to underserved populations and ensure sustainability, mainly due to their solid tech solutions, implementation of robust scale planning strategies, and collaboration with partners in the public and/or private sectors (CO-T1483; BR-T1459). In the case of Brazil, the platform has been broadly scaled and integrated into public policy, as described in the scale section below.

Results by Priority Group or Area of Interest

Projects were also assessed in terms of their effectiveness in reaching priority groups or areas of interest, such as poor and vulnerable populations, gender equality, diversity, and climate change and the environment (Figure 4.5). The effectiveness analysis focused on a sample of 37 projects that had both an iDELTA completed at approval and scored in at least one of these categories.[49] Given the small sample size for the priority areas of gender and diversity, the discussion here focuses on poverty and vulnerability and on climate change and the environment.

Figure 4.5. Project Effectiveness by Priority Group or Area of Interest (Number of Projects)



The data generally showed no trade-off between poverty focus and results. To the contrary, projects aiming to reach poor and vulnerable populations had stronger performance, with 56 percent positive ratings. Well-targeted projects executed by partners that already focused on these segments performed well. For instance, a project in Costa Rica (CR-T1232) executed by the Data-Pop Alliance, a nongovernmental organization that functions as a global coalition on Big Data and sustainable development, worked together with the government of Costa Rica and a social enterprise to improve the targeting of social protection programs. Using satellite imagery and Artificial Intelligence, the platform identified poor households not yet covered by social protection programs, helping to lift 54,000 families out of poverty. Challenges to project performance included the lack of adoption of some solutions by the intended poor and vulnerable populations due to cost or accessibility.

[49] Sixteen older projects approved without an iDELTA were excluded from the analysis. Only projects that were rated as “exceptional” and “yes” in each priority group dimension of the iDELTA were included, since they reach a proportionally relevant number of beneficiaries and the population is among the main beneficiaries of the operation, or because providing these benefits is among the most important objectives of the project.

Projects that supported the climate adaptation or mitigation agenda produced tangible impacts and benefits for clients and performed well in generating capabilities for greenhouse gas measurement and monetization. An example is a project in Nicaragua (NI-T1231) that helped 3,750 coffee producers implement agroforestry systems and connected them to carbon markets. Based on the biomass generated by the agroforestry systems on their plantations, over 500 producers have sold carbon certificates representing about 10,000 metric tons of CO_2 sequestered.

It is also important to recognize the efforts undertaken in various projects – both those with positive and negative effectiveness ratings – to measure greenhouse gas emissions. A positively rated climate-smart agriculture project with livestock farmers in Belize (BL-T1094) conducted an analysis to simulate emissions from model farms, estimating a 20 percent emissions reduction due to improved pastures and reduced overgrazing. A similar project with livestock producers in Nicaragua (NI-T1237), which was negatively rated for not meeting other objectives, conducted a study to measure CO_2 sequestration by the silvopasture systems of cattle farms. The study concluded that the project reached the target in the first year of implementation, mainly due to the conservation of forests.

However, climate projects had two significant challenges that produced the low effectiveness performance of only 33 percent. First, in several instances targets were overly ambitious. This was in part due to the uncertainty regarding what is possible in an agenda that is changing so rapidly due to climate change. Second, projects have struggled to properly measure climate resilience. This highlights the need to provide monitoring and evaluation support for clients on the climate agenda to properly identify adaptation indicators and systems of data collection and management. Unlike greenhouse gas emissions, where concepts and technologies for measurement are more developed and are converging, frameworks for measurement of adaptation are still fragmented in the industry.

Learning from Failure

As the innovation laboratory of the IDB Group, IDB Lab has the flexibility, risk tolerance, and right mix of financial instruments to support early-stage solutions in the region. While great risk may lead to great reward, it also leads to a healthy dose of failure. The following two cases provide examples of projects that did not achieve their expected results, offering important lessons learned for the IDB Group and others.

Hedging against climate risk in agriculture can be a risky business

Increasingly frequent and intense extreme climate events such as droughts and floods can devastate agricultural production. To mitigate the risk of such climate events, in 2018, IDB Lab made a $1.5 million equity investment in the Argentine startup, S4 Agtech which was trying to introduce novel risk hedging and insurance products based on high-quality and more granular risk algorithms for the agriculture insurance market (RG-Q0048). The company had developed a proprietary technology platform using satellite imagery and other sources of remote sensing data to feed the algorithms and provide risk management solutions for farmers and agribusinesses in an economically viable and transparent way.

More specifically, S4 developed climate hedging products based on its proprietary set of parametric indices—for example, the S4 Drought or Flooding index for corn in South Cordoba—that were traded in the Rosario Futures Exchange, the largest futures exchange in Argentina. The index covered events such as drought and excess rain. The indices tracked how crops in a given geographical area evolved and could be impacted by weather. If a particular index dropped below a specified threshold, hedged farmers in the county received compensation irrespective of the actual harvest situation in their fields. The hedging products allowed for de-risking the agriculture sector against the impact of extreme climate events. The idea was that the hedging products would be sold by reinsurance companies, which would bear the climate risk. The IDB Lab investment aimed to consolidate the business in Argentina and expand it to Brazil.

However, S4's products gained limited traction in Argentina, either on the exchange or selling them directly to insurers. This is largely due to the complexity of the index and the novel financial structure. While being a first mover with an innovative solution in a traditional market is what many startups aspire to, in this case it was a barrier. Potential clients did not understand the product and it proved challenging for the highly specialized S4 team to communicate the product's capabilities in a simple way. Even with larger, more sophisticated agribusinesses, it took time for clients to test and understand the power of the product for managing climate risks and the consequent business benefits. In essence, S4 underestimated the business and cultural change needed to deploy a new type of insurance product in a sector that accepted climate risk as an unavoidable part of doing business. Similarly, insurance regulators had a hard time accepting the innovative product, causing significant approval delays in both Argentina and Brazil, which were eventually granted. Low market demand, regulatory delays, and then the COVID-19 pandemic all affected the company's sales, which forced it to discontinue operations. IDB Lab and other venture capital investors did not recover any part of their investments in S4.

A key lesson from the experience is to understand the market adoption challenges for novel financial products, particularly in agriculture, where adoption is based on the experience of peers, and often takes time. Private climate risk insurance products in general are unavailable and are not widely used. At the time of the IDB Lab investment, S4's hedging products were still incipient. The company was a first mover at the global level, trying to introduce a new product to the market that had not been validated elsewhere.

S4 was ahead of its time, and as is the case with several first movers, the company did not prosper. However, as climate events continue to increase in frequency and severity, the failure of S4 has produced valuable insights that can help inform and lay the groundwork for much needed innovation in climate insurance, particularly in agriculture.

Creating the green hydrogen ecosystem in Costa Rica

Hydrogen is the most abundant gas on the planet. If it is produced from renewable energy sources and water, it is considered green, due to its potential for decarbonization. In 2018, an IDB Lab project in Costa Rica (CR-T1194) aimed to develop the first green hydrogen ecosystem in Central America and pilot green hydrogen-powered transportation solutions. Costa Rica seemed like the right place for this pioneering initiative. It was already a leader in climate innovation and low-emission development, and on his first day in office, the President at the time issued an executive order focusing on the research, production, and commercialization of green hydrogen as a fuel. Additionally, IDB Lab's partners for this project included a local company, Ad Astra Rocket Company, that was already developing hydrogen energy solutions on a small scale. IDB Lab selected CRUSA Foundation, a strong non-profit organization committed to sustainable development initiatives, to execute the project. The Infrastructure and Energy Department of the IDB, which did not have experience with hydrogen as an energy source at that time, was also interested in learning from this novel IDB Lab-sparked initiative.

To ramp up green hydrogen production, the company needed funding to invest in infrastructure and upgrades to its plant. Since IDB Lab's grant resources cannot fund these types of expenses, the project focused its resources on building the enabling environment for green hydrogen to flourish, with the idea that state-owned energy companies or other investors would finance the company's infrastructure needs. However, state-owned companies could only provide financing if regulatory obstacles were overcome, which never occurred, and most of the other potential sources of funds did not materialize. In the meantime, the project advanced with ecosystem-building activities such as creating the Costa Rican Hydrogen Alliance to strengthen collaboration across the public and private sectors and facilitate the country's decarbonization efforts. This Alliance is now comprised of 34 public institutions and private companies from various sectors and is actively participating in numerous regional and global alliances that are positioning hydrogen as a key vector for greening the economy and identifying business opportunities.

The project also used the plant's limited existing hydrogen production capacity to pilot the use of green hydrogen-powered buses to transport tourists in a heavily touristed zone, developed several studies on the potential of green hydrogen in Costa Rica that informed policy dialogue and a National Strategy for Hydrogen, and achieved its objectives regarding training human capital.

Ultimately, the project failed to achieve many of its expected results – such as the creation of green jobs and the commercialization of oxygen produced as a byproduct of hydrogen production. One of the main lessons from this experience is that creating a new market for an untested product requires a careful assessment of risks that must be weighed against a realistic set of indicators and expected results over a long-term time frame. It takes time to build stakeholder commitment and create effective public-private partnerships. Another key lesson is that ecosystem building requires an integral approach and may be best thought of in stages in which different partners collaborate with IDB Lab to provide financing for those areas not covered by its grants, such as infrastructure.

This experience also shows how IDB Lab fulfilled its role as a first mover, getting the IDB Group involved in a nascent industry. Stemming from this project, the IDB Group continues to generate knowledge on the potential for developing the green hydrogen industry in the region and is now financing a first-of-a kind program to develop this market in Chile (see this blogpost for more information).

2023 Scalability Analysis

One of IDB Lab's key performance indicators is the extent to which the innovations it supports are replicated or scaled up by the IDB Group or others. Of projects completed in 2023, 48 percent were replicated or scaled (versus 38 percent in 2022), surpassing IDB Lab's target for the sixth consecutive year. IDB Lab has improved its performance in terms of the percentage of projects scaled each year, increasing from an average of 26 percent during 2017–2020 to an average of 39 percent over the past three years.

Given the importance of scaling innovation to IDB Lab's mandate, an analysis was conducted in 2023 to understand what projects are more likely to scale up and why (Labrador et al, 2024).[50] The sample included 221 projects approved between 2016 and 2021 that had a scalability assessment.

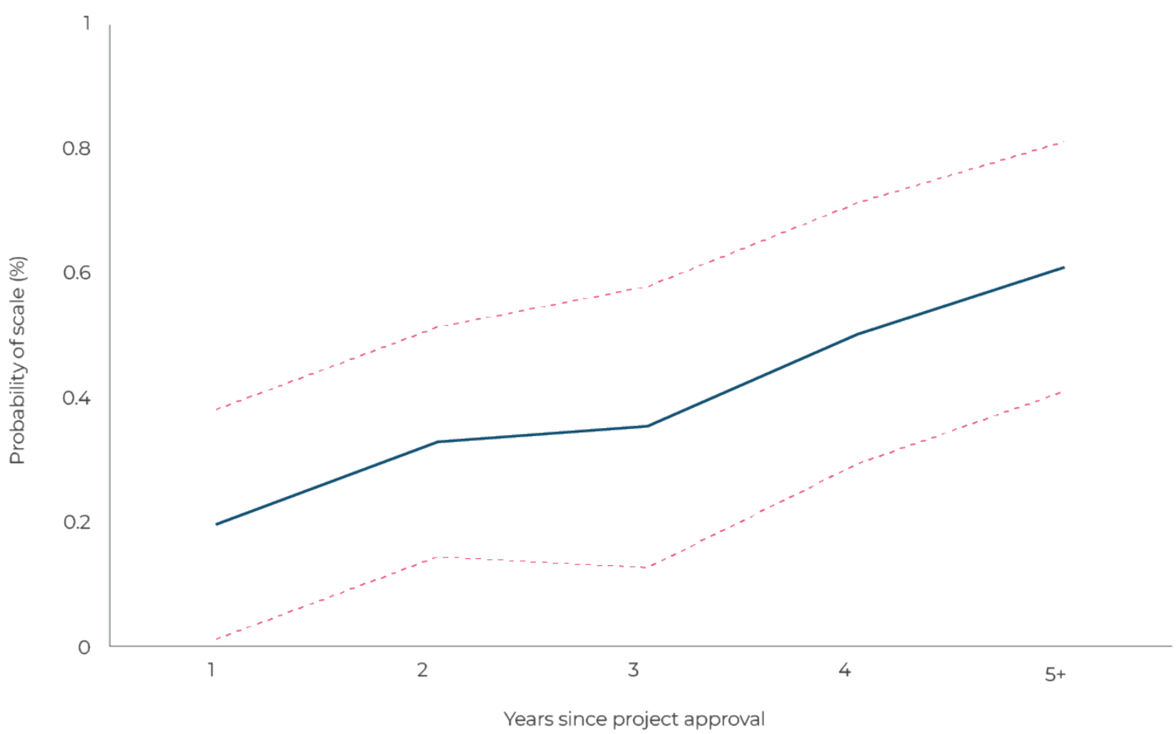
At the time of the assessment, projects were considered to be "scaled up" based on the following criteria: (i) the growth rate in sales or clients was at least double the corresponding target for a given year; or (ii) the solution was acquired by a third party to be implemented on a wider scale. Most of the projects in the sample were active at the moment of their assessment, with only 26 percent having closed. In terms of scale, 47 percent of projects were flagged as having been "scaled up." Most projects in the sample were grants (77 percent), followed by loans (13 percent), equity (5 percent), and investment grants (4 percent).

The most significant determinant of scale is time elapsed. As shown in Figure 4.6, the more time that has elapsed since approval, the more likely it is that a project will scale up.

[50] This analysis was conducted by IDB Invest's Development Effectiveness Division.

And the impacts are very large—for every year elapsed, there is essentially an additional 7 percent change in the probability of scale. Closed projects were also more likely to have scaled, possibly due to the increased emphasis on financial sustainability and scale as IDB Lab funding is exhausted. These findings make sense given the various pathways to scale that may involve cultivating relationships with the public sector or other partners. They are also broadly consistent with the scaling evaluation that IDB Lab commissioned (Guerrero and Rivera 2023), and it validates IDB Lab's approach since 2021 to focus on the scalability of projects once they are completed.

Figure 4.6. Probability of Scale by Years since Project Approval



Note: Estimated coefficients from a linear probability model. Solid line represents estimated scale by year, while dashed lines represent 95 percent confidence intervals.

In addition, to elapsed time, other characteristics of the project at design are also correlated with future scale, but these are weak correlations. IDB Lab evaluates each project for scalability as part of the iDELTA, including dimensions such as the ease and cost of adopting the innovation, the strength of the client or executing unit, the size of the addressable market, and the quality of a scalability plan. These dimensions are aggregated into a scalability score (the score varies from 1 to 10). Even as the iDELTA scalability score is correlated with future scale, the correlation was modest: for every 1-point increase in the scalability score, the probability of future scaling increased by 2.5 percent. No other iDELTA dimension was predictive of future scale. This finding confirms that client and project characteristics matter for scale, but only to a point. This means that other aspects of IDB Lab's work, including the support it provides during execution could be a more important lever to promote scale.

Scale Stories

Scaling AI-Driven Telehealth Innovations in Brazil

The Associação Laura Fressatto de Apoio a Saúde, the social innovation arm of the Laura Group, successfully developed an innovative telehealth prototype powered by Artificial Intelligence (AI) with a $128,000 IDB Lab grant (BR-T1459). This platform, Laura Digital ER, was designed to triage patients, monitor symptoms, and provide accurate medical information during the COVID-19 pandemic. Leveraging natural language processing technology from Rasa and weekly updates from health professionals, the chatbot offered real-time, reliable information integrated into municipal websites and social media. The Triage Web Page efficiently identified COVID-19 symptoms, categorizing patients into mild, moderate, or severe, and facilitated appropriate monitoring and intervention.

The project significantly surpassed its original objectives, achieving widespread success across three Brazilian cities (Curitiba, São Bernardo dos Campos, and Catanduva) and four major hospitals. Initially aimed at conducting 40,000 evaluations, the platform performed 174,205 evaluations and impacted 143,162 patients – 3.6 times the initial target. This remarkable achievement underscores the platform's efficiency in managing patient flow and ensuring timely medical attention for severe cases. In addition, the project generated considerable cost savings for participating institutions, estimated at R$1,568,738 (approximately $322,000).

Sustainability has been integral to this initiative, leading to the Laura Fressatto Institute securing R$10 million (approximately $2 million) in seed capital to expand its reach. Building on its success addressing COVID-19, the institute broadened its scope to include new clinical conditions, such as mental health and chronic diseases, and developed systems to integrate electronic medical records and enhance data management. In November 2023, the State of Mato Grosso deployed this new and improved solution, underscoring the potential for scale through the public sector. This expansion has already enhanced healthcare efficiency, particularly benefiting rural and incarcerated populations by significantly reducing wait times and improving access to care. These advancements demonstrate the project's sustainable impact and potential for continued growth in healthcare innovation.

Advancing the digital transformation of SMEs in Uruguay

In many ways, Uruguay is ahead of the technology curve in Latin America and the Caribbean in terms of internet connectivity, use of technology by the government and citizens alike, and its technology sector. At the same time, the rate of digital technology adoption among SMEs is low, even in strategic sectors such as logistics. This threatens the ability of SMEs to compete and survive in the face of a rapidly changing technological landscape and evolving consumer needs. In 2019, an IDB Lab project (UR-T1198) with the

National Agency for Research and Innovation (ANII in its Spanish acronym) set out to tackle this challenge by creating new services and tools to raise awareness of the benefits of digital innovation among SMEs in the logistics sector and expand the supply of digital solutions for this industry.

Two Digital Learning Labs were created for the logistics sector, offering a range of specialized advisory services, including diagnostic assessments to identify opportunities for digitalization and financial vouchers to incentivize SMEs to adopt digital solutions. While the COVID-19 pandemic forced many of these hands-on services to be put on hold for nearly two years, and uptake of services was slower than anticipated as SMEs focused on surviving and recovering from the pandemic, the program approved 156 digitalization support projects involving 139 SMEs from 2020-2023.

Beyond these initial results, the learning from this project[51] informed the design of an IDB loan with Uruguay's National Development Agency (ANDE in its Spanish acronym) (UR-L1174), which is the first program in the country with a comprehensive approach to supporting the digital transformation of MSMEs. It expects to reach at least five times the number of MSMEs benefitted through the IDB Lab project. This experience illustrates the coordinated effort across the IDB Group and government agencies in Uruguay to develop and manage a public policy to support MSME competitiveness through digitalization, starting by piloting approaches through IDB Lab adapted to the needs of SMEs, with close involvement of the IDB's Competitiveness, Innovation, and Technology Division. For example, in the IDB Lab project, first carrying out a digital maturity diagnostic for SMEs to understand their needs and design the voucher intervention proved critical for helping SMEs advance on their digitalization roadmap. The IDB loan program incorporates the same approach. Similarly, the pilot project faced challenges generating demand for the digitalization services, underscoring the need to invest sufficient resources in strategic communication plans to reach a wide range of MSMEs, which the IDB loan program made sure to do. Beyond the specific instances of learning from one project to the other, the two projects are an excellent example of the IDB Group supporting the development of a holistic and well-coordinated public policy for MSME support in Uruguay, a fundamental element in strengthening the ecosystem for private sector innovation.

Scaling impact through impact investing funds (ALIVE Fund)

IDB Lab has been a leading player in building the impact investing industry in Latin America and the Caribbean. In 2015, IDB Lab approved a $3 million equity investment in Acumen Latam Impact Ventures' (ALIVE) first fund (RG-M1296), addressing the most pressing needs of low-income communities in the region, with a focus on Colombia and Peru. The fund size reached $28 million, and it has invested in 8 companies. ALIVE's innovative approach has impacted over 10 million people to date, with a significant focus on those living in poverty and vulnerability. Few impact funds are reaching underserved

[51] The IDB loan also builds on lessons from another IDB Lab project with ANII focusing on the use of vouchers to increase the adoption of innovation among creative industry firms (UR-T1150). See this study for more information.

communities in this way. ALIVE invests in four key sectors: Education and Pathways to Quality Jobs, Sustainable Income Generation Opportunities, Access to Critical Goods and Services, and Solutions for Climate Resilience and Mitigation.

ALIVE's education portfolio has shown significant growth, driving a more gender-inclusive education and employment landscape. Nearly 70 percent of students and job beneficiaries are women, and about half of all beneficiaries in this sector are low-income. This demonstrates ALIVE's effectiveness in contributing to gender inclusion, reaching vulnerable communities and improving quality of life, with 75 percent of beneficiaries reporting enhancements due to the services provided. Job formalization investments in particular were able to accelerate the number of quality jobs formalized compared to the previous year (15 percent in 2022 vs 21 percent in 2023).

ALIVE strategically supports innovative solutions to achieve scale and maximize impact across its portfolio of investments. For example, the pioneering company uPlanner leverages artificial intelligence and big data to help universities optimize internal processes, enhance student experiences, and reduce dropout rates. By 2023, uPlanner was supporting nearly 1.6 million active students, with a year over year growth of 8 percent in active students served, with 59 percent from low-income backgrounds. An impact assessment revealed that uPlanner generated substantial impact for its clients, with university representatives reporting enhanced educational coverage, improvements in the quality of the educational experience, and reduced dropout rates.

ALIVE's support extends beyond financial investment, providing hands-on strategic guidance and technical assistance to its investees, crucial in scaling impactful solutions and maximizing their reach. Through strategic investments and a focus on impact measurement, ALIVE has enabled uPlanner to expand its reach and deepen its impact, contributing to a more inclusive and equitable education landscape in the region. Looking ahead, ALIVE plans to conduct further impact studies in 2024 on the depth of impact of its investments, ensuring that its investees continue to drive meaningful change in low-income and vulnerable communities.

Reflections

In the midst of important economic, social, environmental, and technological changes, the role of an innovation lab has never been more important for the region and for the work of the IDB Group. As discussed in this chapter, IDB Lab projects have achieved significant impact, benefiting millions of households, people, and MSMEs through improved access to services and jobs and better productivity. And, similar to 2022, the effectiveness assessment of a sample of IDB Lab projects showed that performance tends to be concentrated in the tails—with a high percentage of unsatisfactory projects and a large share of excellent projects. This is a characteristic shared with innovation-focused investment organizations, which have a high failure rate mixed with important successes. The key is learning from these failures, something that IDB Lab highlights again in this year's DEO through concrete cases.

Similarly, learning from projects that have scaled successfully is also important. Two key takeaways from this year's scalability assessment were that scale takes time to materialize and that the scalability score assigned at the design stage through the iDELTA is the only factor that is predictive of a project's future scale. These findings underscore the importance of the support IDB Lab provides to partners during execution to promote scale. Finally, as discussed in the last section of this report, IDB Lab is revamping its underlying architecture to measure, track, manage, and evaluate the impact of its projects. This Innovation Results Framework, which IDB Lab has already begun implementing and which will be fully implemented by 2026, along with the fourth replenishment of IDB Lab resources, will drive results and impact for IDB Lab moving forward.

CHAPTER 5

LESSONS IN SOCIAL INCLUSION AND EQUALITY

Community Action for Public Safety, Belize (BL-L1014)

Introduction

Distilling and sharing lessons learned from the IDB Group's operational and knowledge work is critical to further enhance development impact in Latin America and the Caribbean. This continuous learning is used to inform the design of new operations and decision-making, improving the effectiveness of policies and development interventions based on evidence. It is also foundational to the IDB Group's ability to support countries strategically, pursuing interventions with high impact potential tailored to the uniqueness of each local context.

As the IDB Group closes the period covered by the Second Update to the Institutional Strategy, this year's DEO reflects on lessons in one of its six strategic priorities: social inclusion and equality. Ensuring that all people can improve their well-being, achieve their potential, and fully participate in the social, political, and economic aspects of life is as much a moral as an economic imperative.

Nonetheless, women and diverse groups – including indigenous peoples, Afro-descendants, persons with disabilities and LGBTQ+ persons – face more poverty, inequality, and vulnerability than the general Latin American and Caribbean population due to deep-seated structural inequalities that continue to be magnified by the effects of the COVID-19 crisis (IDB 2023a). In addition, major phenomena such as the rapid advancement of technologies, climate change, migration, and an aging population can exacerbate the difficulties faced by these groups. At the same time, these very challenges could also offer great opportunities for the region to adapt while prioritizing inclusion and equality.

The lessons summarized in this chapter were compiled from a range of sources, including final evaluations of projects completed from 2020 to 2023, projects currently in execution, impact evaluations from projects in various sectors, a range of studies, and IDB Invest advisory work with private sector clients. They cover interventions related to social protection, human capital development, access to essential services, and economic inclusion, along with the cross-cutting theme of gender equality and the inclusion of diverse groups. While this review is not meant to be comprehensive, it illustrates recurrent lessons found in diverse countries and among clients throughout the region. Links to many of the sources from which the lessons have been drawn are included throughout the chapter.

Lesson 1: Access alone is not enough to ensure inclusion of vulnerable groups

Women and diverse groups typically face higher barriers to benefiting from new policies, services, or infrastructure. Financial hardship, lack of relevant information, and time constraints are among the contributing factors, often exacerbated by entrenched gender, racial, and other biases. The examples below showcase insights on these barriers.

Creative approaches to addressing behavioral barriers and incentives can boost the adoption of essential services.

Despite the expansion of sewerage services in urban areas, some households fail to connect to available networks due to financial constraints, lack of knowledge of how to connect or the benefits of connecting, or other behavioral barriers. A randomized evaluation conducted by the IDB tested the effect of non-monetary incentives to promote connectivity in the city of El Alto, Bolivia (BO-L1034; BO-X1004).[52] The program educated people about the benefits of sanitation and connectivity through both standard training activities and by using entertainment (music and theater, games, and fairs). After 14 months, households in treatment neighborhoods were 34 percent more likely to connect to the sewage system than those in control neighborhoods. Similarly, an IDB Lab-supported project in Paraguay (PR-T1234), Y Kuaa ("Knowledge of Water" in Guaraní), used social art to promote connecting to and paying for sewage network services in rural areas. Local artists deployed a range of low-tech tactics to promote behavioral change, from radio programs to videos sent via WhatsApp. The program reduced payment default rates from 50 to 2 percent in less than a year. This outcome prompted the National Environmental Sanitation Service of Paraguay (SENASA) to replicate the approach as part of an IDB loan. For more information, see this report by Guerrero and Rivera (2023).

Streamlining users' experience can greatly enhance the uptake of public services, thus enabling better social outcomes.

Low adoption or "take-up" is a common problem noted in the public services literature. This is particularly prevalent among vulnerable populations, which typically face higher costs to access services. Similarly, small businesses perceive bureaucratic processes as a greater impediment than monetary costs. Technological solutions can be transformative when it comes to simplifying users' experiences, thus removing barriers to access to essential services. In Uruguay, for example, the impact of an IDB investment in a government-run digital application was assessed through a large-scale study to encourage women to schedule cervical cancer screening appointments. Eligible users

[52] Cuesta et al. (2023) summarize evidence from IDB Group impact evaluations.

were randomly selected and reached via text message once a week over four weeks with reminders to schedule screening. With respect to the control group, digital reminders doubled the number of women who requested an appointment for screening and also the number of women who were screened, and tripled the number in both cases when the reminder was accompanied by an electronic link to schedule the medical appointment. Similarly, an IDB project in the Dominican Republic (DR-L1121) launched Formalízate, a digital one-stop-shop for nationwide business registration focused on sectors with high informality rates and micro businesses mostly led by women. Results from an impact evaluation showed that in one province, the program was associated with an increase of nearly 30 percent in the number of micro firms formalized, and that while male workforce participation was not affected, female labor market participation as self-entrepreneurs increased (Bobíc et al. 2023). This study suggests that reducing costs, making public services more user-friendly, and improving access to information may remove impediments to accessing those services and generate positive outcomes in terms of inclusion.

Additional support and guidance built into social programs is effective in enhancing social inclusion outcomes.

The Program Progresando con Solidaridad (DR-L1053) in the Dominican Republic provided cash transfers for families with children conditional on two requirements: school attendance and preventative checkups. An impact evaluation randomly assigned households to a treatment group receiving additional support in the form of home visits and guidance to ensure that participants clearly understood and met the program conditions. The findings showed that not only did children in treatment households exhibit a much higher rate of school attendance and compliance with medical checkups than those in the control group, but they also remained in the program longer. Similarly, through the Parenting Pilot in Jamaica (JA-L1037), randomly selected households received training on good practices related to health and education for children. Parents who received this training reported better practices in a series of educational and health dimensions, including lower school absenteeism.

Deploying broadband can go even further if it is matched with improved digital literacy and digitalization of MSMEs.

An IDB study measured the socioeconomic impact of last-mile digital infrastructure development in the region focused on Brazil, Ecuador, El Salvador, and Jamaica (Puig Gabarró et al. 2022). The study found that, although broadband expansion has many benefits (i.e., improving job creation, formalization, and salaries across the board), it can also increase inequality between genders, urban and rural populations, and more and less educated people. This is the case when preexisting differences driving unequal adoption are not addressed effectively. To level the playing field, programs that raise awareness about the benefits of digital connectivity and provide training targeting specific groups are critical. Similarly, a joint IDB-IDB Invest study in Peru found that, over time, access to fixed broadband boosts access to finance for micro and small businesses with limited credit histories. In particular, the results show that the effects are sequential (Cusato Novelli, and Castillo Mezarina 2023). After broadband arrives, it takes a few years for firms to adopt the technology and improve their performance, and only then are banks willing to lend them more. This suggests that providing targeted digitalization support to micro and small firms during this transition from slow or no Internet to fixed broadband could help improve or even accelerate their inclusion in the credit market. See this DEBrief for more information.

Tackling long-standing biases is critical to reduce barriers to inclusion.

Gender biases (conscious or not) are borne from cultural and social norms that assign certain roles to men and women. In turn, these intangible notions affect women in very tangible ways when it comes to access to credit and economic opportunities. For example, in Chile, an IDB impact evaluation randomized the stated applicant's gender to loan applications. The results show that female loan applicants are nearly 15 percent less likely to be approved than their comparable male counterparts (Montoya et al. 2020). Even providing loan officers with information about women's high repayment rates could not correct the bias. Therefore, one way to reduce gender bias in lending is to minimize the discretion that credit officers have when setting loan terms. For instance, the Mexican fintech Konfío uses an unbiased algorithm to make lending decisions based solely on applicants' credit risk. An IDB Invest study that estimated the impact of a loan from Konfío on companies' sales growth found that, after two years, the sales growth of Konfío clients was 19 percent higher than that of similar businesses whose application had been rejected, and that the difference was more than double (42 percent) among women-owned businesses (Arráiz 2023). Similarly, rapidly advancing artificial intelligence (AI) capacities have a key role to play. Through the fAIr LAC initiative, IDB Lab is supporting responsible AI-based solutions to help reduce gender bias and discrimination in lending and hiring (see this blogpost for more information). This ongoing work has demonstrated the importance of having diverse teams in place to develop AI and machine learning models, as well as to train the workforce of tech developers and their clients, who are ultimately the ones making decisions based on the outputs of the AI models. Finally, biases are also prevalent in the housing market. In Colombia, an IDB study found biases against rental applications of migrant Venezuelan families, which were 25 percent less likely to be accepted even when they had comparable characteristics to other applicants (Zanoni and Díaz 2023). These results suggest that general housing policies such as vouchers may not lead to the inclusion of migrant families unless biases are addressed.

Lesson 2: Promoting social inclusion and equality means incorporating local cultural and socioeconomic perspectives

While it may seem obvious, understanding the needs and incorporating the views of the intended beneficiaries of social inclusion interventions is critical for their success. This also calls for strengthening the collection and analysis of quality data on vulnerable groups to better understand their distinct needs and challenges in order to design appropriate solutions. The use of novel technologies and data sources can help. The following examples highlight lessons learned in this regard, from land titling and education for indigenous communities to the use of alternative data sources and new technologies to improve impact measurement and targeting of social programs.

The inclusion of indigenous representatives in land titling processes, and increasing women's land ownership, can boost benefits for local communities.

A growing body of evidence suggests that land titling is associated with better livelihoods and greater agricultural investment. Indigenous communities around the world manage an area equivalent to more than a quarter of global land surface, yet they have formal ownership rights to only a fraction of it. In Peru, an IDB study of land titling programs for indigenous communities studied preferences around titling processes (Blackman et al. 2022). The findings show that, among several titling contract attributes, indigenous communities were most concerned about the presence of an indigenous representative on the titling team, as well as the cultural significance of the land. This implies that to boost the benefits of land titling, policies aimed at expanding titling among indigenous communities ought to consider these two critical elements. Similarly, another study related to an IDB project in Peru (PE-L1026) found that giving women land improves important social outcomes (Schling and Pazos 2021). An evaluation comparing title owners and others found that female owners increased crop diversity and the probability of food security by 20 percent.[53] The program's original focus was not on women, as they only represented 27 percent of workers in agriculture. However, this percentage excluded women in the sector who work with their families and are not remunerated. When incorporated, women account for 75 percent of the sector labor force, making them a critical actor in this economic activity.

[53] This part of the analysis includes women with land titles who did not receive them as part of the program financed by PE-L1026.

Engaging indigenous communities in the implementation of education solutions can enhance inclusion.

An innovative example is the JADENKÄ Program in the Ngäbe-Buglé Comarca in Panama, which implemented ethnomathematics in the school curriculum. Ethnomathematics embraces the idea that mathematics exists within a cultural context and that effective learning must incorporate it. The JADENKÄ program designed a new math curriculum using inputs from the elders from the comarca. The bilingual program included mapping the everyday use of mathematics by the Ngäbe culture, including traditions, songs, games, farming, art, and clothing. The application of the new curriculum was evaluated by allocating it randomly to different schools. The students receiving the new curriculum significantly improved their performance on both ethnomathematical and traditional mathematics tests (Naslund-Hadley et al. 2022). The benefits in terms of ethnomathematics were particularly strong for Ngäbere-speaking students, a traditionally underserved group in this context. Furthermore, the benefits went beyond math, with effects on cultural identity and knowledge of the Ngäbere language.

Availability and use of reliable gender- and diversity-disaggregated data is a prerequisite for improving support for vulnerable groups.

Targeting interventions for women or diverse groups or measuring their impact is often difficult due to lack of data. As outlined in an IDB study, the lack of disaggregated data representative of diverse groups limits understanding of their living conditions and economic opportunities (Morrison and Robles 2021). While there has been some progress in the production of statistics and research on women and diverse groups, significant gaps remain. For instance, in Honduras, there is a lack of data on women-led MSMEs, which is critical for understanding the reality of this market and guiding the design of adequate programs, products, and services with a gender perspective. A joint IDB-IDB Invest study mapped the country's women-led MSMEs, finding that they are mostly microenterprises located in high-poverty rural areas and are more vulnerable to extortion and violence by gangs. These insights serve as a starting point for informing efforts to reach these women through access to finance, markets, and skills. Similarly, among financial institutions that do collect sex disaggregated data from their clients, many are not using the data to analyze key business metrics such as default rates or profitability of their women-led MSME portfolios. This was a key finding from an IDB Invest study including data from over 240 financial institutions in 13 countries in the region. Without clear evidence of how these loans are performing, there is little incentive to expand access to credit for women. The study also found that financial institutions with a women's market strategy also tend to be those that sex-disaggregate their data, signaling that gender data is used to inform business decisions (Berdeja et al., 2023).

At the same time, how data is collected also matters. As described in this IDB Group GDLab policy brief, evidence shows that measurement methods that guarantee privacy and anonymity can influence the veracity of sexual orientation and gender identity reporting (Martinez, Hidalgo, and Ardila Muñoz 2023). An experimental study in Colombia found that people were more likely to self-identify as LGBT when responding to indirect questions rather than direct questions, signaling that household surveys underestimate the size of the LGBT population and may yield biased estimates of labor market inequalities (Ham, Guarin, and Ruiz 2023).

Novel data sources can improve impact measurement and the targeting of social programs.

For instance, low-income farmers in Argentina face significant barriers to adopting new production technologies due to a lack of information and credit availability. To help increase agricultural productivity, an IDB project (AR-L1068) used smart subsidies whereby farmers received technical support about new technologies and credit to purchase them. Assessing whether the project benefited the most vulnerable farmers in remote, rural areas using traditional survey methods was challenging. Instead, the program's evaluation employed remote sensing using satellite imagery to accurately measure changes in land use and crop health both before and after the intervention (Schling and Pazos 2022). The findings show that yields increased for citrus farmers, but there was no significant impact for farmers in the other sectors (livestock, dairy, cotton), signaling the need for further exploration to design effective projects in these sectors. This detailed analysis would have been impossible or prohibitively expensive without leveraging novel data sources. Similarly, the government of Costa Rica improved the targeting of its social protection programs through an innovative solution developed by an IDB Lab project (CR-T1230) that uses satellite imagery and Artificial Intelligence to identify poverty at the city block level. This more precise and cost-efficient system for pinpointing potential beneficiaries in sprawling urban areas such as San José allowed the government to proactively enroll previously unserved people in social programs. About 54,000 households were lifted out of poverty by receiving support in this way, above the targeted 30,000. The government's role in co-designing the solution was an important factor in its success.

Lesson 3: Enhancing social inclusion and equality goes hand-in-hand with enhancing economic opportunities

People are excluded from mainstream society for many reasons, including poverty, gender, sexual orientation, race, age, and disability, just to name a few. Similarly, many MSMEs – especially those led or owned by women – operate on the sidelines of the formal economy and financial market even though they are the main source of employment in the region. Despite these differing and often intertwined factors, a powerful way to enhance social inclusion and equality across the board is through access to economic opportunities and better standards of living. The following insights underscore the role of technology and innovation in this process, from skills training and digital platforms for supporting workers to financial tools for advancing gender equality in the private sector.

Harnessing the power of new technologies, both in terms of skills development and digital platforms, is key to increasing employment opportunities for women and diverse groups.

There is a wide skills gap between what employers need and what workers can offer in Latin America and the Caribbean, both in terms of socio-emotional capabilities and rapidly changing technology skills. At the same time, like other regions of the world, there is a pronounced lack of diversity in the region's tech industry. Inclusion in the economy requires enhancing economic opportunities through education. Digital skills training such as coding bootcamps, particularly for women and diverse groups, can help beneficiaries compete in the market as employees and entrepreneurs. For example, an IDB Lab project in Brazil, Reprograma (BR-T1458), trains vulnerable women with a focus on Afro-descendent and transgender women as software developers, improves their soft skills, and helps match them with job opportunities. Regarding employability, 73 percent of graduates are working in the tech sector with an average monthly salary of R$2,300 (roughly $500), increasing their wages by a remarkable 88 percent during their first year of employment. In addition, 65 percent of women participants pursued further specialized training in the field, motivated by their bootcamp experience. A key learning from this experience was that both employers and participants highly valued the integration of socio-emotional skills training, including communication, job interview techniques, and group dynamics. And given the vulnerability of program participants, in some cases, specialized support was necessary during the bootcamp to address more complex issues, such as traumatic experiences.

The region is also seeing an unprecedented expansion of the gig economy, with more people seeking self-employment in delivery, rideshare, and other freelancing platforms that offer limited benefits and protections. As outlined in this IDB Lab study, WorkerTech solutions have emerged to offer independent workers benefits to improve social protection and productivity (Cañigueral Bagó et al. 2021). For example, the IDB Lab-supported startup Qüilo in Guatemala (GU-T1313) provides human resource management services and health insurance coverage to independent workers and the informal sector. Over 4,000 people to date have either accessed health insurance or health services through the platform. The IDB Group's work in this area underscores the need to recognize this emerging ecosystem and these employment modalities, while coordinating with the public sector to ensure that these digital platforms are accounted for in existing social protection systems without creating a parallel system for independent workers.

Online training to boost the digital and business skills of women microentrepreneurs calls for flexibility and personalized interactions.

Online training for MSMEs has emerged as a way to strengthen business and digital skills, especially since the COVID-19 pandemic. The IDB Group's experience across the region illustrates what works best when designing and implementing online training for women microentrepreneurs, in particular. For example, in Chile, the Emprender Conectadas Program (CH-T1252) supported by the Ministry of Women and Gender Equality, the social enterprise Laboratoria-Kaudal, and the IDB aimed to teach women microentrepreneurs how digital solutions can optimize their businesses. As showcased in a 2023 IDB study, the training approach evolved based on lessons learned along the way (Alarcón et al. 2023). It started as a two-phase, five-hour, self-guided training course with a series of modules on different topics such as accounting, logistics, and marketing. However, dropout rates were high; only 18 percent of women who started the course completed it. In addition to time constraints, the main culprit was the self-guided nature of the course. In response, the approach was adapted into a one-phase, four-hour course delivered through a series of live virtual workshops that women could choose from. The ability to interact with instructors in real time was instrumental in maintaining engagement; completion rates increased to 86 percent. Similarly, the use of digital tools such as WhatsApp to send personalized and automated messages to women helped keep them engaged.

In Guatemala, IDB Invest has been working with a large food retail company to build the business skills of the microfranchisees who operate its chicken distribution chain, most of whom are low-income women. A randomized evaluation of the digital training program shows significant impacts on microfranchisees' knowledge, business practices, sales, and profits (Estefan et al. 2023). The training combined a mobile app offering access to reproducible video capsules and virtual one-on-one consulting meetings. The personalized consulting meetings were particularly crucial for maintaining microentrepreneurs' engagement with the program, echoing the findings from the

Chilean experience about the need for “live” virtual interactions with experts. Program flexibility, Internet access, and initial sales were other key drivers of training effectiveness.

Performance-based incentives can help advance gender equality in the private sector, especially when paired with advisory services to build client capacity.

Awareness of the need for greater gender equality in the private sector has increased in recent years. Awareness does not necessarily spur action, but financial incentives can help. An IDB Invest study took stock of its experience since 2015 implementing gender-focused performance-based incentives (PBIs) – such as interest rate reductions that kick in once certain targets are achieved – in operations with companies and financial institutions across the region (IDB Invest 2023a).[54] The study found that PBIs may enhance the likelihood of clients hiring or training more women or financing more women-led SMEs, especially when combined with advisory services such as helping clients develop inclusive human resource or procurement policies or tailor financial products for women. They may also accelerate timelines for reaching gender targets and provide critical justification for resource allocation toward gender programming within companies. For example, in a project with Grupo Elcatex, one of the largest textile manufacturers in Central America, IDB Invest offered an annual performance grant contingent on increasing the share of women-led SMEs in the company’s supply chain. Initial targets were met ahead of schedule, triggering the incentive twice to date. Incentives may also help advance women’s representation in nontraditional sectors such as renewable energy that are key for the green economy. For the New Juazeiro solar plant project with Atlas Renewable Energy in Brazil, the company received an interest rate reduction of 1.5 percent contingent on achieving milestones such as women representing 10 percent of the construction phase workforce. Finally, the results show that PBIs may also shift internal perspectives on gender roles within client organizations and produce spillover effects across industries. For more information, see this Actionable Insights Guide (IDB Invest 2023b) and this blogpost.

Enhancing employment opportunities for people with disabilities calls for targeted training and public-private collaboration.

An IDB study reviews the implementation of the Program to Support Employment II in Bolivia (BO-L1121), which included a pilot project to boost employment for people with disabilities (Urquidi et al., 2023). It offered financial support for up to six months of on-the-job training, off-site instruction, and, if necessary, adaptations to the workstation. The

[54] PBIs can include transfers of capital, interest rate reductions, or other material rewards from investor to investee/employees provided contingent on achieving gender outcomes. They are often funded using blended finance resources (the combination of concessional finance from donors or third parties with development finance institutions’ own capital and/or commercial finance) and bundled with advisory services to build client capacity to meet and sustain gender objectives.

pilot was aimed at reducing access costs for people with disabilities, including special considerations like providing twice as long on-the-job training compared to beneficiaries without disabilities. This project aimed to jump-start the process of matching people with disabilities to quality jobs in the private sector. An analysis of beneficiaries showed that extending "on-site" training promoted the inclusion of people with disabilities and increased the chances that the beneficiaries' skills would align with labor market demands, resulting in higher hiring rates. One remaining challenge is workplace adaptations, which the program did not manage to implement in the end. Part of the challenge is that these adaptations vary by type and degree of disability, so it is difficult to plan ahead for their implementation. This would be a key complement to training to make economic opportunity more inclusive.

Similarly, in addition to providing job training for people with disabilities, it is important to strengthen the capacity of the various training and job placement services involved. For instance, in 2017, Chile passed the Inclusion Act requiring public agencies and companies with at least 100 employees to fill at least 1 percent of their positions with people with disabilities. With IDB Lab support, the Chilean Productivity Pact (CH-T1224) was launched in 2020 as a public-private platform for strengthening collaboration among the entities responsible for providing labor training and job placement, as well as employers, to ensure compliance with the law and the workforce readiness of people with disabilities. The project was selected as one of the IDB Group's Superheroes of Development in 2023 (Gómez Osorio et al., 2024). Among the lessons from this project was the power of virtual training. Initially designed to be in-person, the training courses had to be digitalized due to pandemic restrictions. This challenge turned into an opportunity as the courses became part of the digital libraries of various entities, making them available to more users. The project also tackled the challenge of the lack of available statistics about people with disabilities by signing agreements with different government agencies to obtain data related to employment, disability, and social security.

Innovative solutions can improve the quality of care for older people and the working conditions of those who care for them.

The Latin American and Caribbean region is aging fast; by 2085, one in three people will be 65 or older (Arranco et al. 2022). This poses significant challenges for social protection systems, including pensions, healthcare, and long-term care. It also offers opportunities for economic growth and inclusion by building the ecosystem of services around the aging population. For example, through the IDB Group's Silver Economy Initiative, the IDB and IDB Lab are supporting several innovative solutions to improve the volume, efficiency, and quality of long-term care services. An overarching lesson from IDB Group work in this area is that issues around caregiving should be addressed with a systemic perspective that considers the needs of both the person receiving and the person providing care (IDB 2022). Caregiving for aging family members has traditionally been the informal, unpaid work of women, but as demand for homecare is expected to triple to 23 million people in the region by 2050, there is a need to professionalize this work, which in turn would have benefits for gender equality. An IDB study surveyed caregivers across multiple countries, finding that most have little or no training and lack technical, relational, and self-care skills (Aldaz Arroyo et al. 2023). For instance, in Mexico, IDB Lab is working with ANA Care (ME-T1485), a start-up that developed an online platform that monitors patients, trains caregivers, and connects them to job opportunities through homecare agencies. The aim is to improve the quality of care for low-income patients, working conditions for caregivers, and efficiency of services. To date, over 6,000 people (80 percent of them women) have received training, over half of whom come from vulnerable areas, and more than 5,000 work contracts have been generated. While the platform offers trainees the opportunity to formally certify their skills through the Ministry of Education, uptake has been limited. This signals the need to improve communication about the benefits of skills certifications for individuals and to level up the caregiving profession as a whole. On the technology side, another key lesson learned is the importance of continually improving the user experience of the platform to increase and retain clients. The ANA Care platform is being piloted by the Mexico City government with IDB support (ME-T1502) to test the feasibility of adopting private sector innovations to improve public sector social services.

Reflections

Social inclusion and equality was one of the six strategic priorities of the closing institutional strategy. The lessons highlighted in this chapter showcase some common threads observed in projects supported by the IDB Group. While important strides were made during 2020-2023 in moving closer toward breaking down barriers to inclusion, the region still faces major challenges ahead.

Under IDBStrategy+, the IDB Group will focus its support on reducing poverty and inequality as one of its three core objectives. This encompasses not just working to improve gender equality and inclusion of diverse population groups, but also enhancing social protection and human capital development as two of seven areas of operational focus. At the project level, this will entail work on several important fronts: from promoting health, access to quality basic services, and early childhood education, to fostering food security, improving citizen security, and supporting efforts to eradicate extreme poverty, to name a few.

Meeting the region's demands on this front entails working with governments in a fiscally constrained environment, striving to maintain public debt within sustainable levels. It also means working through the private sector to promote inclusive and sustainable development and access to economic opportunities. Leveraging public-private collaboration is also critical for moving the needle on social inclusion and equality.

In addition, efforts must also help build a more adaptive social protection model to help societies better withstand major shocks (e.g., pandemics, natural disasters, extreme climate events) while preparing for an aging population, transitioning towards the green economy, and rapidly adapting to technological change. The IDB Group will continue generating, sharing, and applying knowledge in this space. Continued learning is now even more critical as the IDB Group has increased its ambition with new targets for reducing poverty and vulnerability and increasing gender equality, diversity, and inclusion.

LOOKING AHEAD

Preservation Historical, Cultural Sites, Brazil (BR0261)

Strengthening our Group-wide Focus on Impact

This year's DEO comes at a moment when the IDB Group is making transformational changes to its approach to development effectiveness, embedding impact into its structure, operations, incentives, and organizational culture. As the IDB Group reflects on its accomplishments and areas for improvement, this final section provides a glimpse of efforts already underway under the umbrella of IDBStrategy+.

These efforts, like others included in the ambitious IDBStrategy+ reform agenda, aim at strengthening the Group's impact orientation. The IDB Group is capitalizing on the solid foundation it has built since 2008 across its development effectiveness frameworks and tools, which are tailored to the specific operational focus and client profiles of each institution. But these efforts go beyond improvements specific to each institution: they are a reflection of the Group's synergistic approach, jointly putting impact orientation at the core of the IDB Group's value proposition.

Strengthening focus on the theory of change of IDB Group projects

Among the efforts underway to strengthen the IDB Group's impact orientation is enhancing the theory of change underpinning its operations across the public and private sectors. Put simply, this means clearly defining the development challenges operations aim to tackle, the logic behind how they will do so, and how performance will be measured and evaluated. This involves revamping or refining various development effectiveness tools and processes.

For example, the IDB's comprehensive development effectiveness reform is redefining the connection between the three instruments used to assess performance in the design phase, during execution and at completion (DEM, PMR, and PCR), creating one end-to-end tool that prioritizes a clear, strong theory of change jointly agreed by Borrower and Bank, as well as proactive, transparent, and traceable change management based on evidence and learning. These reforms will instill an actionable focus on impact at entry and provide flexibility and rigor in equal measure during execution, enabling course corrections in response to changes in country context.

IDB Invest already has a strong end-to-end Impact Management Framework in place, including the DELTA impact rating tool which assesses impact at entry and throughout supervision. This tool is rooted in a theory of change approach, which will be further reinforced moving forward with IDB Invest's New Vision and Business Model (IDBInvest+). In addition, IDB Invest is developing a series of impact models that outline the shared theory of change behind operations in specific sub-portfolios, as well as its systematic approach to measuring their expected impact in a comparable way. The models also review existing evidence relevant to the development challenges addressed by each sub-portfolio, which together with the theory of change of the operations, will guide what types of impact will be measured and how. For instance, highly innovative operations might call for an impact evaluation to generate evidence on their effectiveness while operations supporting well-documented impact rationales might not.

IDB Lab is also revamping its underlying architecture to measure, track, manage, and evaluate the impact of its projects. This Innovation Results Framework, which IDB Lab has already begun implementing will be fully deployed by 2026, along with the fourth replenishment of IDB Lab resources, reflects its amplified ambition in terms of climate, gender, diversity, and benefits for poor and vulnerable populations. Beyond measuring reach, it will also focus on measuring the depth of impact that projects have on people's lives and will adopt a more modern view of poverty and vulnerability, where all IDB Lab operations will support the poverty and vulnerability agenda either by reaching those populations directly or by building the enabling conditions for innovation to benefit them.

Advancing active portfolio management and data-driven decision-making

The Group also continues to strengthen its ability to analyze portfolio impact data to identify drivers of performance and enhance its focus on results.

IDB Invest is leveraging and analyzing performance data from both project supervision and evaluation to identify performance trends at the sub-portfolio level. This sub-portfolio approach, reflected in the discussion of results in this year's DEO, will help IDB Invest better understand the drivers of impact and identify more actionable lessons learned to inform strategic decision-making and portfolio management. That is why the development of a strengthened portfolio approach is a priority moving forward with the implementation of IDBInvest+. This also involves strengthening how impact risk is assessed and managed throughout project implementation.

Similarly, IDB Lab continues to improve how it uses data collected through the iDELTA and during supervision to make predictive estimates about the impact performance of its portfolio. In 2024-2026 IDB Lab will fully integrate data on different aspects of project performance and impact, including: (i) all project ex-ante data on strategic alignment, innovation and scalability from the iDELTA, (ii) project disbursement and implementation performance, (iii) project financial and risk performance, (iv) outcomes and outputs from the results matrix, and (v) leading indicators of impact and scale. IDB Lab will use these data to create new indexes of both impact and scale, which will be updated as implementation data—including on outputs, outcomes, financial performance and growth in clients benefited—change during execution. A machine learning algorithm will then be used to provide continuously updated estimates of expected outcomes and impacts, expected effectiveness ratings, as well as early estimates of expected scaling performance.

IDB is in the early stages of developing a new approach to building and managing an impactful portfolio. This new approach is part of the revamped development effectiveness framework. It will enable portfolio-level analyses of development effectiveness and contribute to strategic selectivity and portfolio risk management. In addition, IDB is reinforcing the evidence and learning in decision making for impact. Highlights from 2023 in this regard are the Catalog of Results Indicators, an initiative to increase Evaluability in Execution, and the Lesson to Action practice.

Advancing on aligning incentives for impact

Incentives are connected to deepening synergies across the IDB Group. Transforming how the IDB Group works also includes strengthening incentives to increase ownership and accountability for results.

The IDB Group is augmenting its strategic selectivity, which will involve deeper country-level strategic dialogues to identify private and public sector investment needs, calling for ongoing coordination between IDB, IDB Invest, and IDB Lab. Contributing to this effort, IDB Invest is renewing its Selectivity Framework and developing a new upstream approach to create impactful operations where they do not yet exist. Enhancing synergies between the three institutions of the IDB Group, to improve the enabling environment for private investment and forge new markets and nascent business segments, will be critical to achieving the three objectives of IDBStrategy+.

Moreover, IDB Lab is adjusting incentives to transition to a new model, prioritizing investment support to early-stage innovations and ecosystems, while deploying grants to develop ecosystems with high potential for future investment and to advance the IDB Group's development agenda. In addition to incentives, this also means building capacity both internally and with its clients and partners to design, implement, and manage effective investments, including training to develop gender and diversity capabilities among venture funds.

For IDB, the ongoing development effectiveness reform aims at transforming incentives holistically, taking into account the critical role of leadership in fomenting an impact culture, the evolution of best practice in monitoring and evaluation, as well as state-of-the-art technological options available to effectively support the institution with significantly increasing its development effectiveness. These reforms are carried out in close coordination with other efforts already underway under the umbrella of IDBStrategy+, including the implementation of the IDB Group’s People Strategy.

Similarly, for IDB Invest, successfully implementing IDBInvest+ will also require updating its human capital and talent model to reflect changing needs and aligning its organizational culture and incentives with the greater ambition for impact and focus on mobilization. To this end, IDB Invest is expanding its existing incentives and recognition programs designed to reward the performance of employees at the individual and team levels in relation to annual objectives linked to the impact of IDB Invest.

New IDB Group Impact Framework

Another key element of the architecture surrounding the Group's renewed impact orientation will be a new Impact Framework, which will monitor progress on the new institutional strategy, leveraging lessons from past Corporate Results Frameworks for its design, and establishing a new level of ambition for the 2024-2030 period. The Impact Framework will serve as the primary tool for monitoring performance and communicating progress between 2024-2030, ensuring transparency and accountability to all IDB Group stakeholders.

The indicators to be included in the Impact Framework will have an enhanced focus on outcomes and end-beneficiaries, as part of the set of indicators that capture aggregate portfolio results as well as new pilot indicators to assess the achievement of project results related to gender, diversity, and climate.

Also importantly, the IDB Group is embarking on a comprehensive reform of its strategic planning process to ensure that efforts and resource allocation are all aligned toward the achievement of results based on the priorities and strategic objectives of IDBStrategy+.

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