

DEO

Development
Effectiveness
Overview
2023





DEO Development Effectiveness Overview **2023**

LESSONS IN DEVELOPMENT

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ACRONYMS

CRF	Corporate Results Framework
DEA	Development Effectiveness Analytics
DEI	Diversity, Equity, and Inclusion
DEF	Development Effectiveness Framework
DELTA	Development Effectiveness, Learning, Tracking, and Assessment Tool
DEM	Development Effectiveness Matrix
DEO	Development Effectiveness Overview
EFS	External Feedback System
eNPS	employee Net Promoter Score
EOM	Early Operating Maturity
ESPF	Environmental and Social Policy Framework
FI	Financial Institution
GDAP	Gender and Diversity Action Plan
GDP	Gross Domestic Product
GHG	Green House Gas
IDB	Inter-American Development Bank
LAC	Latin America and the Caribbean
LGBTQ+	Lesbian, gay, bisexual, transgender and other sexual orientations and gender identities
MDB	Multilateral Development Bank
MPI	Global Multidimensional Poverty Index
MSME	Micro, small, and medium enterprise
MW	Mega Watts
NPL	Non-Performing Loan
NPS	Net Promoter Score
OVE	Office of Evaluation and Oversight
PCR	Project Completion Report
PIU	Project Implementation Units
PMR	Progress Monitoring Report
PSR	Project Supervision Report
PSU	Project Status Update
RAROC	Risk-Adjusted Return on Capital
SAT	Special Assets
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise
TC	Technical Cooperation
UNDP	United Nations Development Programme
WSA	Water and Sanitation Division
XSR	Expanded Supervision Report



MESSAGE FROM THE PRESIDENT

From the fallout of Russia's war on Ukraine to the increasingly frequent climate shocks that exacerbate poverty and inequality, there is no shortage of challenges facing our world. But in Latin America and the Caribbean, these and other crises are compounded by decades-old structural issues that constrain growth and social advances. And so, the region faces a triple challenge.

First, people are demanding social improvements from poverty alleviation and reducing inequality to better services, such as safer streets to improved schools. Governments must strive to meet the demands of everyone, from disconnected, rural communities to hyper-connected city dwellers, all of whom are impatient for change. Second, governments lack the resources to adequately resolve problems because of fiscal constraints. Third, the region has struggled to generate additional resources because of low growth, stemming from low investment and productivity.

To respond to these challenges, the IDB Group must deliver better results. We must be more effective at everything from lifting people out of poverty to addressing climate change, and from boosting productivity and growth to creating economic opportunities for diverse groups.

Based on our existing Corporate Results Framework, this year's Development Effectiveness Overview (DEO) shows that we have made progress, but we can and must do better: 59% of completed IDB projects and 51% of IDB Invest projects evaluated by our Office of Evaluation and Oversight in 2022 received a positive rating.

This does not mean that the other projects had no development impact, but it does mean we can do better.

We need to take a broader approach to development effectiveness. For example, we need to ensure we are constantly learning as projects are being executed, helping us intervene, course correct, or pivot when things don't go as planned. Also, we need to take into account effectiveness on the client side.

This DEO dedicates a chapter to knowledge and learning, including how we are working more with clients and countries to build their capacity to measure and manage impact and incorporate evidence into decision-making.

This year's DEO also comes at a time when we are reviewing what we've learned together with our clients and other stakeholders, as we develop a new institutional strategy with our Board.



This stocktaking will mean developing a more holistic, dynamic approach to development effectiveness. We will target final results that are ambitious, continuously monitor progress, and develop a culture that recognizes that taking risks, failing, and learning from our mistakes can be critical to delivering the type of results that our region needs.

Because delivering better results is a shared responsibility, we are also working to ensure that the IDB Group is a meritocracy that incentivizes and rewards results internally, while helping our member countries and clients increase their own capacity to do so.

Just as the region's people are demanding more from their governments, they are demanding more from us. We pledge to be a better version of ourselves and meet this moment.

Ilan Goldfajn

President

IDB Group

July 2023



EXECUTIVE SUMMARY

The annual Development Effectiveness Overview (DEO) is an opportunity for the IDB Group to take stock of results achieved in the previous year, to reflect on the achievement of its targets, and to systematize lessons learned to support the region's development. In 2022, the results supported by the IDB Group include 50 million beneficiaries of health services, 16,400 public officials trained in citizen security and justice, and 1.7 million women beneficiaries of economic empowerment initiatives, among others.

Reporting on progress in addressing the priorities established in the institutional strategy and measured through the Corporate Results Framework (CRF) is an important element of each DEO. The CRF includes a set of 52 targets to drive operational delivery and results as well as organizational management and effectiveness. Three years into the CRF, which covers the period of 2020-2023, 81 percent of indicators were on track or had already achieved their CRF target. The IDB Group has made considerable strides in aligning new projects with its strategic priorities and all entities of the Group are on track for the percentage of new projects supporting gender equality, diversity, and climate change mitigation and adaptation. While performance in 2022 was also strong for indicators related to mobilization, knowledge, innovation, and other areas, the indicators that measure the performance of projects during execution and at completion lag behind targets in several cases and are explored in depth in the DEO.

IDB's Development Effectiveness Framework (DEF) provides tools to support the design, implementation, and evaluation of projects to promote the achievement of tangible results. During execution, the Progress Monitoring Report (PMR) captures quantitative and qualitative information on project implementation to track performance through physical and financial progress. In 2022, 80 percent of projects had a "satisfactory" performance rating according to the PMR. This does not guarantee that these projects will fully achieve results when they reach completion. At closure, the PCR is used to evaluate project performance using four core criteria: effectiveness, efficiency, relevance, and sustainability. In 2022, 59 percent of IDB projects received an overall positive rating on the PCR, as validated by the independent Office of Evaluation and Oversight (OVE), falling short of the 70 percent target. Unforeseen obstacles during execution, a dynamic operating environment, and challenges in coordination are among the factors affecting results achievement at completion. During 2022, the IDB made progress on the implementation of a proposal to enhance results-based management, with a view to strengthen execution. Additionally, the IDB is strengthening monitoring and evaluation mechanisms, enhancing training and execution support programs, and bolstering evidence-based decision-making and resource allocation through initiatives that embrace new technologies to collect data.

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 Development Effectiveness Learning, Tracking, and Assessment tool (DELTA) is a rigorous, fact-based scoring system that assesses the expected impact of each investment and tracks results achieved over time. In 2022, 65 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 2022, 51 percent of IDB Invest's XSRs received an overall positive OVE-validated rating, short of the 65 percent target. Operations with financial institutions (FIs) fared



the worst, demonstrating their high sensitivity to volatile external conditions. Overall, the recent supervision and evaluation cycle confirms that the COVID pandemic affected operations across all business segments. While the corporate and infrastructure and energy portfolios have quickly recovered and have shown solid performance, close to or above institutional targets, the performance of the FI portfolio faces ongoing challenges. IDB Invest is taking a proactive approach to address these issues, from sharpening the selection of FI operations and enhancing FIs' capabilities to achieve and measure impact through technical advice, to potentially reconsidering current evaluation methodologies to integrate a more dynamic approach.

IDB Lab continues to strengthen its impact measurement model, which includes tools used throughout the project cycle. These include the iDELTA innovation assessment instrument which scores all projects at entry in terms of development impact, innovation, scale potential, and resource mobilization, as well as assesses the quality of project design. During supervision, the financial and operational performance of IDB Lab's loan and equity investment operations is monitored through the Project Status Update (PSU). In 2022, 67 percent of these operations were classified as green flag, or "on track to reach or exceed target projections." While IDB Lab surpassed its target of 60 percent, three macro trends affected investment portfolio performance during the year, including increased interest rates, global supply chain disruptions, and a drop in venture finance. Regarding scaling the innovations it supports through the IDB Group or others, 38 percent of IDB Lab projects completed in 2022 were replicated or scaled (versus 32 percent in 2021). Additionally, for the first time in 2022, a more in-depth evaluation of IDB Lab projects was conducted for a sample of 121 active and completed projects, focusing on the effectiveness dimension of the IDB Group's evaluation methodology. Forty-nine percent of projects were rated positively, meaning that they met or are on track to meet their development objectives. The distribution of effectiveness ratings is expected given IDB Lab's risk-taking approach. The analysis also showed that the strongest drivers of successful projects were the quality of partnership and the strength of the project's scale plan. IDB Lab will continue to generate key learnings from both successes and its portfolio of failed projects, as well as improve its impact management approach through ongoing measurement enhancements and digitalization efforts.

Finally, generating and sharing knowledge about what works and does not work in development is core to the IDB Group's value proposition. The IDB Group works to foster a continuous learning cycle in which the entities of the Group as well as its clients gather new inputs to strengthen approaches over time and adjust to evolving realities. For instance, evidence generated through IDB impact evaluations has helped shape programs and policies in various countries and sectors. Similarly, IDB Invest is increasingly working with private sector clients to build their impact measurement and management capacity in line with growing demand. Leveraging synergies within the IDB Group is also critical for accelerating public-private collaboration around innovative development solutions in the region in sectors such as water and sanitation. Additionally, fostering continuous learning for the region also involves taking stock of lessons learned from the IDB Group's knowledge and operational work in specific areas. For example, this year's DEO captures learning from the IDB Group's work to promote financial inclusion in the region. As the IDB Group makes strides towards becoming a fully results-oriented institution, institutionalizing its approach to generate, systematize, and use knowledge and improving the application of learning will be essential. To this end, the Group will continue to address three main challenges, including strengthening mechanisms for identifying and prioritizing evidence gaps, leveraging the potential of digital technologies and alternative data to enhance data collection to measure development impact, and more effectively using the knowledge and lessons learned it generates to feed into project implementation and design.



**SUSTAINABLE
DEVELOPMENT
GOALS**

INTRODUCTION



INTRODUCTION

As the leading source of development finance for Latin America and the Caribbean (LAC), the IDB Group seeks to reduce poverty and inequality and achieve sustainable growth in the region. The Group provides financial solutions, development expertise and good practices to public sector institutions and private sector clients, supporting advancement toward the Sustainable Development Goals (SDGs) and addressing emerging issues in the region. 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 IDB Group understands that focusing on development effectiveness and applying lessons learned over time is critical to maximizing its impact on the region. The annual Development Effectiveness Overview (DEO) is an opportunity to assess results achievement in the previous year, to reflect on IDB Group support for its strategic priorities and achievement of its targets, and to highlight the role of learning in bringing value to the region.

The 2023 DEO consists of the following five chapters:

Chapter 1

Chapter 1 reviews the IDB Group's 2022 performance against the targets of the Corporate Results Framework (CRF) to identify where the Group has done well and where gaps remain.

Chapter 2

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

Chapter 3

Chapter 3 presents IDB Invest's Impact Management Framework and describes project performance during execution and at completion, with emphasis on the financial institutions portfolio.

Chapter 4

Chapter 4 describes IDB Lab's project performance during execution and at completion, including an analysis of the effectiveness of a sample of the portfolio conducted in 2022, and highlights examples of learning from projects that have failed or been scaled.

Chapter 5

Chapter 5 provides an overview of knowledge and learning at the IDB Group, including case studies of impact evaluations and other knowledge products.

Reporting on progress in addressing the priorities established in the institutional strategy and measured through the CRF is an important element of each DEO. This includes not only the assessment of the achievement of the IDB Group's CRF targets, but also reporting on the magnitude of contributions to specific development topics. In 2022, the results supported by the IDB Group include 50 million beneficiaries of health services, 16,400 public officials trained in citizen security and justice, and 1.7 million women beneficiaries of economic empowerment initiatives, among others. Figure I.1 below highlights additional selected contributions to development results in 2022 and their relationships to the SDGs.

FIGURE I.1 SELECTED IDB GROUP SDG CONTRIBUTIONS IN 2022



The DEO is also a gateway to additional IDB Group development effectiveness resources, which can be accessed by electronic links throughout the publication, including the development effectiveness homepages of the [IDB](#) and [IDB Invest](#) and [IDB Lab's](#) impact page. The results presented in this document can also be explored in more detail on the [CRF](#) and [SDG](#) public websites.

While there is a shared vision for development effectiveness across the IDB Group, given their distinct operational focus and client profiles, each entity has a tailored framework for managing development effectiveness throughout the operation cycle. Therefore, in this year's DEO, there is a dedicated chapter for each of the three entities, allowing for a deeper dive into the different challenges they face. At the same time, efforts to share learning and best practices in development effectiveness across the Group to continually improve tools and practices are ongoing and will be further reinforced in the context of the new institutional strategy.



CHAPTER 1

MEASURING PROGRESS TOWARDS CORPORATE TARGETS

INTRODUCTION

The IDB Group is committed to results-oriented management and places high value on setting ambitious targets and tracking progress toward their achievement. The Corporate Results Framework (CRF) is used to monitor progress on the Group’s [institutional strategy](#) and includes a set of 52 targets to drive both operational delivery and results as well as organizational management and effectiveness. Each year, progress toward each target is classified as “On Track,” “On Watch,” or “Off Track” as per the [CRF Traffic Light Methodology](#).

Three years into the CRF, which covers 2020-2023, 81 percent of targets are on track or have already been achieved, though performance continues to lag for some areas. Figure 1.1 provides an overview of 2022 performance by indicator status and Figure 1.2 shows this information broken down by the dimensions of strategic alignment, development effectiveness, leverage and partnerships, efficiency, knowledge and innovation, and internal alignment to cross-cutting issues.¹ The remainder of this chapter discusses progress on each of these dimensions.

FIGURE 1.1 STATUS OF CRF TARGETS IN 2022

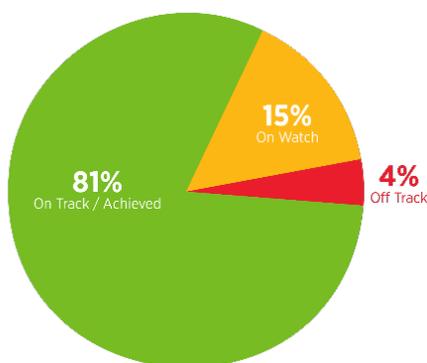


FIGURE 1.2 NUMBER OF CRF TARGETS BY PERFORMANCE IN 2022



Note: Each number shown in the above graph reflects the number of CRF targets corresponding to each dimension that were Achieved or On Track (shown in green), On Watch (shown in yellow), or Off Track (shown in red) in 2022.

¹ The cross-cutting issues established in the IDB Group’s institutional strategy include gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law.

STRATEGIC ALIGNMENT

The IDB Group has made considerable strides in aligning new projects with its strategic priorities, including social inclusion and equality, productivity and innovation, economic integration, gender equality, diversity, climate change mitigation and adaptation, and institutional capacity and rule of law. Progress on many of these indicators increased across all entities of the Group in 2022 when compared with 2021, as shown in Table 1.1. Group-wide performance was also strong with regards to alignment of new approvals to country strategies, and the percentage of new country strategies that consider country's official commitments on climate.

TABLE 1.1 STRATEGIC ALIGNMENT INDICATORS, 2020-2022

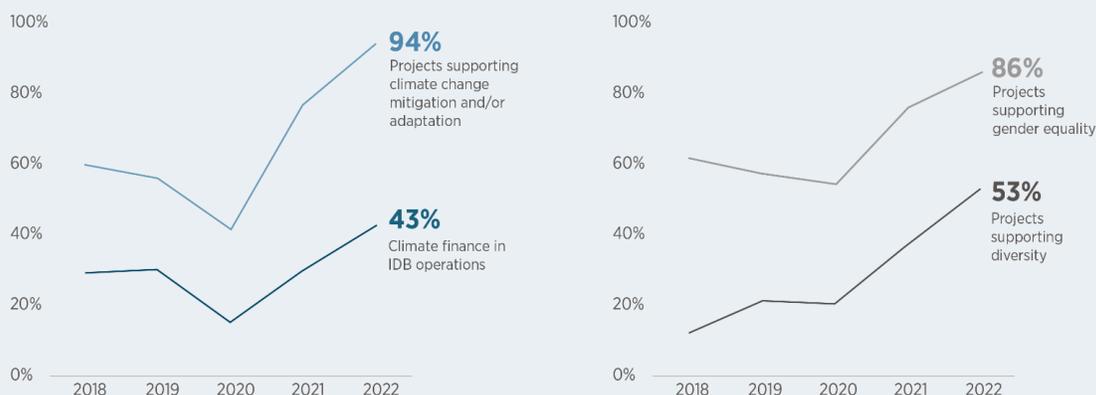
	Institution	Progress				Target 2020-2023	
		2020	2021	2022	2020-2022		
3.1	Projects supporting social inclusion and equality (% of new approvals/commitments)	IDB	78%	68%	64%	69%	Monitor
	IDB Invest	56%	41%	34%	44%		
	IDB Lab	69%	64%	69%	67%		
3.2	Projects supporting productivity and innovation (% of new approvals/commitments)	IDB	60%	77%	80%	73%	Monitor
	IDB Invest	49%	59%	31%	47%		
	IDB Lab	85%	74%	73%	77%		
3.3	Projects supporting economic integration (% of new approvals/commitments)	IDB	12%	16%	23%	17%	Monitor
	IDB Invest	8%	34%	29%	23%		
	IDB Lab	5%	6%	10%	7%		
3.4	Support for small and vulnerable countries (%)	IDB	56%	40%	46%	47%	≥ 35%
	IDB Invest	40%	35%	33%	36%	≥ 40%	
	IDB Lab	44%	45%	45%	46%	≥ 45%	
3.5	Climate finance in IDB Group operations (% of approved/committed amount)	IDB	15%	30%	43%	29%	≥ 30%
	IDB Invest	23%	23%	29%	25%	≥ 30%	
	IDB Lab	24%	21%	26%	24%	≥ 30%	
3.6	Projects supporting climate change mitigation and/or adaptation (% of new approvals/commitments)	IDB	41%	77%	94%	72%	≥ 65%
	IDB Invest	48%	56%	61%	53%	≥ 40%	
	IDB Lab	32%	30%	43%	35%	≥ 40%	
3.6a	Projects supporting agriculture, forestry, land use, and coastal zone management (% of new approvals/commitments)	IDB	1%	11%	13%	9%	≥ 10%
	IDB Invest	4%	7%	14%	8%	≥ 8%	
	IDB Lab	18%	8%	15%	13%	≥ 25%	
3.7	Projects supporting gender equality (% of new approvals/commitments)	IDB	54%	76%	86%	73%	≥ 70% (2023)
	IDB Invest	29%	50%	34%	38%	≥ 25%	
	IDB Lab	53%	60%	73%	63%	≥ 60%	
3.8	Projects supporting diversity (% of new approvals/commitments)	IDB	20%	37%	53%	38%	≥ 20%
	IDB Invest	8%	10%	7%	8%	≥ 5%	
	IDB Lab	10%	13%	21%	15%	≥ 20%	
3.9	Projects supporting institutional capacity and rule of law (% of new approvals)	IDB	58%	69%	88%	73%	≥ 60%
3.10	Projects aligned to country strategies (% of new approvals/commitments)	IDB	83%	92%	100%	92%	≥ 90%
	IDB Invest	84%	94%	84%	89%	≥ 79%	
	IDB Lab	84%	93%	90%	89%	≥ 90%	
3.11	New country strategies considering country's official commitments on climate (%)	IDB Group	-	100%	100%	100%	100%

Progress is classified according to the [CRF Traffic Light Methodology](#) as: On Track; On Watch; or Off Track for those indicators for which progress data is available and for which targets have been set. There is no traffic light assessment for indicators 3.1, 3.2, or 3.3 as targets have not been set for those indicators and there is no traffic light assessment for 3.11 for 2020 as no country strategies were approved that year. The 2020-2022 values reflect the overall value for that period (i.e., the sum of numerators in 2020, 2021, and 2022 divided by the sum of denominators in 2020, 2021, and 2022)

In the case of IDB, all strategic alignment indicators are on track, with progress from 2021 values for each of the cross-cutting issues. The percentage of approvals mainstreaming institutional capacity and rule of law reached 88 percent in 2022 and support for climate change, gender equality, and diversity maintained their upward trajectories, surpassing the CRF targets for each. See Box 1.1 for further details.

BOX 1.1 FACTORS CONTRIBUTING TO INCREASED MAINSTREAMING OF GENDER EQUALITY, DIVERSITY, AND CLIMATE CHANGE IN NEW IDB APPROVALS

In 2022, the IDB reached record levels of mainstreaming of climate change, gender equality, and diversity in its new approvals, reflecting concerted efforts across sectors and countries in recent years. The main factors behind this success are the increased decentralization to country offices of specialists with expertise in each of these topics, enhancing the level of technical support to country offices, and improved training for sector specialists across the Bank. In addition, with senior management support, attention to these topics has grown, with regular screening of mainstreaming opportunities for operations in the pipeline and establishment of targets for specific business units. These targets were also incorporated into employee workplans and the IDB performance review system. Furthermore, new tools and review instances to monitor progress on these indicators throughout the year have helped make progress transparent on an ongoing basis to identify gaps as well as the relative performance of each operational business unit of IDB. These include an internal platform (CRF Indicators Tracker) launched in 2021, which provides quarterly updates on progress on each indicator by business unit, as well as operational review meetings with Senior Management that increase attention to performance throughout the year.



In the case of climate change, another key driver for its performance includes improved mainstreaming of climate change across diverse sectors and financial instruments. As a result, in 2022 94 percent of new approvals included mitigation and/or adaptation measures and climate finance rose from 30 percent of approval amounts in 2021 to 43 percent in 2022. For more information, please refer to the 2022 progress report on the Climate Change Action Plan.

With regards to gender equality and diversity, mainstreaming of both of these considerations maintained an upward trajectory from 76 and 37 percent in 2021 to 86 and 53 percent in 2022, respectively. New data generation helped advance this mainstreaming, particularly in the case of diversity where the lack of data is more prevalent. Nevertheless, progress has been uneven among the four diverse population groups prioritized by the IDB (indigenous peoples, Afro-descendants, people with disabilities, and LGBTQ+). Furthermore, there is still an opportunity to enhance the quality of diversity mainstreaming, by strengthening the intersectional approach and including more results and impact indicators in project results frameworks. For more information, please refer to the [2022 progress report on the Gender and Diversity Action Plan](#) (GDAP 2022-2025) as well as the [external assessment](#) of the Bank’s implementation of the previous Gender Action Plan 2020-2021 and the Diversity Action Plan, 2019-2021.

Note: The targets discussed here refer to those established in the CRF. More ambitious targets have recently been established for mainstreaming of both gender equality and diversity in the context of the GDAP. The IDB is also on track with regards to these targets.

In the case of IDB Invest, the majority of the strategic alignment indicators also remain on track. Projects supporting gender equality and diversity have consistently surpassed their 25 percent and 5 percent targets, reaching 34 percent and 7 percent in 2022. This is a result of IDB Invest's efforts to broaden its work with financial intermediaries to increasingly support other vulnerable populations in addition to women, as well as MSMEs through microfinance solutions, which also reach women and vulnerable groups. Another contributing factor is the targeted technical assistance IDB Invest offers to corporate clients to enhance their focus on gender and diversity, such as integrating a gender and diversity lens into companies' sustainability strategies and supply chains. Combining technical assistance with blended finance performance-based incentives has also played a role in increasing the gender and diversity focus among clients. Climate finance increased from 23 percent of commitment amounts in 2021 to 29 percent in 2022, short of the 30 percent target.² This improvement reflects IDB Invest's ongoing strategic shift to align all new operations with both the low-carbon and resilience goals of the Paris Agreement by 2023. To inform this shift, IDB Invest convened a Blue-Ribbon Panel, which among other things recommended that it adopt a systematic approach to mainstream climate change across transactions, which started in 2022. Therefore, the progress made in 2022 was due to teams prioritizing projects that mainstream climate change (61 percent) and support agriculture, forestry, land use, and coastal zone management (14 percent), both surpassing their targets of 40 percent and 8 percent, respectively. Finally, although the share of projects supporting small and vulnerable countries reached 33 percent, short of the 40 percent target, IDB Invest reached 10 percent of commitments in small and island countries in 2022, with 19 long-term transactions for \$680 million, including commitments in all 9 small and island countries.

IDB Lab met or surpassed nearly all its strategic alignment targets for 2022. Projects supporting gender equality reached 73 percent, surpassing the 60 percent target and result achieved in 2021. Regarding diversity, IDB Lab met its CRF target of 20 percent for the first time in 2022 at 21 percent of approvals.³ The diversity indicator was bolstered by the attention given to people with disabilities, who are over-represented in IDB Lab's work with older adults, as well as attention given to indigenous and afro-descendant populations. While IDB Lab fell short of its climate finance target, reaching 26 percent versus its targeted 30 percent, it surpassed its target for the percentage of projects supporting climate change mitigation and/or adaptation, reaching 43 percent in 2022, 13 percentage points above 2021. The main constraint to meeting its climate finance target is the still limited development of an ecosystem of climate change-aligned companies that could generate deal flow.⁴ Focus on small and vulnerable countries remained on target at 45 percent, and support for small and island countries increased slightly to 22 percent, compared with 21 percent in 2021.

² This is due primarily to the relatively high share of short-term finance and a focus on mobilizing the greatest share of projects possible. Of note, 47 percent of IDB Invest long-term finance for 2022 was climate finance.

³ This share increases to 40 percent of approvals under a broader definition of diverse populations also used by IDB Lab, which includes migrants and at-risk youth.

⁴ Efforts to address this constraint are described below in the discussion of mobilization.

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 effectively mitigate risks, execute according to plan, and achieve development results (see Table 1.2). Because the indicators on execution and achievement of results at completion are at the core of the IDB Group’s mission, these are the subject of Chapters 2, 3, and 4 of this year’s DEO and, therefore, are not discussed in detail in this chapter.

In 2022, the IDB and IDB Invest continued to surpass targets regarding the mitigation of environmental and social risks during execution ([indicator 3.14](#)), reaching 93 percent and 100 percent, respectively. This strong progress can be attributed to closer monitoring and strengthened support for higher risk operations and to several initiatives implemented in recent years, including: (i) increased field presence of environmental and social specialists, (ii) regular reporting on environmental and social risk issues through quarterly reports and capacity-building activities, and (iii) the integration of these topics into portfolio reviews. These measures have helped enhance the awareness and understanding of environmental and social policies among project teams, leading to closer monitoring and stronger support for higher risk operations. Furthermore, the activities related to the preparation for the implementation and the entering into effect of the new Environmental and Social Policy Framework (ESPF) has significantly enhanced the capacity of project teams and clients to manage environmental and social issues in operations.

TABLE 1.2 DEVELOPMENT EFFECTIVENESS INDICATORS, 2020-2022

	Institution	Progress				Target 2020-2023
		2020	2021	2022	2020-2022	
3.12 Active projects with satisfactory performance classification (%)	IDB (Loans)	83%	79%	80%	80%	≥80%
	IDB (TCs)	54%	62%	67%	61%	≥75%
	IDB Invest	61%	58%	65%	61%	≥70%
	IDB Lab (Loans & equity)	77%	70%	67%	73%	≥60%
3.13 Projects with satisfactory development results at completion (%)	IDB	52%	53%	59%	48%	≥70%
	IDB Invest	61%	62%	51%	58%	≥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%	99%	≥90%
3.15 Projects with considerable disaster and climate change risk that applied risk analysis to identify resilience actions (%)	IDB	22%	96%	98%	81%	100% (2023)

Progress is classified according to the [CRF Traffic Light Methodology](#) as: On Track; On Watch; or Off Track. The 2020-2022 values reflect the overall value for that period (i.e., the sum of numerators in 2020, 2021, and 2022 divided by the sum of denominators in 2020, 2021, and 2022)

The indicator *projects with considerable disaster and climate change risk that applied risk analysis to identify resilience actions* ([indicator 3.15](#)) reached 98 percent in 2022, near its 2023 target of 100 percent. This reflects the extent to which IDB approvals with considerable disaster and climate change risk (classified as moderate or high) conducted a consistent diagnostic and consequently defined a

due diligence strategy to comply with the new ESPF.⁵ Significant advances on this indicator in recent years have been achieved through increased training for operational specialists to enhance their abilities in addressing disaster and climate change risks, the establishment of a dedicated disaster risk and climate change team to provide expert support to operations, and the release of a disaster risk intranet to provide teams access to explanatory videos, documentation, and the methodology relating to disaster risk.

In terms of project execution, satisfactory execution for TC operations ([indicator 3.12](#)) is measured by the share of the portfolio which is delivering planned deliverables on schedule. In 2022, 67 percent of active TC operations achieved a satisfactory classification, which was below the CRF target of 75 percent, but a significant improvement compared to the previous two years. Consecutive advance during this current CRF period lend credence to internal efforts to focus on timely achievement of planned outputs. These efforts have included increasing attention to the feasibility of delivering outputs according to the proposed schedule during Quality and Risk Reviews, considering that non-satisfactory performance is often associated with overly ambitious planning. Supervision efforts have focused on promoting the timely identification of indicators correlated with non-satisfactory performance (e.g., when six months have passed since an operation reached eligibility without disbursing). To facilitate the systematic identification of early warnings, several alert indicators have been integrated into a new module in the TC monitoring and reporting system, which is complemented by a daily alerts email digest sent to key members of project teams.

The development effectiveness indicators that relate to the performance of non-TC projects during execution ([indicator 3.12](#)) and the achievement of results at completion ([indicator 3.13](#)) are discussed in detail by IDB Group entity in the following three chapters as these indicators are at the heart of results delivery. While IDB and IDB Lab are on track for their indicators on performance during execution, performance for IDB Invest is slightly below its target, leaving its performance on watch. In the case of results achieved in completed projects, both IDB and IDB Invest are performing below their targets, with critical factors affecting performance. These results are discussed in more detail in Chapters 2 and 3, respectively.

LEVERAGE AND PARTNERSHIPS

In 2022, 73 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 as compared to 68 percent in 2021. While the perceptions of public sector respondents to this question improved in 2022 as compared to 2021, the greatest gains came from private sector respondents with an 8-point increase in the percentage of respondents indicating that the IDB Group was effective in fostering public-private synergies from 2021 to 2022. Respondents cited a wide range of potential areas of improvement to public-private coordination, such as facilitating multisectoral partnerships to address shared challenges and stimulating knowledge transfer between sectors, including dissemination of successful public-private collaboration case studies.

⁵ Specifically, this indicator measures the application of the third step of the IDB's Disaster and Climate Change Risk Assessment Methodology, consisting of an initial qualitative diagnosis. This methodology recognizes that the most effective leverage point for investments related to disaster and climate change risks is upstream, by adequately accounting for these risks and increasing resilience of development investments to these risks starting in the design phase. The target of 100 percent in 2023 reflects an ambition to shape all operations to be disaster- and climate-resilient.

Mobilization is one area where the IDB Group has made important strides in public-private collaboration in recent years. Efforts to mobilize resources in the region include working to address market failures as well as de-risk projects to attract additional investors, enable transactions, and make riskier operations and lower-income clients and countries commercially viable. In 2022, the IDB Group mobilized \$6 billion in *direct third-party financing deployed* ([indicator 3.16](#)) (of which \$4.8 billion was private). Cumulatively, this indicator reached a total of \$13.2 billion over the 2020-2022 period, surpassing the CRF 2020-2023 target of \$9 billion one year early. Regarding *indirect third-party financing deployed* ([indicator 3.17](#)), the IDB Group reached \$5.2 billion in 2022, more than double the value observed in 2021 for a total of \$11.1 billion cumulatively for the 2020-2022 period (see Table 1.3).⁶

TABLE 1.3 LEVERAGE AND PARTNERSHIPS INDICATORS, 2020-2022

	Institution	Progress				Target 2020-2023	
		2020	2021	2022	2020-2022		
3.16	Direct third-party financing deployed (\$ billion)	IDB Group	\$2.8	\$4.4	\$6.0	\$13.2	≥\$9.0
3.16a	Private direct third-party financing deployed (\$ billion)	IDB Group	\$1.7	\$3.2	\$4.8	\$9.7	≥\$6.0
3.17	Indirect third-party financing deployed (\$ billion)	IDB Group	\$3.5	\$2.3	\$5.2	\$11.1	≥\$16.5
3.18	Stakeholders that consider the IDB Group to be effective in fostering public-private synergies (%)	IDB Group	67%	68%	73%	-	75% (2023)

Progress is classified according to the [CRF Traffic Light Methodology](#) as: On Track; On Watch; or Off Track. The 2020-2022 values reflect the sum of progress in these years.

On the non-sovereign guaranteed side, IDB Invest has substantially expanded its mobilization capacity by continuing to develop new products and attract new partners, while also addressing client needs. Recently, the addition of ex-post mobilization products including asset sales and unfunded credit protection have been important contributions. In 2022 IDB Invest also approved its first B bond structured under the Regulation S/144A rule of the U.S. Securities and Exchange Commission which will enable it to attract new institutional investors both within and outside the U.S. For its part in 2022, IDB Lab launched two new mobilization-focused initiatives: the \$36 million Green Tech Facility, which crowds-in private, public, philanthropic, and climate finance (including \$14.6 million from the Clean Technology Fund) to accelerate the deployment of green tech solutions; and the Development Capital Fund, with a target size of \$45-60 million, which will allow other investors to place funds with IDB Lab to invest in tech-based start-ups in LAC that are solving key development challenges with innovative solutions.

⁶The definitions for these indicators are mostly aligned to the Multilateral Development Banks (MDB) methodology for reporting on mobilization of private resources but are not identical due to the need to capture public sector resources mobilized in CRF reporting as well. For more information, see the CRF indicator definitions. Third-party financing refers to the mobilization of funds from external actors, including investors, bilateral government partners, multilateral partners, corporations, philanthropic entities, and others.

On the sovereign-guaranteed side, progress in mobilizing private third-party financing is particularly notable, reaching \$3.7 billion in 2022. A large portion of this mobilization is attributable to the use of guarantees, which reduce the risks related to development projects for private investors. In fact, 100 percent of the private third-party direct financing in sovereign guaranteed operations registered in 2022 corresponds to guarantees in sectors such as infrastructure, environment, and financial innovation for small and medium-sized companies.

ORGANIZATIONAL MANAGEMENT AND EFFECTIVENESS

The IDB Group's Organizational Management and Effectiveness indicators are shown in Table 1.4 and cover results achieved by each entity in terms of three areas:

- The **efficiency indicators** measure financial sustainability, efficient use of resources, and the maintenance of targeted credit ratings (indicators [3.19](#), [3.20](#), and [3.21](#)). In 2022, each of these indicators were generally aligned to the CRF targets.⁷
- The **knowledge and innovation** indicators measure the reach of the Group's knowledge products and stakeholder perceptions regarding knowledge sharing and innovation (indicators [3.22](#), [3.23](#), [3.24](#), and [3.25](#)), all of which are on track in 2022 with respect to targets.⁸
- The **internal alignment** indicators measure the application of the 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](#)). Each of these indicators were on track in 2022 to meet the CRF targets, with the IDB scoring higher than ever before on the Aid Transparency Index (more details are available [here](#)) and continued reductions in its facilities and fleet emissions. Of particular note are the improvements in gender equality in the IDB Group workforce, which are described in Box 1.2.

⁷ In the case of the IDB's cost to income ratio, the 2022 value was 0.1 percent above the target and is, thus, showing as on watch. The cost to income ratio compares administrative expenses to net interest income, on a four-year-rolling basis.

⁸ The IDB Group measures stakeholder satisfaction for knowledge and innovation through two Net Promoter Scores (NPS) captured via the External Feedback System's yearly Satisfaction Survey. The NPS are generated by asking stakeholders' the likelihood of recommending the IDB Group as a relevant knowledge and an innovative solutions provider. In 2022, the NPS for the IDB Group as a provider of relevant knowledge was 45 compared to the 2023 target of 38, while the NPS for the IDB Group as a provider of innovative solutions was 24 as compared with a target of 27 for 2023. Qualitative feedback from the Satisfaction Survey regarding opportunities to improve knowledge sharing have informed recent Bank efforts (see Chapter 5).

TABLE 1.4 ORGANIZATIONAL MANAGEMENT AND EFFECTIVENESS INDICATORS, 2020-2022

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

Progress is classified according to the [CRF Traffic Light Methodology](#) as: On Track; On Watch; or Off Track

BOX 1.2 INCREASING FEMALE LEADERSHIP IN THE IDB GROUP

In 2022, the IDB and IDB Lab reached 43 percent of women in mid and senior-level staff positions, which is the 2023 target for this indicator (3.27), while IDB Invest reached 37 percent, close to its 2023 target of 38 percent. Moreover, at the end of 2022, nearly 50 percent of the IDB Group’s Country Representatives were women. To achieve these two unprecedented levels, the IDB Group has implemented a range of activities, including conducting annual gender pay gap analyses, carrying out unconscious bias training for recruiting panels, ensuring a 50/50 gender balance of candidates and interviewers on panels, and allowing for flexible hybrid working arrangements. In 2023, both IDB and IDB Invest aim to maintain their “Move” level in EDGE re-certification, indicating the Group’s continued commitment to gender equality and diversity.

Despite progress in promoting equity in the workplace, the IDB Group’s workforce data indicates that a level playing field where everyone has equal opportunities has not been achieved yet. Additionally, while the IDB Group has equitable gender representation at entry-level positions, this gradually decreases at higher grades. As such, the Group is committed to ongoing and enhanced monitoring to identify and address gaps to strive for equity in how recruitment, rewards, promotions, career advancement, and learning and skills development opportunities are handled.

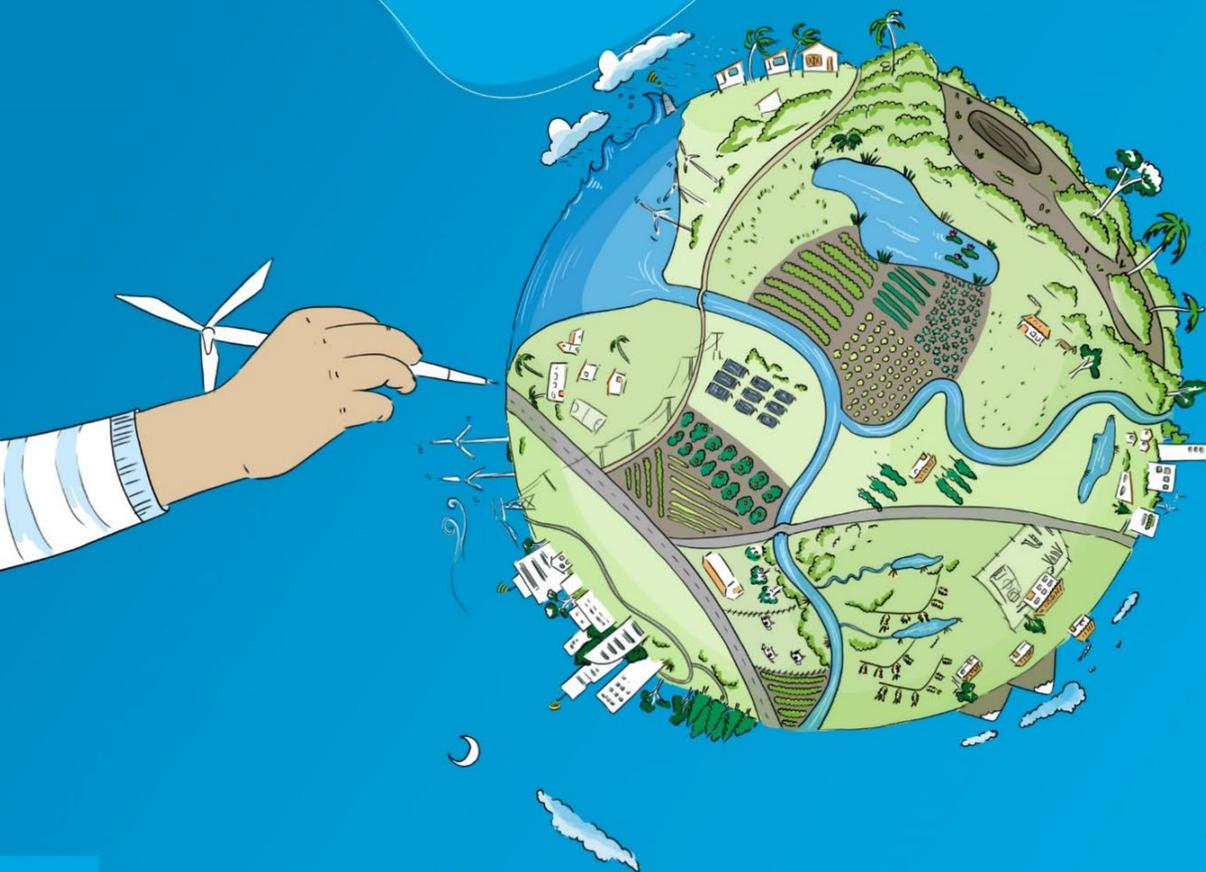
The IDB Group has also developed an annual communication plan to highlight the benefits of working at the organization, which has contributed to high levels of employee engagement reflected in the 2022 Peakon Engagement Survey. With an eNPS score of 37, the IDB Group was amongst the top 28 percent of organizations that participate in this survey.^a In addition, the results of the Diversity, Equity, and Inclusion (DEI) survey conducted in 2022 indicated that seven out of 10 IDB employees feel positive about inclusion, and these results are informing the development of a new Diversity, Equity, Inclusion and Belonging Framework, which is expected to be finalized in 2023.

^a The employee Net Promoter Score (eNPS) is calculated based on a single question survey that asks employees to rate how likely they are to recommend the organization as a place to work using a scale from 0 to 10. Employees who rate their likelihood to recommend the organization (between 0 and 6) are considered “detractors,” employees who rate 7 or 8 are considered “passive,” and those who rate 9 or 10 are considered “promoters.” The overall score is calculated by subtracting the percentage of detractors from the percentage of promoters.

REFLECTIONS

Progress toward most targets was strong in 2022. Mainstreaming of cross-cutting issues has increased significantly in new projects and mobilization of resources associated with new projects has been on the rise. The IDB Group also lived its values regarding cross-cutting issues, improving gender equality and transparency and reducing its carbon footprint. The IDB Group has also advanced significantly in the transparency, timeliness and use of monitoring data, reporting on its [public CRF website](#), which allows for flexible analysis of the information by country, project, and other variables. Also, using the internal IDB Group CRF Tracker helps identify lagging areas by automating the publication of quarterly disaggregated progress data for many indicators by country, region, sector, and departments. By regularly assessing progress against CRF metrics and including these as part of senior management discussions, timely action may be taken to channel efforts to lagging areas to enhance performance.

Despite these advances, some critical metrics are falling short. In particular, for both IDB and IDB Invest, the achievement of results at completion is not in line with aspirations. The following three chapters review the development effectiveness tools used for each of the entities of the Group throughout the project lifecycle and explore factors contributing to recent trends in project execution and results achievement with an eye to improving effectiveness and driving sustainable impact in the region.



CHAPTER 2

DEVELOPMENT EFFECTIVENESS AT IDB

INTRODUCTION

IDB exists to achieve concrete development results for citizens in Latin America and the Caribbean. The [Development Effectiveness Framework](#) (DEF) is a set of tools to foster project performance in terms of results delivery throughout the project lifecycle. The framework promotes a strategic approach to focus on relevant challenges, ensure evidence-based design and execution, safeguard resources, and establish favorable conditions for the sustainability of project results. It also aims to foster good practices as well as learning and accountability mechanisms. This chapter reports on project performance during execution (CRF [indicator 3.12](#)) and at completion (CRF [indicator 3.13](#)), discusses drivers of performance and pathways to improve it, and provides reflections for the future.

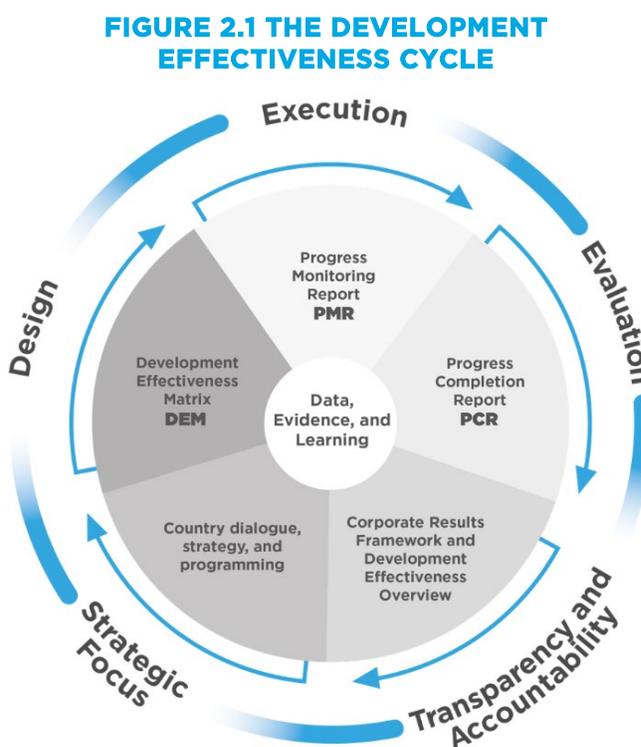
THE DEVELOPMENT EFFECTIVENESS FRAMEWORK

The IDB's DEF provides tools to support the design, implementation, and evaluation of projects to promote the achievement of tangible results. Figure 2.1 illustrates the Development Effectiveness cycle and its instruments:

At the design stage, the **Development Effectiveness Matrix (DEM)** promotes the achievement of results by assessing projects to promote their alignment with relevant challenges and focus on evidence-based needs and solutions. The DEM also helps ensure project benefits exceed costs and supports the establishment of appropriate monitoring, risk management, and evaluation mechanisms.

During execution, the **Progress Monitoring Report (PMR)** promotes development effectiveness by reporting quantitative and qualitative information on project execution on a semiannual basis, allowing the Bank to track project performance through physical and financial progress.

At closure, the **Project Completion Report (PCR)** is used for learning and accountability. It is used as the basis to evaluate project performance and report on lessons learned, assessing the extent to which projects were effective in achieving results, efficient, relevant, and sustainable.



The CRF and reporting mechanisms such as the DEO provide transparency on performance and support accountability for results delivery. Since all projects must meet a minimum threshold on the DEM for consideration of approval by the Board, there is no DEM target in the CRF and DEM scores at entry have consistently been strong in recent years. In the case of the PMR and PCR, targets for performance on each have been established in the CRF and 2022 performance will be discussed in the following sections of this chapter. The reporting of results and lessons learned from these tools fuel continuous efforts to learn from operations and derive knowledge on how to advance development in the region. These are intended to support the Bank’s **strategic focus** and country dialogue processes to invest resources in ways that can optimize impact.

PERFORMANCE DURING EXECUTION

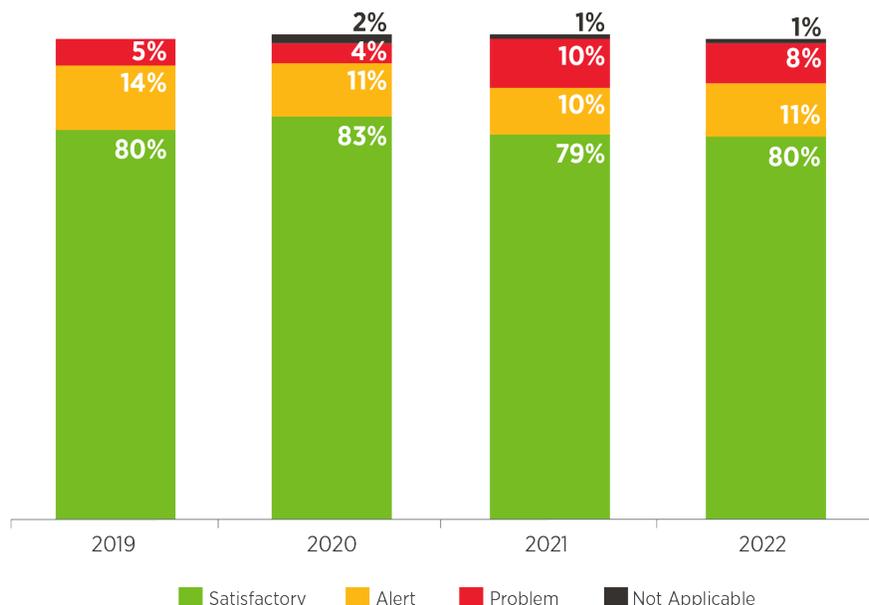
Project performance during execution is critical because it directly influences the quantity, quality, and timing of the results that a project delivers to beneficiaries. Every year, the PMR is used to evaluate operations in execution and rate them as “satisfactory,” “alert,” or “problem” based on their performance.⁹ In 2022, 508 operations in execution had reached eligibility for disbursement and were subject to the PMR classification. These operations were approved between 2006 and 2022, totaled \$38.9 billion at approval, and covered all sectors, lending instruments, and borrowing member countries. Overall, 80 percent of projects had a “satisfactory” performance rating, 11 percent had an “alert” rating, and 8 percent had a “problem” rating.¹⁰ Figure 2.2 shows how this performance classification has evolved over the last four years.

As shown in the figure, the share of operations not performing satisfactorily has hovered around 20 percent historically. According to the qualitative information provided by project teams through the PMR, underperforming projects seem to be affected by a combination of institutional capacity constraints, optimistic estimates of planning timelines, and challenging country conditions. Among the 33 operations that moved from “satisfactory” in 2021 to either “alert” or “problem” in 2022, organizational bottlenecks within the Executing Agencies and insufficient budgetary allocations were reported as the most common causes of declining performance. For instance, several operations reported delays in project implementation due to lengthy approval processes in the areas of procurement and financial management. Others highlighted complex execution arrangements, involving multiple institutions with different internal processes. Finally, some operations reported budgetary constraints due to either initial budgets not aligning with actual implementation needs or actual budget allocations being insufficient to meet those needs.

⁹ The PMR classification reported in the CRF covers only those operations that have reached eligibility for disbursement. A total of 527 operations were in execution in 2022. The sample includes operations that are required to report and receive classification, those that report and do not classify, and those that do not report and classify. PMR reporting takes place twice per year, with one cycle covering the first semester of the year and the other cycle covering the full year. The classification is assigned based on the annual progress.

¹⁰ A “satisfactory” classification refers to operations that are executing their outputs according to the physical and financial plan. An “alert” classification refers to operations that have some deviations and closer supervision is recommended. When an operation is at high risk of not executing according to the plan is classified as “problem.” One percent of projects were classified as “not applicable.” These projects plan to start execution in 2023 or later, and therefore a performance classification does not apply.

FIGURE 2.2 PERFORMANCE RATINGS OF PROJECTS DURING EXECUTION, 2019-2022



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

Similarly, those operations that were unable to transition from “alert” or “problem” to “satisfactory” during 2022 pointed to organizational issues as the most frequent cause of implementation delays. Bidding processes that involve the approval of the Controller’s Office were also indicated as a source of delays as well as understaffed Project Implementation Units (PIUs), both in terms of number and capacity.

PERFORMANCE AT CLOSURE

Although 80 percent of projects have satisfactory performance during execution, this does not guarantee that these projects will fully achieve results when they reach completion. While the realization of outputs is a necessary condition to achieve results, it is insufficient. This section reviews the results of the evaluation of IDB-supported projects at closure, which is a critical component of IDB accountability and learning mechanisms.

In 2022, project teams prepared 78 PCRs, evaluating 92 projects.¹¹ These projects were approved between 2009 and 2020 and closed between 2018 and 2021.¹² They totaled \$10.5 billion at approval, and covered a wide range of sectors, diverse lending instruments, and all borrowing member countries.¹³ According to the validated overall performance ratings at closure, 59 percent of these projects were deemed successful (a rating of “highly successful,” “successful,” or “partly successful”). Figure 2.3 shows that the success rate in 2022 was greater than the corresponding share in the three

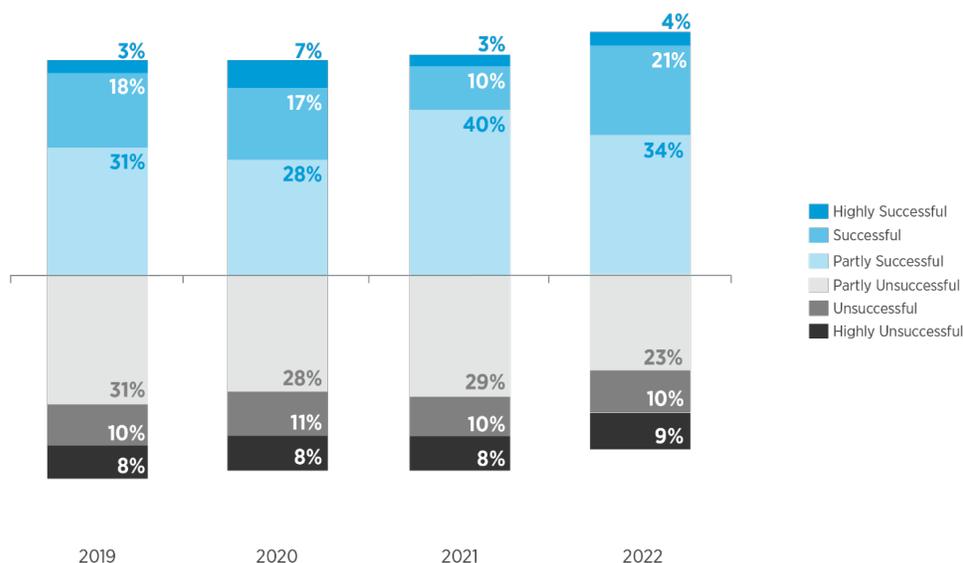
¹¹ The evaluations for projects that form part of the same programmatic approach can be presented in a single PCR. The 2022 PCR exercise refers to the set of PCRs that were due to OVE in 2022 and were validated by OVE in the first semester of 2023.

¹² Seventy-seven percent of projects closed in 2020 or 2021.

¹³ 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](#).

previous years.¹⁴ There is no clear interdependence between performance at closure and countries or sectors. However, the increase in performance from 2021 to 2022 is associated with increased client support and strengthening of the measuring and reporting mechanisms during execution, which facilitated evaluation^{15,16}

FIGURE 2.3 OVERALL PERFORMANCE RATINGS AT CLOSURE, 2019-2022



Note: The sample consists of 62, 71, 62, and 92 projects in the years 2019, 2020, 2021, and 2022 respectively. Figures may not add to 100 percent due to rounding.

The overall performance rating at closure is a rule-bound weighted average of scores in four criteria as shown in Table 2.1. Each criterion is rated on a four-point scale: “excellent,” “satisfactory,” “partly unsatisfactory,” or “unsatisfactory.”

TABLE 2.1 PCR 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 to country priorities and whether the project’s design fit the country context.	Assesses the extent to which a project achieved its objectives, as measured by previously established indicators.	Assess how project benefits compare to costs.	Assesses the conditions for ensuring the continuity of achieved results in the future.

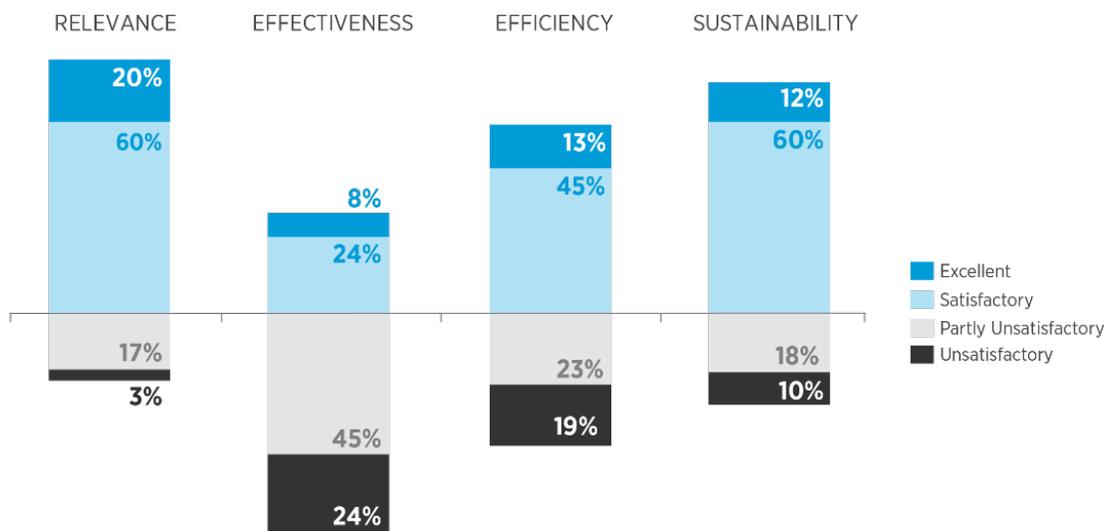
¹⁴ There are 14 individual projects that are part of the overall PROFISCO initiative. Each project was implemented in a state in Brazil with its own objectives and results. If these 14 projects are collapsed to represent a single umbrella project, then the overall percentage rate of successful projects is 54 percent. The shares of positively rated PCR were 52 percent, 52 percent, and 53 percent in 2019, 2020, and 2021 respectively.

¹⁵ Different methodologies do not allow for a direct comparison of performance rates among multilaterals. For example, IDB evaluates projects based on expectations set at start-up, and changes to the results indicators although formally delegated to Management, are not taken into consideration for the purposes of ex-post evaluation unless those changes are approved by the Board of Executive Directors. Changes to the results indicators are also delegated to Management at the World Bank and the Asian Development Bank but, contrary to the IDB, these adjustments are taken into consideration in the rating of completed projects (World Bank, 2022; ADB, 2016).

¹⁶ For PCRs prepared in 2021, the IDB had 53 percent of its operations rated as satisfactory, while the World Bank had 84 percent, and the Asian Bank had 70 percent (World Bank, 2021; ADB, 2022).

Figure 2.4 shows project classifications by criterion. A share of nearly 80 percent of projects were rated positively for relevance, a level consistent with previous years.¹⁷ A share of 32 percent of projects received a positive rating for effectiveness, making it an area of substantial concern. A share of almost 60 percent of projects were rated positively for efficiency, which is consistent with previous years.¹⁸ A share of 72 percent of projects received a positive rating for sustainability, slightly higher than in recent years.

FIGURE 2.4 PERFORMANCE AT CLOSURE BY CORE CRITERIA 2022



Note: The sample consists of 92 projects validated in 2023. Figures may not add to 100 percent due to rounding.

The achievement of a project’s development objectives is verified through outcome indicators. The 92 projects evaluated through PCRs in 2022 had a total of 818 indicators.¹⁹ Figure 2.5 shows that projects demonstrated at least an 80 percent achievement of targets for 56 percent of outcome indicators.²⁰ Twenty-six percent of indicators did not show achievement or attribution of results or were not measured.²¹ The remaining 17 percent of indicators had a level of achievement that was greater than zero, but below 80 percent of its target.

¹⁷ Regarding the relevance criteria, 59.6 and 19.8 percent of projects were rated satisfactory and excellent respectively. In total 79.4 percent were positively rated.

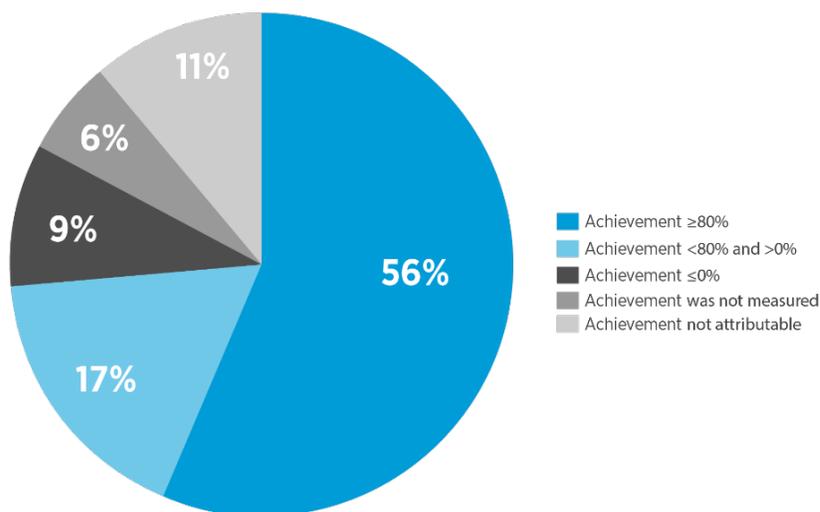
¹⁸ The share of projects that were rated positive in the efficiency criterion was 64 percent, 62 percent, and 53 percent in 2019, 2020, and 2021 respectively. In 2022, 45.3 and 13.3 percent of projects were rated satisfactory and excellent in the efficiency section. In total 58.6 percent were positively rated.

¹⁹ These 92 projects had a total of 245 specific development objectives. From these objectives, 47 percent were rated as satisfactory or more with regard to effectiveness.

²⁰ An objective is rated effective if the average achievement ratio among its outcome indicators is 80 percent or more.

²¹ Lack of attribution describes a situation where an indicator shows a positive achievement ratio, but there are no evidence-based underpinnings that support a plausible contribution of the project to the outcome. When we consider the 225 projects evaluated in the last three cycles, from 2020 to 2022, they had a total of 1,934 results: 54 percent showed an achievement ratio of at least 80 percent, 16 percent showed a positive achievement ratio lower than 80 percent, 10 percent showed a null achievement ratio, 10 percent were not measured, and 9 percent failed to provide sufficient attribution arguments.

FIGURE 2.5 ACHIEVEMENT OF OUTCOME INDICATOR TARGETS BY CATEGORY



Note: The sample consists of 92 projects validated in the last validation cycle. Overall, these projects had 818 indicators.

FACTORS AFFECTING PROJECT PERFORMANCE

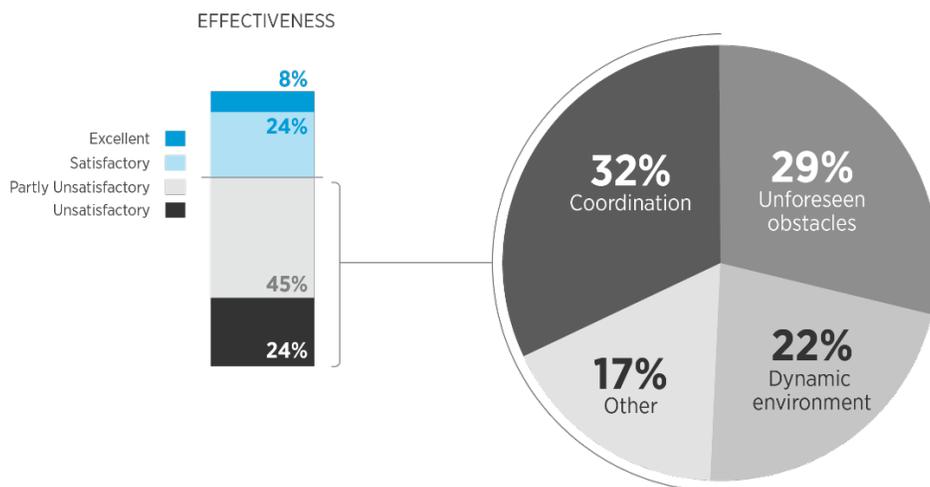
The relatively low percentage of projects rated excellent or satisfactory in the effectiveness dimension (32%; see Figure 2.4) raises the question on what is affecting performance on this dimension and what can be learned for current and future operations.

Figure 2.6 zooms in on those 63 projects that were rated partially satisfactory or unsatisfactory on the effectiveness dimension. Analysis of the PCRs of these projects indicates that performance challenges can be grouped in three categories: (i) 29 percent of projects were significantly limited by unforeseen obstacles in complex circumstances; (ii) 21 percent of projects experienced a change in the environment in which they operated; and (iii) 32 percent of projects suffered from a lack of coordination among multiple actors. The remaining 18 percent of operations faced a variety of other limitations.²² Out of the third group of operations, that faced coordination challenges, 70 percent failed to obtain sufficient financing or meet conditions to properly execute, 15 percent lacked inputs from external contractors, and 15 percent were affected by weak beneficiary adoption.

Although most projects face multiple challenges at various levels and often simultaneously, the analysis allows for a better understanding of their relative importance. These drivers are not an exhaustive list, but they do shed light on prevalent challenges that operations face - and that are likely to lead to underachievement on initial execution milestones, delays, or partial cancellations. They are examined in more detail and with specific examples below.

²² Most of these limitations are related to evaluation and validation issues. The categorization of projects into the three main categories were identified by two independent trained coders. Cohen's kappa 0.65 show substantial inter-reliability (Landis and Koch, 1977). These findings are consistent with those based on the analysis of 62 operations with PCRs prepared in 2021.

FIGURE 2.6 FACTORS AFFECTING UNDER-PERFORMANCE ON THE EFFECTIVENESS DIMENSION



Note: The bar graph includes all 92 projects validated in the last validation cycle, while the pie chart only includes the 63 projects rated “partly unsatisfactory” or “unsatisfactory” on effectiveness. Factors affecting underperformance on the effectiveness dimension are grouped in the following four categories: (i) unforeseen obstacles refer to challenges derived from information shortcomings at entry or during execution (e.g. anthropological findings in an infrastructure project); (ii) dynamic environment refers to changes in the economic, social, or environmental context in which projects operate (e.g., natural disasters), (iii) coordination refers to challenges associated with the interdependence of multiple actors relying on inputs from other actors to carry out their tasks (e.g., donors decide to reduce financing or beneficiaries display low project adoption); and (iv) other refers to other limitations (e.g., evaluation and validation issues).

Unforeseen obstacles. To guarantee a proper allocation of resources, development practitioners are required to identify needs of the many actors involved in a project and understand their incentives. The success of a proposed solution relies on how well it fits these needs and align to the given incentives (Vivalt, 2015; Kilby, 2015). Unfortunately, the cost of data needed for diagnostics and forecasting and the expected value of such information imposes a tradeoff (Biemer, 2009; Citro et al., 1998; Groves and Heeringa, 2006). The more information generated to design and monitor a project, the higher the cost. Data limitations create uncertainty and, as a consequence, some projects will be approved with resources, schedule, and approach that approximate actual needs, and thus will require revisions during execution for the project to achieve success.²³

A sewage and wastewater treatment project in Peru approved in 2011 illustrates the importance of this factor for development outcomes. For the installation of the treatment facilities, the project identified land outside of archeologically protected areas during project preparation in order to minimize the probability of archeological findings. Given the need for treatment works for the population on one hand and, the fact that an archaeological survey to bring greater certainty was as expensive as funding the first stage of the works, on the other, the team proceeded with limited information. The project encountered archeological findings in 2012. As a result, the project was rated as “alert” in the PMR for three years during early execution. Ultimately, the project team was able to

²³ In addition to uncertainty, development practitioners have incentives to be optimistic at design and during execution because more efficient projects are preferable to approvers and managers when evaluating competing options. However, this optimism means that projects often may not achieve development outcomes at pre-determined levels, within budget, or on time. This over-optimism can sometimes lead to classifying a project as unsuccessful, even in cases when the project brings social benefits that exceed its cost.

find solutions, including a new layout for the wastewater plant that avoided the archeological site. The project closed with a seven-month delay, but it ultimately provided important benefits to the population. However, the project failed to achieve a significant share of the targets set before the archeological findings came into play and obtained a “partly unsatisfactory” effectiveness rating.²⁴

Dynamic environment. Projects are implemented under a particular set of economic, social, and environmental conditions that define the operational environment. These conditions are dynamic. Earthquakes, hurricanes, and pandemics affect the ability of people to carry out economic activities, including those associated with a development project (Brinckmann, Grichnik, and Kapsa 2010; Giones et al., 2020; Gruber, 2007). Development practitioners including IDB teams, cannot design a plan, monitor it, and then watch development outcomes materialize automatically. Unexpected events may make a project design and execution plans irrelevant to achieving desired development objectives. For instance, prior to 2020, no project team could have planned for risks such as the COVID-19 pandemic or the war in Ukraine. Yet, both have since severely impacted every day global activities in the Latin American and Caribbean region, leading to inflation, depressed investment, and slowed regional economic growth (Cavallo et al., 2022), with repercussions on portfolio execution.

All 2022 PCRs speak to this point, though a particularly vivid example is a multi-stage project to promote private investment, whose first stage was approved in 2018. This project was originally conceived to consist of two separate operations that would together contribute to achieve the project objective. However, when COVID-19 hit in early 2020, the government of Argentina had to reallocate resources to respond to the crisis and could not pursue the second operation. Though not technically a cancellation, the effect was similar, given the way multi-stage projects are evaluated: the progress made during the first stage was evaluated against the overall development targets of the multi-stage project and found to be modest. Thus, the operation received an overall “partially unsatisfactory” effectiveness performance rating.²⁵

Coordination. The interdependence of actors relying on inputs from other actors to carry out their tasks may also affect project performance. Success might be jeopardized if any of the agents make decisions or take actions that depart from the project logic. Governments set priorities, allocate funds, and create conditions for proper execution. Executing units carry out activities to provide project beneficiaries with goods and services. Project beneficiaries adopt goods and services to realize development outcomes. The incentives, capacities, and technology available to these actors influence project success. Moreover, many projects report turnover in key project agent positions which implies additional costs and risks derived from reestablishing relationships and ensuring continuous capacity building.²⁶

The PCRs validated in 2022 provide insights into how development outcomes rely on the performance of actors in their different roles. An example is a project in Uruguay approved in 2012. The government was expecting complementary funding from a local municipality to finance drainage, but this funding was delayed and incomplete. In addition, the project executing unit found that the

²⁴ For more information on the project please see the [Project Completion Report for PE-L1060](#).

²⁵ For more information on the project, please see the [Project Completion Report for AR-L1283](#).

²⁶ Most projects also rely heavily on the performance of contractors who provide critical inputs, rely on approvals from several other government offices, and rely on the inputs to demonstrate achievement from evaluators and validators. Many multilateral organizations, development think tanks, and universities have initiatives dedicated to understanding better how actors make choices (See the [IDB](#) and the [World Bank](#) initiative sites or Kremer et al., 2019 for examples of academic studies).

available census data was inappropriate for informing the location of connections and thus struggled to target households. Despite these limitations, the government provided sufficient resources to provide a subset of households with a sewage network, and 61 percent of those households connected. The project evaluation found that some household heads lacked the technical knowledge to connect to the network and did not see the benefit. Hence, many households continued to dispose of wastewater through septic tanks. As a result, there were only limited improvements to local contamination levels. The project had a two-year delay to close and obtained a “partly unsatisfactory” effectiveness rating.²⁷

PATHWAYS TO ACHIEVE RESULTS

The challenges outlined in the previous section are only some of those that can impact project execution and results delivery. Successful projects are not immune to these challenges. However, they identify problems during execution and take a proactive approach to overcome them. Successful operations had a coordinated set of actors with appropriate capacities and resources to deliver timely decision-making. They adjusted their plans and reallocated resources to mitigate the effects of unexpected events. Boxes 2.2, 2.3, and 2.4 provide examples of such projects and the steps they took to achieve success.

BOX 2.2 – PROFISCO FEDERAL DISTRICT FISCAL MODERNIZATION AND STRENGTHENING PROGRAM

The PROFISCO Federal District project in Brazil was designed to improve fiscal management efficiency and transparency. When the project started, an unforeseen obstacle was that the executing unit lacked implementation experience and had limited technical capacity. Later, it became clear that the proposed innovative solutions would require a longer-than-expected incubation period. Finally, the operation faced electoral changes at the national and sub-national levels, which put stress on execution. To overcome these limitations, the project team involved critical actors to proactively develop a number of solutions. The team worked with the Finance Management Committee (COGEF), the National Finance Policy Council (CONFAZ), and the Ministry of Finance. First, they provided strengthening and accompanying to the executing agency. This support was provided through training, with support from COGEF as an interstate cooperation entity, and through technical cooperation to exchange successful experiences. Second, to keep all actors focused on results, they developed an evaluation methodology to diagnose relevant issues to the tax and financial administration (MacDowell et al, 2017). Third, the project invested resources in generating and using data for massive ex-ante fiscal audits using new digital technologies such as big data, artificial intelligence, machine learning, and advanced analytics. The coordinated work of key actors, specially to support to the executing unit, the focus on results, and the identification and adoption of new technology, allowed for the project to compensate for loses in time and resources given unforeseen challenges. Consequently, despite the project requiring an extension of four months for its implementation, all but one of the PMRs were classified as satisfactory. The project achieved all its objectives, resulting in an overall “successful” evaluation.

For more information on the project, please see the [Project Completion Report for BR-L1250](#)

²⁷ For more information on this project, please see the [Project Completion Report for UR-L1081](#).

BOX 2.3 – PROGRAM TO SUPPORT LABOR INSERTION

A project in Paraguay aimed to improve job placement for young people, but the appointment of the execution unit was delayed. To overcome this problem, the team worked with the Ministry, who appointed staff to the project. Together, they identified and adopted technologies not readily available during design time. The team implemented an improved unique service window for people seeking employment by adopting an enterprise architecture system in the Ministry of Labor, Employment, and Social Security. This system provided the executing unit and the Ministry with a strategic vision and a high-level design based on phases and modules (Urquidi et al., 2021). The system improved the efficiency and effectiveness of services by creating a unique user identifier to monitor the support in training services, labor intermediation, and benefit registration (Urquidi, Gonzales, and Ortega, 2023). This registry made it possible to follow a beneficiary in time and provide companies and job seekers with information through the service window. The project had a two-year delay and the IDB classified the project as on alert in one PMR. However, the proactivity of the team and Ministry ultimately enabled the project to achieve its objectives at closure. The project obtained an “excellent” effectiveness rating and had an overall “successful” classification.

For more information on the project, please see the [Project Completion Report for PR-L1066](#)

BOX 2.4 – SUPPORT TO IMPROVE SUSTAINABILITY OF THE ELECTRICITY SERVICE

A project in Suriname to enhance electricity services in rural areas had a robust design, with most targets set conservatively. However, the challenges of working with rural disperse areas led to the proposal of targets for some indicators that overestimated the number of households in the target area. To address this challenge, the project financed fieldwork to reassess demand resulting in a significant reduction of targeted households. The project team and executing unit coordinated with other critical actors to provide upgrades to connect the village and added surrounding communities to the grid. The intervention targeted universal access to 24/7 electricity and achieved its targets, meaning that all the people in the communities benefited. The impact evaluation registered that 99 percent of treated households reported receiving electricity, helping the country in the process of achieving universal access to electricity, one of the Sustainable Development Goals.

The Bank also made capacity-building opportunities available to the staff of the electric utility responsible for the project. These opportunities included professional training in project management, project leadership sessions, and fiduciary management working sessions. The Project Team Leaders, Chief of Operations, Operations Analysts, and Fiduciary Specialists guided the executing unit and other staff on matters related to planning, procurement management, financial management, and monitoring and reporting. As a result, despite two alerts during execution, the project did not experience delays to close and received “successful” effectiveness and overall ratings.

For more information on the project, please see the [Project Completion Report for SU-L1009](#)

The analysis of the factors that limit effectiveness show that, in addition to the need to strengthen design, execution, and evaluation capacity, a project’s success may require proposing more flexible solutions in the design stage, proactive implementation of pertinent modifications during execution, and evaluation mechanisms at closure that incentivize such proactivity and reward learning.²⁸ The DEF

²⁸ Other multilaterals, such as the World Bank, incentivize proactivity by utilizing a split-rating evaluation approach. This methodology allows for projects to update targets upon verifiable unexpected obstacles or events. The revision relies on high-level approvals of such changes to keep targets realistic and ensure accountability mechanisms remain in place. It evaluates projects based on a weighted average of both original and updated targets. For more information, please see the [World Bank Manual for Reviewers](#).

tools are useful to promote success as project assessments at the design and execution stages are correlated with performance rating at closure. A higher score in the DEM at entry is associated with better performance during execution and at closure (Corral and MacCarthy, 2018). The PMR classification, along with basic project characteristics during execution are associated with performance at closure (Álvarez et al., 2021). Projects with the following three characteristics have a 20 percent greater likelihood of receiving a negative rating in effectiveness: (i) a PMR classification of “problem” or “alert” in at least two of their first three years of execution; (ii) Projects that have an extension of the project’s expected execution period by 33 percent; and (iii) Projects whose total financing is reduced by 20 percent or more compared to the originally approved amount.²⁹ The Bank is set to review its tools, especially the DEM and PMR, and develop complementary mechanisms to foster supervision.

During 2022, the IDB made progress on the implementation of a proposal to enhance results-based management, with a view to strengthen execution. This proposal addresses the reality that the realization of outputs is a necessary, but not sufficient, condition to achieve results. The proposal includes three main elements.

The first element is the formalization of five new project management meetings at critical points within the start-up, midterm, and closing stages of the project. The meetings were piloted in 2022 with the aim of enhancing results-based management by monitoring, throughout the entire execution stage, those factors that signal threats to a project achieving success. Together, the meetings are expected to: i) improve the timing and maturity with which projects reach eligibility; ii) minimize midterm deviations in project relevance, effectiveness, efficiency, and sustainability; iii) increase the number of indicators that are measured at the closing stage, and iv) improve the quality of the lessons captured upon project completion.

Second, the IDB is planning to transform the PMR into a management-for-results tool for both IDB staff and executing agencies. In addition to measuring performance, the new PMR is expected to predict the probability of achieving results based on an operation’s characteristics and its implementation status, thus allowing for proactive decision-making. It will also strengthen its links with other development effectiveness instruments as well as all project management tools, while also improving reporting to foster efficiency, knowledge, and learning.

Third, the IDB is making progress on a strengthened portfolio review exercise, conducted by each Country Office in coordination with the borrowers and executing agencies of Bank-financed projects. This approach complements the existing review with an assessment of the risk factors that can affect the achievement of development results at closure. It is supported by the Smart Portfolio Platform that centralizes information on key aspects of project and portfolio performance. These improved portfolio reviews are expected to help with the timely identification of any potential deviation in achieving the project’s expected results, facilitate exploration of its causes, and determine the proper course of action to manage the risks before they materialize.

²⁹ Thirteen out of the 92 operations validated in 2023 had a cancellation of at least 20 percent. Out of those thirteen operations, eleven were not effective and eight had an overall unsuccessful rating.

The implementation of these proposals progressed at different speeds during 2022 and complement ongoing work to improve the client experience and support fiduciary processes, including by strengthening executing agency capacity. The transformation of the PMR into a results-based management tool is still at the initial stages of its conceptual development, while the other two proposals have moved past this conceptual stage and into testing. A pilot carried out in the second half of 2022 tested the functionality of the project management meetings in 19 operations, across four different countries (Argentina, Peru, Belize, and Barbados). The pilot had promising results, with most of the participants acknowledging that the management meetings generated benefits for supervision. As for the new approach to country portfolio reviews, a set of guidelines was drafted in the first quarter of 2022 and shared with country teams for early use and feedback prior to their effective implementation.

REFLECTIONS

Since the inception of the DEF, the IDB has made significant progress in strengthening its tools to adopt good practices and innovating to promote development by encouraging evidence-based design, monitoring execution through relevant warnings about delays, cancellations, and performance, and identifying what works to enable key stakeholders to learn. Evaluations at closing have provided credible information on project performance for accountability. Progress throughout recent years has provided the institution with sobering and motivating information on the nature of the work at promoting effectiveness. To tackle the factors limiting performance presented in this chapter, it is important to address three areas outlined below.

The alignment of incentives across governments, executing units, and bank teams is critical to ensure cooperation and success. The Bank is strengthening its monitoring and evaluation mechanisms to improve communication and transparency, recognizing that project execution is dependent on the performance of multiple actors and susceptible to environmental changes and the performance of third parties. Revising execution plans and reformulation processes with proper checks and balances may help maintain teams focused on achieving realistic targets. This is especially important when external decisions or environmental changes decrease the scope of a project (for example, when government priorities change and such change leads to the cancellation of funds). Strengthening communication channels along with monitoring and evaluation processes to reward collaboration, prevention, proactivity, and performance may promote the development of more flexible cost-effective designs along with a more agile execution to respond to unanticipated obstacles. Selected lines of work in this area include revising approval and reformulation processes, training to encourage reporting and learning, promoting cooperation across local actors, and generating reports to country managers on progress toward development results.

Learning from successful and unsuccessful operations can provide insights for the design of projects or to other projects in execution facing similar difficulties. Currently, the Bank is strengthening its training and execution support programs to ensure the actors involved in a project (i) have a common understanding of the approach to achieve development results, (ii) know relevant good practices, and (iii) use the tools available to move forward. In addition, the Bank is working towards strengthening risk identification and the practical application of lessons learned to inform operations in design and execution. The improved flow of knowledge across operations can further improve the

Bank's ability to differentiate project-specific problems from Bank-wide challenges and promote innovative responses to them. Examples of initiatives to foster learning and innovation include generating certification schemes on development effectiveness, offering project teams an online repository of evidence-based solutions, risks, and lessons learned, and producing tools that serve as a guiding thread to assess the evaluability status of projects along the execution cycle.

Many project teams face high costs to obtain the necessary data to diagnose or evaluate projects in depth. The IDB follows an evidence-based approach to assess challenges, allocate resources through project and technical cooperation funds, and demonstrate results. However, teams often lack the data to sufficiently monitor needs and realities to address change. The lack of data weakens decision-making, leading to suboptimal resource use. To address these challenges, the Bank continues working with countries to update data collection tools to improve the precision and frequency of information as well as the focus on information that is relevant, by embracing new technologies to collect data and facilitate its responsible and timely use. Examples of initiatives to advance data usage include providing teams with a repository of indicators that rely on data already available and with high geographic coverage in Latin America and the Caribbean, such as administrative records, satellites, and data from phone records. Other initiatives include reviewing the DEM and PMR tools to improve their predictive capacity.

These reflections do not present an exhaustive list of all initiatives that the IDB, its clients, or its partners carry out to drive effectiveness. However, the areas of improvement and the examples here demonstrate the Bank's continued commitment to supporting a collaborative and innovative approach to increase the effectiveness and efficiency of its operations to achieve tangible, measurable results for the citizens of 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 LAC 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 (CRF [indicator 3.12](#)) and at completion (CRF [indicator 3.13](#)). It also includes a deep dive into the challenges facing the financial institutions portfolio. Before delving into project performance during 2022, the following section provides an overview of how IDB Invest manages impact.

THE IMPACT MANAGEMENT FRAMEWORK

The following is a brief description of the tools that make up the Impact Management Framework across the project cycle illustrated in Figure 3.1.

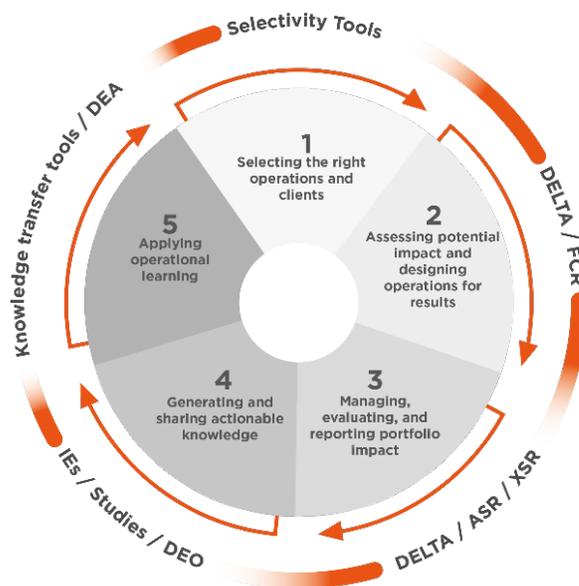
1. Selecting the right operations and clients

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.

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

The cornerstone of our framework is the **DELTA** (Development Effectiveness Learning, Tracking, and Assessment) 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.

FIGURE 3.1 THE IMPACT MANAGEMENT FRAMEWORK



The DELTA score is a key decision-making factor in IDB Invest's **portfolio approach**, together with the Financial Contribution Rating, which assesses each development related investment's contribution to IDB Invest's long-term financial sustainability, based on the risk-adjusted return on capital (RAROC). 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 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 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.³⁰ 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, as well as 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.

4. Generating and sharing actionable knowledge

IDB Invest selects some investments for impact evaluations. 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** (DEA) 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 850 lessons from more than 500 operations.

³⁰ 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 it has started having development impact. An XSR is prepared one year after reaching EOM (e.g., projects that achieved EOM in 2021 had their XSR prepared in 2022).

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, which are established during operation structuring, are the basis for monitoring and reporting on development results. The results matrix defines the operation’s objectives, outlines the vertical logic (i.e., how the development objectives are expected to be achieved), and sets corresponding outcome³¹ and output³² indicators and targets. In turn, these indicators and targets provide the evidence needed to drive the scores for each category of the DELTA Impact Rating System and determine contributions to specific SDGs. The monitoring and evaluation plan contains additional relevant indicators aligned to business priorities and other project components, such as advisory services, to ensure adequate performance monitoring and evaluability.

Data is collected for each indicator to compare actual results versus targets and assess whether the operation’s components are being executed as expected (including non-financial components such as advisory services or Environmental and Social Action Plans). Based on this information, the DELTA score is updated annually to reflect actual performance towards achieving impact targets. Additionally, the performance of each operation in the active portfolio is classified as “satisfactory,” “alert,” or “problem”³³ based on how much the DELTA score in supervision deviates from the score at approval. As would be expected, performance during supervision is a solid predictor of an operation’s results at completion.³⁴ This assessment is documented in Annual Supervision Reports (ASRs) and consolidated in Development Impact Supervision Reports, which are presented to the IDB Invest Portfolio Supervision Committee and the Board of Executive Directors on a quarterly basis. In addition, for funds, equity, and mezzanine debt operations, supervision results are presented on a biannual basis to the IDB Invest Active Equity Committee.

³¹ Outcome indicators measure what is expected to be different as a result of the delivery of project outputs (or project components and activities). They represent the final level in the results chain, reflecting the end development impact objectives of the transaction.

³² Output indicators are identified at the level of components. They describe the direct deliverables or the products that should be generated during the execution of the operation.

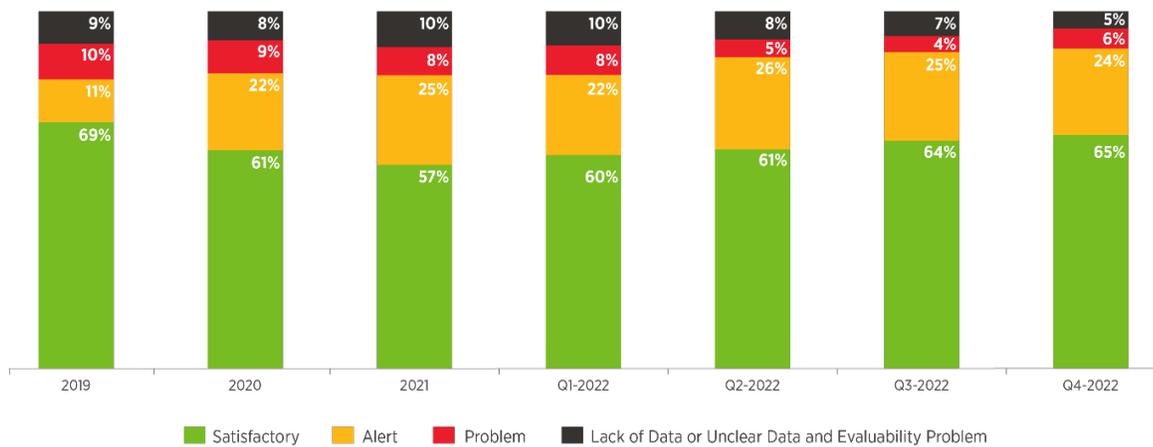
³³ An “alert” classification refers to operations that have the potential to achieve their targets, but closer supervision is recommended. When an operation is at high risk of not reaching its development goals, it is classified as “problem.” These classifications are not necessarily related to the financial performance of the operation.

³⁴ This marker of a robust supervision system was confirmed by OVE in its Evaluation of IDB Invest in 2023.

OVERALL RESULTS AND PORTFOLIO EVOLUTION

As of the end of 2022, 257 operations³⁵ were in supervision totaling \$13.3 billion in disbursements between 2016 and 2022 and covering all sectors and lending instruments. Of these operations, 65 percent were classified as “satisfactory,” 24 percent were “alert,” and 6 percent were “problem.” The proportion of “satisfactory” operations increased steadily each quarter of the year, showing signs of recovery of the portfolio from the effects of the pandemic.³⁶ Overall, the proportion of projects classified as “alert” and “problem” decreased slightly during 2022 as compared to 2021, and there was a notable reduction in the number of operations classified as “lack of data” thanks to concerted efforts by IDB Invest to support clients with data issues. For instance, the share of operations with financial institutions (FI) classified as “lack of data” was 6 percent in 2022, down from 17 percent in 2020.

FIGURE 3.2 - EVOLUTION OF PORTFOLIO CLASSIFICATIONS SINCE 2019



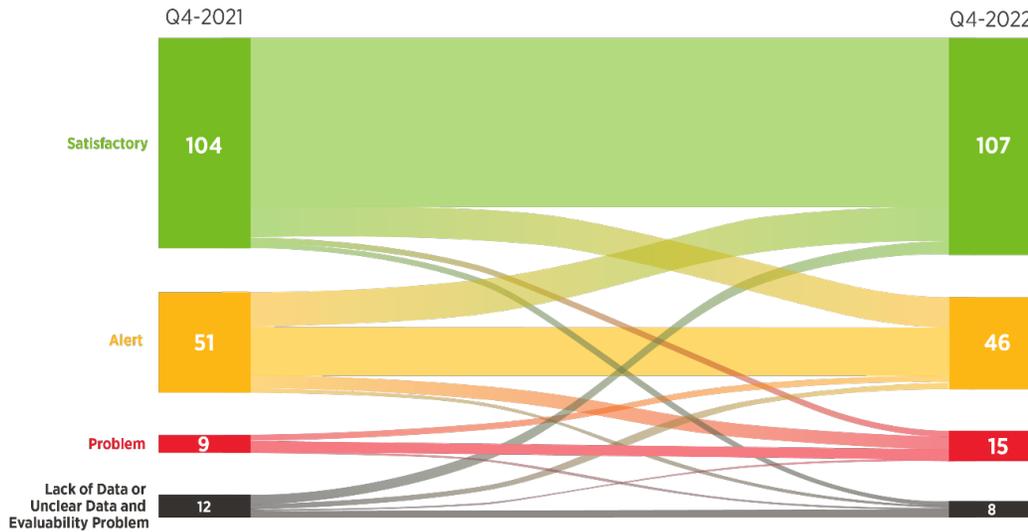
To better understand the dynamics of the portfolio, it is important to note how the classification of projects that were on “alert” at the end of 2021 changed in 2022. As illustrated in Figure 3.3 below, between the two years, 35 percent of “alert” operations (18 operations) went back to being “satisfactory” and 14 percent (7 operations) went to “problem” in 2022. Portfolio performance in 2023 will depend to a large extent on the evolution of the 24 percent still in “alert” in 2022.

Among the 17 operations that moved from “satisfactory” in 2021 to either “alert” or “problem” in 2022, some of the main contributing factors were lower than expected results in terms of green energy production or home sales for corporate projects, and lower than expected growth of targeted portfolios for FIs. In the infrastructure segment, reasons for downgrades included energy projects not meeting installed capacity targets, construction delays, and challenges with scaling innovative services.

³⁵ Operations in supervision are those in IDB Invest’s portfolio that have not had a final evaluation (XSR) yet.

³⁶ Operations are assessed based on the previous year’s data to correct for any seasonality effect (i.e., year-end targets are compared with year-end results achieved). Therefore the 2022 supervision assessments were mostly conducted based on 2021 data, and subsequently for previous assessment years.

FIGURE 3.3 – SHIFTING BETWEEN PORTFOLIO CLASSIFICATIONS FROM 2021-2022



RESULTS BY SEGMENT

While IDB Invest’s portfolio has shown some signs of recovery from the pandemic over the past two years, performance varies by segment, and operations with FIs continue to face challenges. Figure 3.4 illustrates the trends for each segment in the past four years.³⁷

Infrastructure and energy. Continuing a historic trend of solid performance, 69 percent of operations in this segment were deemed “satisfactory” in supervision at year-end 2022. The effect of the pandemic on infrastructure and energy operations was mostly transitory and mainly on the supply side (e.g., lack of labor and temporary supply chain disruptions). Infrastructure clients did not cite demand issues as a main impact of the pandemic in the client surveys IDB Invest carried out in 2021 and 2022. Demand for basic services such as electricity and water was not substantially affected because it was often supported by government measures during the pandemic. However, demand was more volatile among other types of operations, increasing their sensitivity to the crisis. For instance, road operations were impacted by reduced mobility and traffic, while ports were affected by trade and supply chain disruptions. Similarly, operations focusing on microgrids or off-grid solar panels for households or businesses, innovative health and education business models, and value chain financing facilities also faced greater demand volatility.

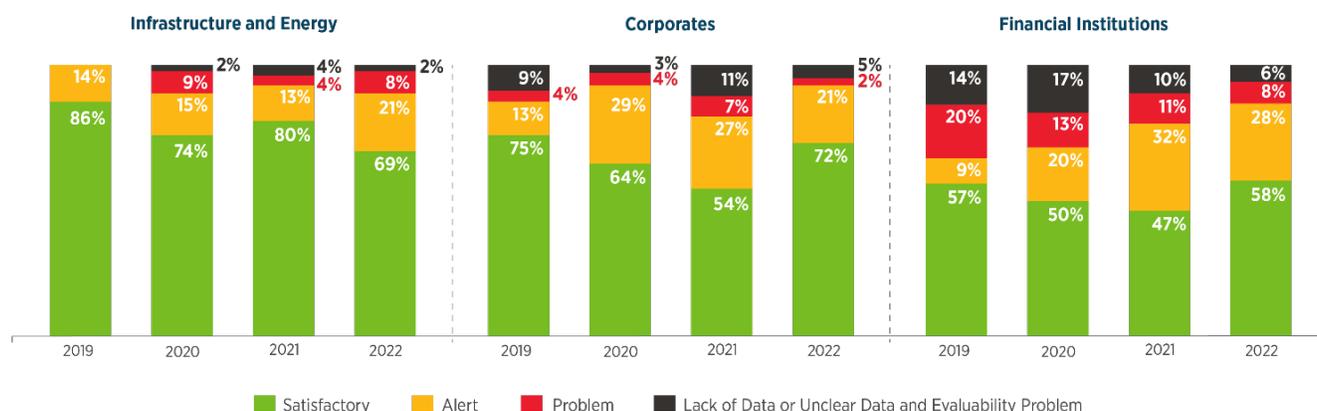
Corporates. Performance in this segment was also solid in 2022, with 72 percent of operations classified as “satisfactory.” Operations through corporates were harder hit by the pandemic than most infrastructure operations. In addition to the supply constraints mentioned above, this segment faced compounding factors such as reduced demand, lower production and higher prices. However, it appears to be recovering, with performance improving significantly in the 2022 supervision assessment. The three main sectors in this segment (representing 77 percent of corporate operations) are agriculture, industry, and science and technology. They are all performing steadily, with 77, 72, and

³⁷ Note that the supervision classifications reported for 2022 are based on the assessment of 2021 data, and still reflect the impact of the pandemic.

67 percent of “satisfactory” operations, respectively. As for the other sectors in this segment, there are not enough operations to draw conclusions. Non-performing operations were typically those most vulnerable to the effects of the pandemic, such as urban transport, tourism, and education operations affected by mobility constraints, as well as companies depending on products or services purchased on credit. Commodity prices also affected some agriculture and industry operations as droughts impacted sugarcane production and leather prices fell globally.

Financial institutions. The share of “satisfactory” operations in the FI segment was 58 percent as of year-end 2022. Performance in this segment was greatly affected by the pandemic. More conservative lending standards in response to the economic shock, coupled with reduced demand from clients, resulted in slower portfolio growth. This disproportionately affected the beneficiary groups targeted by IDB Invest, such as MSMEs. Although the segment’s performance improved in 2022, achieving the expected results remains challenging. These issues are discussed in more detail below in the deep dive on FIs.

FIGURE 3.4 - EVOLUTION OF CLASSIFICATIONS BY SEGMENT SINCE 2019



BOX 3.1 – SDG CONTRIBUTION AND IMPACT REPORTS LINKED TO RESULTS MATRIX INDICATORS

To map its portfolio to the SDGs, IDB Invest only considers *contribution* to these global goals. This means that operations include a relevant indicator that must be tracked to demonstrate progress towards a pre-specified SDG target in line with the [IDB Group SDG Classification Methodology](#). Every year, this information is published in the public [SDG website](#). Standardized indicators are mapped to SDG targets directly in the IDB Invest Results Matrix system, which automatically suggests the SDG targets that may apply for a specific indicator and provides guidance on which target to select, which is ultimately defined by the development effectiveness specialist.

By including SDG targets in its Results Matrix system, IDB Invest can report on its contribution in a more accurate way. Instead of saying “20 percent of projects contributed to SDG 8” IDB Invest can now report how it “supported SDG target 8.3 by financing X amount of MSMEs.” In addition, beyond expected SDG contributions at approval, IDB Invest measures the actual contribution to SDG targets during supervision annually and updates the Results Matrix accordingly.

Automation has also allowed IDB Invest to improve how it visualizes the impact results achieved by its portfolio and sharpen the institutional focus on results. The Impact Dashboard launched in 2022 captures up-to-date figures on the impact generated by IDB Invest at different levels, which can be disaggregated by year, region, country, and sector, among other filters. The dashboard illustrated in Figure 3.5 below is being used across all areas of the institution.

FIGURE 3.5 IMPACT DASHBOARD



PERFORMANCE AT PROJECT COMPLETION

OVERALL RESULTS AND PORTFOLIO EVOLUTION

IDB Invest prepares a final evaluation called the Expanded Supervision Report (XSR) for all operations in the portfolio once they reach early operating maturity, the ratings of which are validated by OVE. In 2022, IDB Invest prepared 49 XSRs covering 54 operations that were approved between 2008 and 2020 for a total amount of \$2.4 billion (plus an additional \$772 million in mobilized resources: \$78.5 million in funds and \$693.5 million in B loans).³⁸ Overall, the OVE-validated project outcome was positive³⁹ for 51 percent of XSRs (compared to 62 percent in 2021),⁴⁰ the lowest performance of the last four years.

As for the ratings by core evaluation criteria,⁴¹ 86 percent of projects were rated positively in relevance, 73 percent in efficiency, 69 percent in sustainability, and 24 percent in effectiveness. Focusing on effectiveness, almost 40 percent of projects evaluated received a “partially unsatisfactory” rating, which means they achieved mixed results. Despite experiencing some shortcomings, these projects delivered important impacts in at least one or more dimensions,⁴² and almost half of them had one or more objectives rated as “excellent.” For instance, a project that supported the renovation of sugarcane fields in Brazil achieved excellent results in terms of increased industrial production and reduced GHG emissions but fell short of agricultural yield targets mainly due to severe droughts. As highlighted in past DEOs, projects in the “partially unsatisfactory” category of effectiveness are still generating relevant net benefits for society. For all real sector projects, IDB Invest computes the Economic Rate of Return (ERR) for project finance operations or the Economic Return on Invested Capital (EROIC) for corporate projects. In the case of the XSRs rated as “partially unsatisfactory” for effectiveness, the average ex-post OVE-validated ERR/EROIC is 11 percent.⁴³ Underlying this effectiveness analysis, there are important differences in performance across business segments, as described below.

³⁸ The 49 XSRs cover a sample of 15 countries with EOM dates from 2016 and 2021. Not all EOM dates are in 2021 since some XSRs cover more than one operation; 72 percent of operations evaluated correspond to EOM 2021 and the rest to prior years.

³⁹ The positive classification includes all XSRs rated in their Overall Project Outcome as “partly successful,” “successful,” and “highly successful.”

⁴⁰ The 62 percent corresponds to operations that had an XSR prepared in 2021 and were validated by OVE and reported in the 2022 DEO. In addition, 4 operations that exited the IDB Invest portfolio after being in Special Assets (SAT), and which traditionally did not enter the evaluation sample before 2022, did not have an XSR prepared but were included in the final performance statistic and given an automatic negative rating by OVE. This led to a final performance indicator value of 57 percent of operations rated positively.

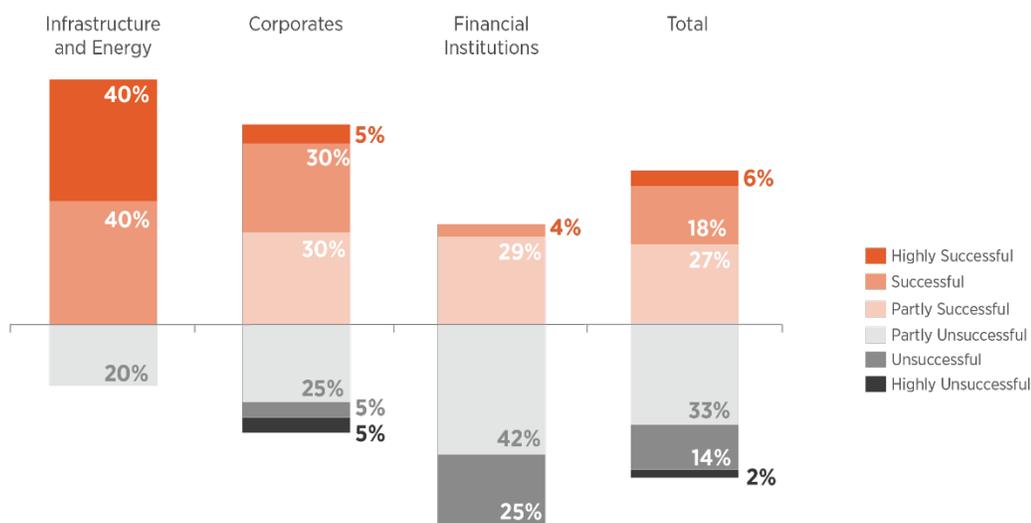
⁴¹ The overall XSR rating is computed based on four main evaluation criteria, with a weight of 20 percent for relevance, 40 percent for effectiveness, 20 percent for efficiency, and 20 percent for sustainability. The calculation of the overall rating is also subject to some additional conditions. For instance, with an “unsatisfactory” rating for either relevance, effectiveness or sustainability, the highest achievable overall rating is “partly unsuccessful.”

⁴² The current XSR methodology does not allow for a “partly satisfactory” rating in the effectiveness dimension. This means that there is an important jump between the “partly unsatisfactory” and “satisfactory” categories; the latter requires that all objectives be rated “satisfactory” or above, which implies meeting at least 80 percent of the targets set at entry. Since the effectiveness dimension has the highest weight in the overall project score, the “partly unsatisfactory” category can significantly contribute to obtaining a negative overall project outcome rating.

⁴³ According to the [Good Practice Standards for the Evaluation of Private Sector Investment Operations](#) produced by the Evaluation Cooperation Group (ECG), of which the IDB Group is a member, the benchmark for a positive rating of a project’s economic sustainability is based on whether the ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 1.2 times the project company’s Weighted Average Cost of Capital (WACC); or (ii) 10 percent (see page 19 of the standards document). IDB Invest XSR guidelines follow these same standards for evaluating the economic impacts of projects.

As shown in Figure 3.6, the infrastructure and energy segment had the highest share of positive overall project outcome ratings (80 percent), followed by corporates (65 percent) and FIs (33 percent). Ratings by segment have remained relatively stable in the past two to three years with no significant deterioration in performance in 2022. Instead, the lower overall performance in the 2022 cycle can be attributed to a change in the composition of projects evaluated, with more FI and corporate operations included than in past XSR cycles. In 2022, the majority of XSRs produced came from the FI segment (24 XSRs; 49 percent), followed by corporates (20 XSRs; 41 percent), and infrastructure and energy (5 XSRs; 10 percent).⁴⁴ As discussed in previous DEOs, there are different reasons why FI and corporate operations have a higher probability of deviating from their expected development targets when exposed to shocks (DEO, 2022). Later in this chapter, a deeper dive on the drivers of performance of FI operations is presented.

FIGURE 3.6 – SUMMARY OF XSR RESULTS, 2022



A look at performance trends observed from evaluations conducted in the last years offers additional insights. From 2016 to 2022, IDB Invest produced 286 XSRs, half of which were for FI operations (146 XSRs; 51 percent), followed by corporates (88 XSRs; 31 percent), and infrastructure and energy (52 XSRs; 18 percent). On average, the overall project outcome was positively rated for 54 percent of these XSRs (Figure 3.7). Regarding the core criteria that make up the overall performance rating, effectiveness was the lowest-rated category, on average, with 42 percent of positive XSRs, followed by efficiency (51 percent), sustainability (58 percent), and relevance (76 percent).

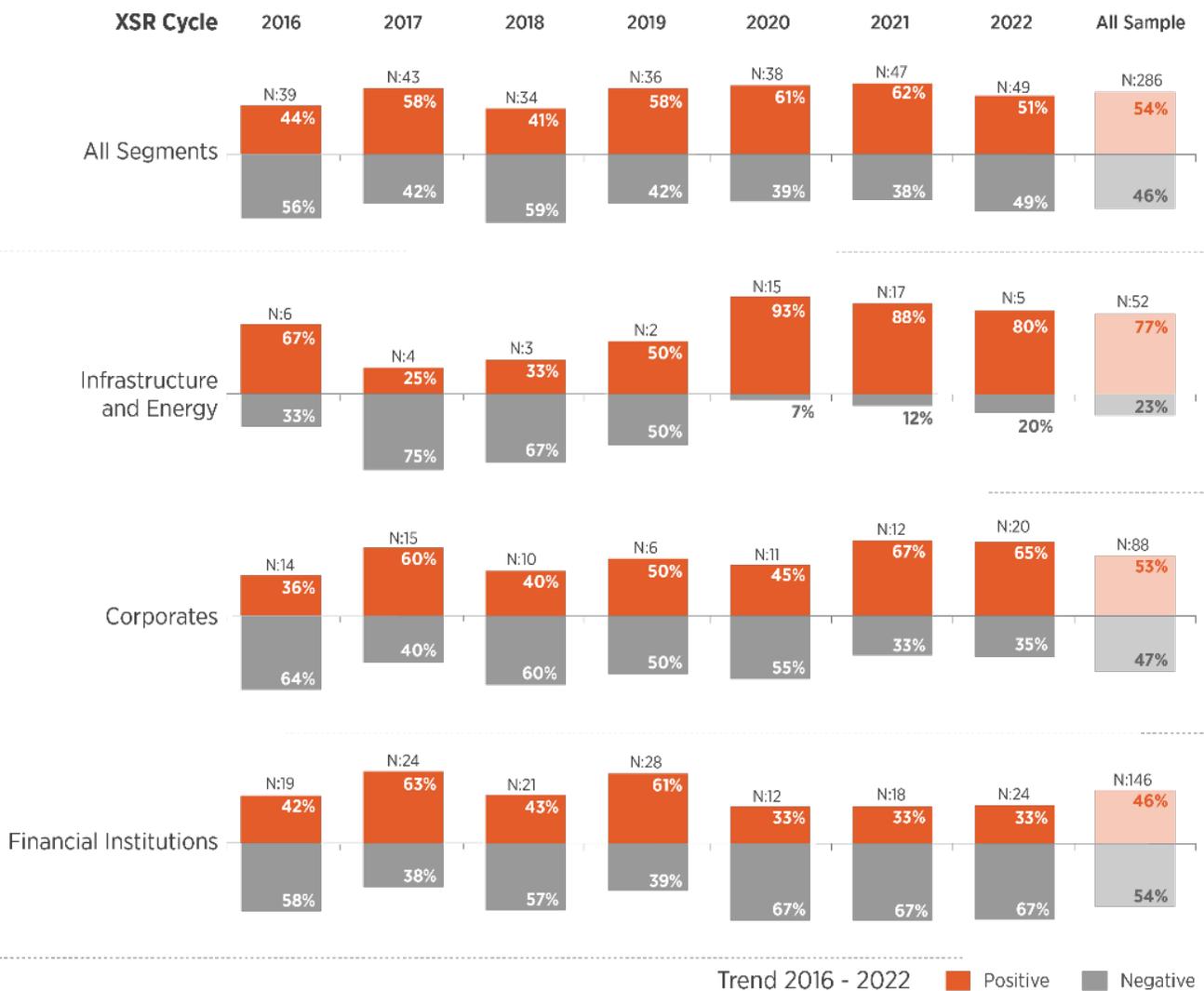
It is important to note that the pool of XSRs produced between 2016 and 2022 is not fully representative of IDB Invest’s current active portfolio. As mentioned before, the majority of XSRs correspond to FI operations, however the composition of the active portfolio in terms of the number of operations is 37 percent corporate operations, 33 percent FIs, and 30 percent infrastructure and

⁴⁴ In contrast, in 2021 the composition was: corporates 25 percent (12); FIs 38 percent (18); and infrastructure and energy 36 percent (17).

energy.⁴⁵ Operations with FIs dominate the pool of XSRs because they represented an important share of the portfolios of the previous IDB private sector windows,⁴⁶ and they have been evaluated by IDB Invest if they reached maturity on or after 2015. In addition, by nature, FI operations reach maturity sooner than those in other segments.

Looking only at the sample of operations approved since the launch of IDB Invest in 2016 and evaluated between 2016 and 2022, the overall project outcome was positive for 62 percent of these XSRs, with the effectiveness category receiving the lowest rating (40 percent positive XSRs), followed by sustainability (66 percent), efficiency (67 percent), and relevance (90 percent).

FIGURE 3.7 - XSR TRENDS OVER TIME 2016-2022



⁴⁵ In terms of volume of financing, the distribution is 43 percent infrastructure and energy, 31 percent corporates, and 25 percent FIs.

⁴⁶ These windows or institutions were the Inter-American Investment Corporation, and the IDB's Structured and Corporate Finance Department and Opportunities for the Majority Division.

MAIN DRIVERS OF PROJECT PERFORMANCE BY SEGMENT

Several highlights emerge about the drivers of performance among projects evaluated in 2022. To improve the achievement of development results in future operations, it is crucial to build on the lessons learned from evaluation, both in terms of what went wrong and reinforcing the positive aspects of projects with favorable scores.

Infrastructure and energy. Only one operation in this segment, aiming to expand a pier in an Argentinian port, faced performance challenges. This was largely due to the macroeconomic, local, and external context. The country faced a reduction in international cargo and vehicle trade due to persistent inflation, an exchange rate crisis, and negative economic real growth, intensified by the COVID-19 pandemic. The remaining projects in the segment largely succeeded in meeting their development objectives. In one case, a wind energy project in Argentina was highly relevant for the country's priorities⁴⁷ and achieved one of the highest onshore wind capacity factors worldwide. For a solar project in El Salvador, success factors included both the client's capacity to deliver the expected development impact, as well as its additional investments in local health, education, and community projects. Finally, the selection of a strategically located partner—near the open ocean—was crucial to increasing the productivity of an Ecuadorian port by reducing the total time ships spend there.

Corporates. Twenty percent of corporate projects (4 out of 20 projects) financed clients in Brazil's sugarcane industry, which was severely affected by extreme weather conditions in 2017 and 2021, negatively impacting agricultural yields. Although this resulted in unfavorable project ratings, it is worth noting that the agricultural yields of some clients remained above the Brazilian average because of their strong track record of efficiency, climate-resilient strategies, and timely crop renewal. Similarly, boom and bust cycles in the international price of certain commodities, such as sugar and leather, are one of the main reasons for declining volume of sales by clients in these industries. These unfavorable international market conditions hampered the achievement of project development results for leather and sugar producers.

Regarding the drivers behind projects with positive performance, it is worth highlighting the importance of selecting partners with extensive experience in the industry, as well as targeting industries that show improved competitiveness. For instance, some positive projects benefited from improved market conditions in certain sectors and countries. Moreover, strong clients were more likely to adopt new technologies and implement robust management practices. In addition, the choice of financial instrument provided by IDB Invest, such as partial credit guarantees, led to an improved credit rating for some clients, allowing them to access better long-term financing conditions to continue operating, which would not have been possible otherwise.

⁴⁷ The project supported the promotion of renewable energy sources to comply with the changes in the legislation of Argentina's electricity sector, which sought an energy transition, increasing the supply of clean energy and reducing the country's heavy reliance on thermal energy (Renewable Energy Law 27.191).

Financial Institutions. The performance of FI operations evaluated in 2022 is mainly explained by adverse external contexts, namely economic and political crises and COVID-19 effects, all of which led to changes in client strategies.⁴⁸ For instance, this was the case for several FIs in Argentina, Chile,⁴⁹ Costa Rica, Peru, and Bolivia. The adverse economic effects caused by the pandemic, volatile economic conditions or political and social unrest affected their capacity to grow the targeted portfolios as planned. In general, banks in countries affected by economic downturns indicated they had to change their lending priorities, adopting more conservative policies focused on less risky segments to keep the quality of their assets and comply with regulations. These changes in strategy compromised the fulfillment of projections shared with IDB Invest. A more in-depth analysis about the performance of FIs is presented later in the chapter.

BOX 3.2 – TRANSFORMATIONAL PROJECTS SUPPORTED BY IDB INVEST

In 2022 IDB Invest prepared the XSRs of two projects that were big successes in terms of their impact at the country—and global—level: the Panama Canal expansion project and the Montes del Plata pulp project in Uruguay.

The Panama Canal is Panama's greatest economic asset due to its critical importance for the global marine transportation industry as well as for Panama's economy.^a However, before its expansion, the Canal was struggling to accommodate increasingly large vessels and greater demand. The Panama Canal Expansion Program aimed to address these limitations through a \$5.25 billion investment, for which IDB Invest contributed a \$400 million loan.

A [study conducted by IDB Invest](#) estimated that the expansion announcement (formalized by a referendum in 2006) stimulated an increase in Panama's private investment of \$9.9 billion between 2006 and 2011, equivalent to as much as 26 percent of the country's private investment for that period (Lanzalot et al., 2018). In addition, as many as 1,579 workers were hired annually during the seven-year construction phase, 58 percent above the target. Moreover, between the start of operations in June 2016 and December 2021, the Canal handled an annual average of 2,356 large vessels, exceeding expectations by 35 percent. It was also estimated that the Canal, without including logistics and shipping sectors, in its indirect and induced interactions with other sectors and economic agents, generates more than 50,000 jobs. In addition, an estimated 20 percent of the government's revenue comes from Canal activity (direct, indirect, and induced). The expansion also allowed transport companies to consolidate cargo in fewer vessels, thus reducing fuel costs and carbon emissions (Miller and Hyodo, 2021). For example, doubling the maximum container ship size has reduced total vessel cost per transported container by roughly a third over the last decade (Merk, 2018). As a result, other ports around the world have also expanded their capacity to accommodate the growing number of large vessels that transit the Panama Canal.^b Finally, besides facilitating worldwide trade, the project had other indirect effects, such as increasing container volumes among Latin America's regional ports and generating positive ripple effects for other sectors in Panama's economy.

The Montes del Plata project aimed to address key development challenges for Uruguay, such as the need to increase its GDP, exports, technological know-how, and job creation while promoting sustainable practices. Montes del Plata was the largest private investment in the history of Uruguay, requiring a \$2.8 billion investment, for which IDB Invest contributed a \$200 million loan and mobilized \$254 million from other investors. The project consisted of the development of a pulp production plant, fed through a eucalyptus plantation, and a 170 MW biomass green energy generation plant, as well as supporting infrastructure such as a fluvial port terminal and barge terminals. During its initial years of operation (2015-2021), the project achieved its development objectives in terms of value-added pulp production, exports, job creation, and renewable energy generation. Pulp production

⁴⁸ Out of the 16 FI XSRs produced in 2022 that received a negative rating, 14 cited adverse external conditions as the main reason for being below targets (88 percent). More specifically, 6 were exposed to economic crisis, 5 to COVID-19 effects, and 3 to other external events, such as weather shocks for agricultural portfolios, changes in international prices affecting investee companies of a fund, or political unrest.

⁴⁹ For instance, in the case of Chile, all XSRs were for operations with non-bank financial institutions, which suffered the most since they did not have access to government liquidity programs or guarantees.

reached an average of 1.3 billion tons per year and was totally exported. The project also supported an average of 641 direct employees and 3,180 indirect employees annually. Due to its scale, the project alone accounts for 1.5 percent of Uruguay's GDP and 7.9 percent of its exports. Moreover, according to the company's sustainability report, in 2021 Montes del Plata captured 2.6 million tons of carbon emissions through the management of its eucalyptus plantations and other sustainability measures, after netting out emissions generated from its own operations.

^a The Canal serves as a connection to 180 routes, in 170 countries, through 1,920 ports worldwide.

^b See [Panama Canal Operations Summary July 2022](#).

EVALUATION OF OPERATIONS IN SPECIAL ASSETS

In addition to the 49 operations evaluated from the active or repaid portfolio, for the first time in 2022, IDB Invest piloted the preparation of XSRs for operations that had been individually assessed and exited IDB Invest's portfolio in 2021 after being in Special Assets (SAT). While the performance of these operations has been regularly reported to the IDB Invest Board and relevant lessons learned are systematically extracted and shared internally, XSRs were not traditionally required given the challenges in collecting impact information from clients while in SAT. Starting in 2022, IDB Invest identifies which SAT operations have sufficient data to be evaluated, are not undergoing litigation or enforcement actions, and prepares an XSR.

In 2021, a total of four operations exited the SAT portfolio, two of which were deemed evaluable and had an XSR prepared. The OVE-validated results show a positive Overall Project Outcome for both cases. The first was an investment in road rehabilitation, which due to adverse external conditions the client had to stop construction temporarily. Once this situation was resolved, the company was able to fully prepay the IDB Invest loan, complete the projects, and deliver the expected travel time savings. The second was a manufacturing operation, which was unable to meet expected production targets due to a change in the supply of a key input. Despite these shortcomings, the project had excellent results in terms of employment generation. The client was also proactive at adjusting plans and project design during execution to guarantee the supply of the input in the future.

If the results of the four SAT operations (two evaluable and two non-evaluable) are included in the recently evaluated cohort⁵⁰ and in the CRF indicator for the percentage of projects with a positive rating at completion,⁵¹ the combined value would remain the same at 51 percent favorable.

In conclusion, the evaluation of SAT operations has shown that some operations may not necessarily be negative from an impact perspective, and that a careful analysis needs to be conducted, whenever data allows, to fully understand their performance. In addition, it shows that some operations may enter SAT after exposure to important shocks, but these shocks may be temporary, and some clients are able to overcome the challenges and deliver the expected impacts.

⁵⁰ Given that SAT operations can remain in the portfolio for a long period of time before they exit or reach closure, their EOM dates could be much older than those of other operations evaluated in the 2022 cohort. The most appropriate approach to incorporate the results of SAT operations in effectiveness reporting will be discussed and fully addressed in the new CRF.

⁵¹ The statistic is computed as: (Number of XSRs rated positively / Total number of XSRs produced + non-evaluable operations), more specifically, 27/53.

EVALUATION OF REPAID OR PREPAID OPERATIONS

In 2022, IDB Invest evaluated 28 operations that had been repaid or prepaid and had reached EOM before 2018. These operations should have been evaluated in previous XSR cycles but were missed due to the manual procedure for calculating EOM dates previously in place.⁵² The 28 operations were subject to a simplified evaluation methodology given the difficulty of obtaining sufficient data (these were legacy transactions approved between 2006 and 2015). The simplified evaluation approach allows for binary ratings (“satisfactory/unsatisfactory”), with the additional classification of “Lack of Data” in case of missing information. The OVE-validated results show that 71 percent of the projects were rated positively in the Overall Project Outcome, 14 percent were rated negatively, and 14 percent were rated as Lack of Data.⁵³ Approximately half of these operations (15) were with FIs, 32 percent were from the corporate segment (9), and 14 percent were infrastructure and energy projects (4).

FINANCIAL INSTITUTIONS

As mentioned earlier, FI operations have exhibited relatively lower development impact performance. IDB Invest has been carrying out in-depth analyses, of both supervision and XSR data, for FI operations to better understand the factors affecting performance and to identify potential actions to address them. Key findings identified so far are discussed below.

DRIVERS OF PERFORMANCE

EXPOSURE AND RESPONSE TO ADVERSE EXTERNAL CONDITIONS

While IDB Invest’s entire portfolio is sensitive to economic downturns, with operations across segments more likely to be classified as “alert” and “problem” when faced with challenging macroeconomic conditions, operations through FIs are especially prone to deviate from expected development targets during shocks.⁵⁴ This is largely due to the dynamic nature of their business (Athanasoglou et al., 2014). In periods of economic prosperity, better repayment rates allow banks to ease their credit policies and increase lending. In contrast, under adverse external conditions, banks adjust lending to maintain healthy capital and liquidity buffers while facing deteriorating asset quality. Lower demand for credit can also contribute to depressed portfolio growth, as businesses may postpone longer-term investments and governments provide support to help firms during crises.

This is one of the reasons why FI operations may respond differently to crises when compared to other types of operations. For infrastructure or CapEx corporate projects, specific investments are identified at approval and planned over a period of time. A crisis may affect the timing and costs of project completion, but only under extreme circumstances is the final completion of these projects at

⁵² Over the past two years, IDB Invest has fully automated the EOM date calculation for its entire portfolio and established a system of alerts when an operation is being repaid or prepaid. This system triggers the team to do an XSR in the following year and to collect all impact data required for evaluation before the client exits the portfolio.

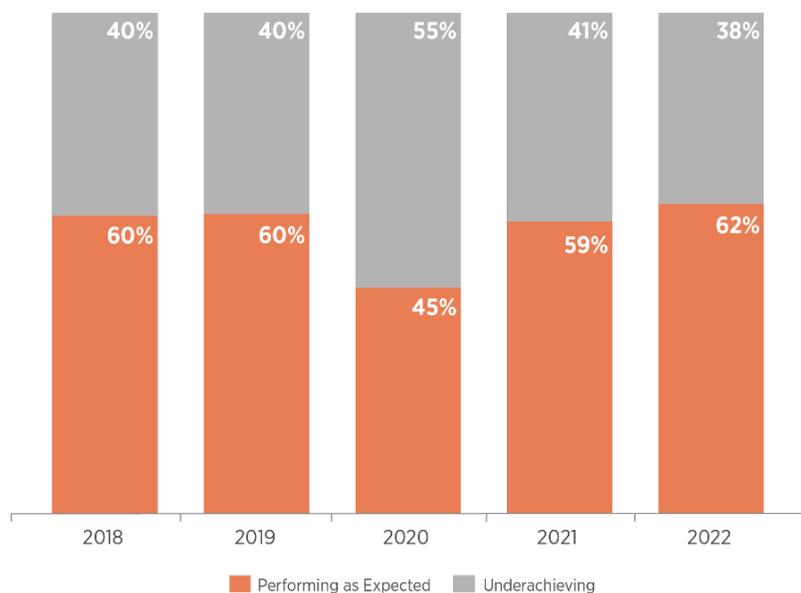
⁵³ Percentages do not exactly add up to 100 percent due to rounding.. Of the total 28 mini XSRs prepared, 20 received a “satisfactory” rating, 4 received an “unsatisfactory” rating, and 4 a “lack of data” rating.

⁵⁴ It is important to keep in mind that the XSR methodology is based on targets set at entry or project design based on projections and assumptions, which are not allowed to change over time, and that both the supervision and evaluation results presented above are based on achievements measured up to 2021, which was still a year affected by the COVID pandemic.

risk. However, in the case of FIs, while banks have strategies to allocate their resources in the short-term, they have more flexibility to adapt plans as needed and may shift the allocation of resources towards certain portfolios (and away from others) in response to macroeconomic conditions, consumer demand, or changes in fiscal policies (DEO, 2022). Banks are also restricted by regulation in how much risk they can take; in adverse contexts they may temporarily need to shift away from riskier portfolios to comply with regulatory standards (Repullo and Suarez, 2013; Behr et al., 2017).

An analysis of the financing provided by IDB Invest’s FI clients during the pandemic shows how quickly they shifted their risk allocation away from the targeted portfolios, which are typically underserved and riskier segments such as MSMEs. This even worsened when government guarantee programs ended after the pandemic, which left FIs without sufficient buffers and having to face increasing non-performing loans rates (NPLs) and provisioning levels. To showcase these effects, the analysis shows that while the indicator “value of loans disbursed,” which captures the flow of financing provided by the FI to the targeted portfolio during the corresponding year, achieved expected targets in 60 percent of the cases in 2018 and 2019, this proportion dropped to 45 percent in 2020. The percentage then increased to 59 percent and 62 percent in 2021 and 2022, respectively, reaching pre-pandemic levels (Figure 3.8).⁵⁵ Evidence from final evaluations (XSRs) also shows that operations evaluated post-pandemic exhibit statistically significant lower performance when compared to those evaluated pre-pandemic, after ruling out other potential contributors, such as project and context characteristics.

FIGURE 3.8 – COVID-19 EFFECTS ON PERFORMANCE



But being below targets is not always an indication of negative performance. An analysis conducted by IDB Invest (DEO, 2022) compared the growth trends achieved for the targeted portfolios in projects rated as “partially unsatisfactory” against trends for the broader financial system for the same

⁵⁵ A similar analysis conducted for the value of loans outstanding also shows a drop in 2020, compared to previous and subsequent years.

portfolios. The results showed that while values achieved for these operations were below targets, their performance was in line with the benchmark and, in multiple cases, outperformed the financial system. This reinforces the relevance of counterfactual analyses for evaluation and signals an opportunity to continue exploring and testing how benchmarks could be used to guide project performance ratings.

All things said, it is important to acknowledge that achievement rates have been structurally low for the FI segment, even pre-pandemic. In the 2019 supervision assessment, 57 percent of FI operations were classified as “satisfactory.” In addition, for FI operations with XSRs completed in the last three cycles, those with negative ratings had an average achievement rate of 26 percent. This means that only 26 percent of the expected change in the outcome indicators was realized. In several of these cases, it was also clear that the FIs operated under adverse external conditions. However, as shown in Box 3.3, several FIs did manage to deliver the expected results in the face of adversity, largely due to their strong strategic focus on and a clear value proposition for targeted segments such as women-led SMEs. This opens the question of whether there are other project or client-specific characteristics that could also explain performance. This will be discussed in more detail in the following sections.

BOX 3.3- DELIVERING RESULTS DESPITE ADVERSE CONTEXTS

Operational performance is not static. Some operations in the supervision portfolio went from being on “alert” during the pandemic back to “satisfactory” in subsequent years, demonstrating how FIs that take action to support targeted segments such as women-led MSMEs and social housing can get back on track to meet expected targets. Likewise, some examples show that FIs that have a strategic focus on and strong value proposition for targeted segments are better positioned to weather external shocks.

For example, BAC El Salvador ([12824-02](#)) is meeting growth targets for the value of its SME and women-owned/led SME portfolios. The share of women-owned/led SME loans in the SME portfolio (in volume) has increased despite the pandemic, going from 26 percent in 2019 to 35 percent in 2022. In addition, advisory services provided by IDB Invest have continued to strengthen the bank’s *Mujer Acelera* program through designing a gender value proposition for women-owned/led SMEs and implementing systems for collecting and reporting sex disaggregated data on these SMEs, among other activities. (See this [Client Impact DEBrief](#) for more detail).

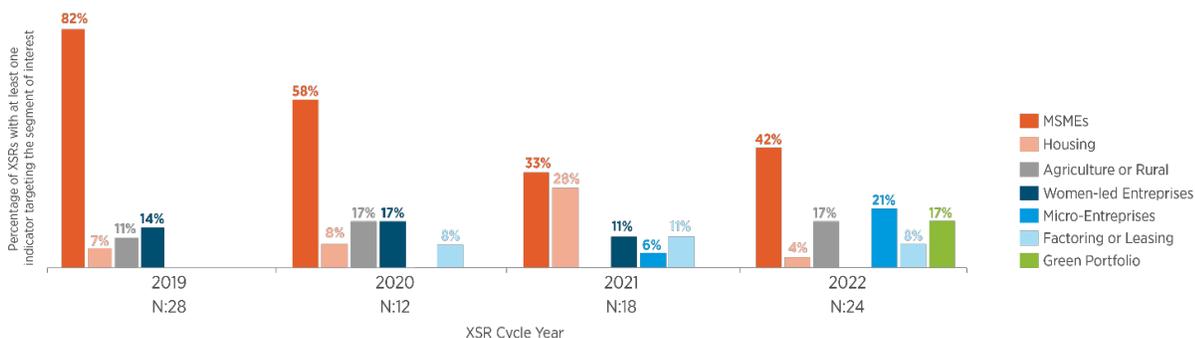
Similarly, BHD ([11807-04](#)) in the Dominican Republic has shown important signs of recovery since 2021. The growth of its SME portfolio has nearly met its 2021 target and the women-led SME portfolio achieved 92 percent of its expected growth target. This improved performance from the previous cycle was influenced by measures the bank took to support SMEs during the pandemic. In addition, IDB Invest helped BHD carry out an exhaustive process to obtain EDGE certification, which was granted in 2021, a first for an FI in the country. This entailed designing a Gender Action Plan to address issues ranging from achieving gender pay equality to fostering fair hiring practices, which the client is currently implementing. Taken together, these efforts demonstrate BHD’s commitment to gender equality, both in its investments and corporate operations.

Finally, in the case of La Hipotecaria in Colombia ([11501-03](#)), which aims to expand access to social and priority housing, the project is surpassing targets both for the *Vivienda de Interes Social* and the *Vivienda de Interes Social Prioritario* portfolios in terms of volume and number of loans. The share of these targeted portfolios within the FI’s overall portfolio has increased significantly since approval: from 27 percent of its total outstanding portfolio in 2018 to 46 percent by 2021. Both portfolios also managed to maintain adequate NPL ratios. This significant growth is driven by the client’s focus on this niche market as part of its business strategy, and these portfolios are also part of a social bond issued in 2020.

PERFORMANCE BY TYPE OF TARGETED PORTFOLIO

Another element to consider when assessing FI performance is the type of portfolio being targeted, which shows a clear diversification over time. For instance, while in the 2019 cycle, more than 80 percent of evaluations included indicators related to MSME portfolios, in 2022 about half as many did, with the rest including emerging green and purely microfinance portfolios, among others (See Figure 3.9).

FIGURE 3.9 - CHANGES IN TARGET PORTFOLIOS 2019-2022



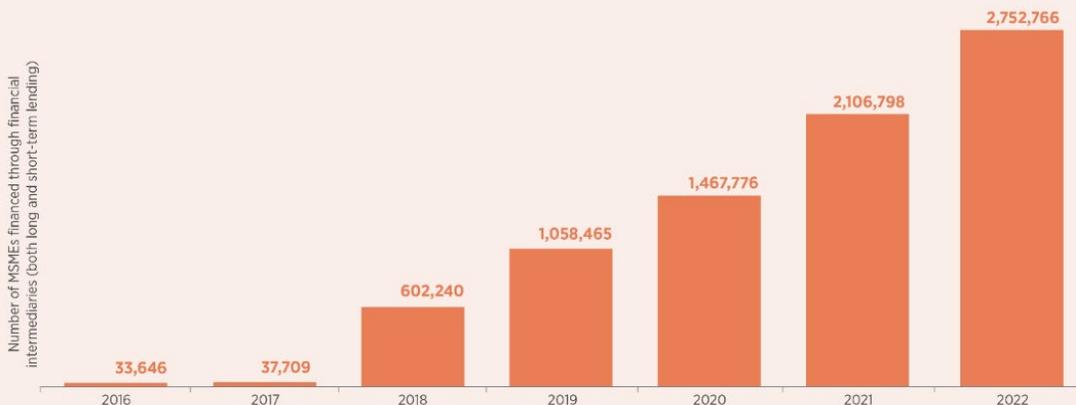
Similarly, as shown in Box 3.4, IDB Invest has increasingly focused on reaching smaller enterprises and women-led SMEs, as well as green lending through its operations with FIs.

BOX 3.4- PIVOTING TOWARDS MORE SOCIAL PORTFOLIOS

In 2017, IDB Invest committed \$500 million in long-term lending through FIs, of which \$61 million focused on microfinance and social housing (4 operations, 12 percent of volume), \$8 million fostered green lending (1 operation, 2 percent of volume), and \$101 million supported women-led SME lending (2 operations, 20 percent of volume).

Fast forward to 2021, and IDB Invest committed \$922 million in long-term lending through FIs, of which \$243 million focused on microfinance (11 operations, 26 percent of total volume), \$283 million fostered green lending (9 operations, 31 percent of volume), and \$254 million supported women-led SMEs (10 operations, 28 percent of volume). In other words, IDB Invest nearly doubled its overall volume of long-term lending through FIs while at the same time pivoting to focus more on smaller enterprises, green lending, and women-led SMEs.

As explained earlier, portfolios targeted by IDB Invest are particularly sensitive during times of crisis, and FIs reduced the growth of these portfolios during the pandemic. But even with operations failing to meet expected growth targets, the segment delivered substantial impact overall.



While moving into more innovative portfolios may mean greater risk, some of these portfolios have performed better than others. Although IDB Invest's analysis was inconclusive regarding the performance of operations focused on MSME lending, it did show that gender portfolios are statistically significantly more likely to present satisfactory achievement rates for the indicator "volume of loans outstanding" than the rest of targeted portfolios. In contrast, green portfolios are more likely to present lower achievement rates for the same indicator, after ruling out other potential contributors, such as project and country-level characteristics.

A possible explanation for the underperformance of green portfolios is that during the pandemic, companies focused on their core business and postponed longer-term investments, especially those perceived as less urgent, such as solar panels, investments in energy efficiency or electric vehicles. And while IDB Invest's advisory services to support FIs in developing this new line of business were completed satisfactorily, several clients decided to postpone the launching of these new products during the COVID-19 crisis.

Another factor to consider is impact measurement capacity. FIs often do not have the capacity to calculate or estimate the net environmental benefits achieved through their green lending portfolios, even though this may be one of the metrics required to measure the extent to which the operation achieved its planned environmental outcomes. Therefore, although the growth of green portfolios is satisfactory in several operations, data related to the indicators evidencing environmental benefits are lacking, or may be unreliable or underestimated, which may affect the effectiveness rating.

It appears challenging for FIs to set ex-ante projections for sub-portfolios within their green lending operations in order to report on specific expected benefits. For example, they may not know beforehand how many water and sanitation versus renewable energy projects they will finance, which affects their ability to estimate expected water savings versus expected energy capacity installed or CO2 emissions avoided. For this same reason, it is also more difficult for them to set up targets for portfolio growth in terms of number of loans. FIs may also have difficulties projecting green lending portfolio growth as they lack sufficient information on how much long-term funding they will be able to access to finance longer tenor projects.⁵⁶ To some extent, these difficulties in estimating portfolio growth and corresponding environmental benefits may also reflect a lack of maturity of the green lending market, which is why IDB Invest has been active in helping clients build more capacity in the measurement of environmental benefits.

But even if it can be more challenging to establish projections for certain types of indicators or portfolios, FIs generally face difficulties to project portfolio growth indicators, especially when setting projections several years ahead in highly volatile contexts. FIs also usually feel more confident projecting portfolio growth metrics in relative terms as opposed to absolute values, as this aligns more closely with their strategy and internal KPIs. Their strategic plans are also budgeted in relative lending volumes to be allocated rather than in number of loans or clients. Finally, when piloting new portfolios, substantial preparatory work and internal capacity building is required for FIs to understand the new market they target and define a corresponding strategy to reach this new segment before they can set up projections and, as mentioned before, estimate expected benefits.

⁵⁶ For instance, in two FI XSRs produced this year, clients could not continue growing their green portfolios due to lack of long-term funding, which was difficult to anticipate at structuring.

Finally, some analysis was also carried out looking at FI characteristics, such as their level of specialization with a given segment, and their possible effect on performance, but no clear conclusion could be identified.

THE WAY FORWARD

Based on the insights gathered from the analysis described above, a multidisciplinary working group has been created to conduct an end-to-end review of origination, supervision, and evaluation processes to identify opportunities for improvement.

First, IDB Invest is focusing on addressing the challenges that FIs face to improve how they serve diverse segments, including the identification, development, and implementation of new approaches, structures, and innovative business models that may enhance their capabilities by leveraging knowledge, expertise, and know-how. This also means selecting clients that have a strong strategic focus on and value proposition for the targeted segment or that are committed to building their capacity to do so.

To that end, to better support clients with the goal of improving results, IDB Invest will provide a combined value proposition with financial and non-financial solutions, including (i) different financial structures and/or de-risking instruments that could help clients navigate adverse contexts while supporting targeted segments in riskier environments, (ii) advisory services to create better portfolios and build internal capacity, namely by carrying out more upstream work, and (iii) knowledge sharing on innovative business models and approaches (e.g., digital) to improve project implementation.

IDB Invest will also work to further socialize the origination strategy for FIs across all divisions and develop more effective channels to use knowledge from previous operations to inform this strategy. Additionally, IDB Invest is working to further leverage insights from portfolio supervision and evaluation to better inform planning and target-setting for new operations. Another solution being considered is improving the systematization of the assumptions used by different FIs to make projections at entry (e.g., expected inflation) to help better understand possible divergences from initial targets during project implementation.

Finally, as described above, the pandemic highlighted the need to envision a more dynamic and iterative evaluation methodology in contexts of severe shocks. IDB Invest is exploring potential methodologies to address the difficulty of setting targets for longer periods of time, particularly in highly volatile markets and exploring possible benchmarks or evaluation approaches for operations exposed to shocks (see Box 3.5 below).

BOX 3.5 - SPLIT RATINGS: ANALYZING PROJECT RESULTS USING A MORE DYNAMIC EVALUATION APPROACH

Projects are sometimes exposed to adverse external conditions that are very difficult to anticipate during their design, such as a pandemic, weather shock, or substantially adverse macroeconomic and political contexts, among others. In addition, due to their nature, certain projects may also face greater uncertainty in projecting targets for the medium or long-term. Managing for impact requires constant monitoring, learning, and adjusting. Therefore, under well-established criteria and governance, some projects may have to be restructured and adapted, and targets may need to be revised. In these cases, a revised evaluation approach will need to account for these changes to provide a more nuanced and accurate assessment of the project's impact.

Split ratings are one possible ex-post evaluation alternative for projects exposed to adverse external conditions or to greater uncertainty during target setting. Under this approach, a project's evaluation timeframe may be divided (split) into two or more periods. The project is evaluated in each period against the relevant or applicable targets and a weighted average of the results achieved in each of these periods guides its final rating. Weights could be determined in different ways, based on the amount of disbursed funds observed in each period, the number of years contained in each period, or some metric of progress achieved by the project in each phase, among others.

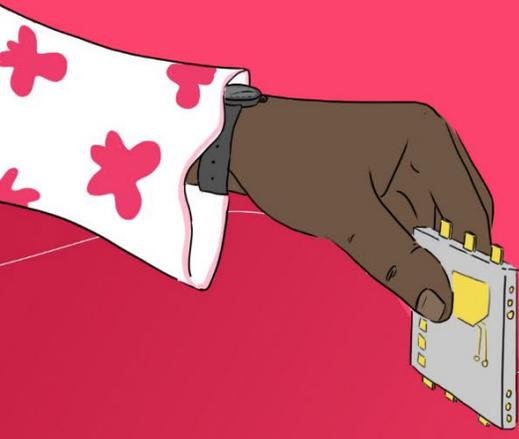
Given the importance of external shocks and uncertainty for project performance, the current evaluation approach, which is purely based on targets established at entry that cannot be modified during execution, needs to be reexamined. Moving forward, in collaboration with OVE, IDB Invest plans to work on developing a more dynamic evaluation methodology.

REFLECTIONS

The Impact Management Framework that IDB Invest has built over the last seven years has achieved some key milestones. Projects are systematically evaluated in line with best practices and their results are thoroughly reported to stakeholders. Lessons from evaluations and supervision are captured and shared so that they can feed back into the structuring of new operations. The supervision system also allows for an active portfolio management approach, providing early alerts on operations that are off track in delivering results so that additional support can be provided. In turn, this allows IDB Invest to identify areas where the achievement of development results may be more challenging and make adjustments throughout the operational cycle as needed. Building on these results, IDB Invest will continue to improve and refine its framework in line with evolving best practices, institutional needs, and its evolving business model.

Regarding the results of the current portfolio in supervision and evaluation specifically, the recent supervision and evaluation cycle confirms that operations across all segments were affected by the COVID pandemic. While the corporate and infrastructure and energy portfolios have quickly recovered and have shown solid performance, close to or above institutional targets, the performance of the FI portfolio is facing ongoing challenges. This calls for a more detailed understanding of the nature of these operations and how this connects to the evaluation of their performance.

Based on the analysis conducted so far, IDB Invest is taking a proactive approach to address these challenges, from sharpening the selection of FI operations and enhancing FIs' capabilities to achieve and measure impact through technical advice, to potentially reconsidering current evaluation methodologies to integrate a more dynamic approach.



CHAPTER 4

DEVELOPMENT EFFECTIVENESS AT IDB LAB

INTRODUCTION

Measuring the results and impact of the innovative solutions it supports and learning from both successes and failures along the way, is core to IDB Lab's role as an innovation lab for the IDB Group. IDB Lab continues to strengthen its impact measurement model, which includes various tools used throughout the project cycle. These include the iDELTA which scores all projects at entry in terms of development impact, innovation, scale potential, and resource mobilization, as well as 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. In addition, mid-term evaluations are deployed to provide the sector expertise needed to realign or redesign projects that are off track, and the Final Project Supervision Report is used to evaluate projects at completion and capture lessons learned. These final results are complemented by in-depth evaluation of closed projects that are done as part of IDB Lab's service level agreement with IDB Invest. In 2022, 121 of these evaluations were conducted, which included both projects in advanced execution and projects that closed during the year (as discussed below). This large sample approach was necessary to glean insights on the drivers of IDB Lab impact. This ex-post exercise will be conducted each year, albeit with a smaller sample size.

IDB Lab also works on multiple fronts to share lessons learned from its operations to help improve project design and execution. Published 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, leveraging newer digital technologies such as semantic search engines and natural language processing, IDB Lab has launched the Portfolio Genome, which helps operational teams identify past and present projects that are most relevant for extracting lessons.

This chapter focuses on the development effectiveness performance of IDB Lab projects during supervision (CRF [indicator 3.12](#)) and at completion. In addition, it discusses the results of a portfolio analysis conducted in 2022 on the effectiveness of a sample of IDB Lab projects and provides examples of learning from failed projects, as well as examples of IDB Lab-supported innovations that have been scaled.

OVERVIEW OF PORTFOLIO SUPERVISION 2022

In 2022, IDB Lab continued to strengthen its systems and processes for monitoring project results during supervision. A major milestone in this regard was the digitalization of the PSU for loans and equity investments. IDB Lab's loan, equity, and fund clients can now digitally report data on financial performance and impact results achieved, allowing for more efficient data collection and comprehensive portfolio analysis and improving data-driven portfolio management. Likewise, 2022 marked the first year that impact data for non-reimbursable projects was collected digitally through the revamped PSR, instead of through a separate survey process. A total of 114 clients (with 142

operations) reported through the digital PSU and 201 through the PSR in 2022. Risk management has also been consolidated in 2022 as a core function, with the deployment of digital tools integrated within the PSR/PSU to assess project risks and integrate financial, non-financial, and environmental risks.

In addition, IDB Lab continued reinforcing its proactive and dynamic portfolio management approach throughout the year. This optimized the portfolio through periodic reviews that have resulted in the restructuring or cancellation of operations that were not performing to the expected level, freeing up unused or undisbursed committed resources. This improved integration of financial and operational management was especially important for the investment portfolio in 2022. IDB Lab also expanded the dynamic management of assets, generating reflows both from underperforming assets and from performing assets with significant financial value, but that were no longer aligned with IDB Lab's strategic priorities. The most significant effort in this direction were the secondary sales of investments in venture capital funds. IDB Lab was able to negotiate the sale of seven venture fund investments to a single purchaser. The sale produced \$20 million in reflows that can now be used for additional investments moving forward. It also served to validate the existence, even if very limited at this time, of an emerging "market" for secondary venture investments in LAC. Such a secondary market would be beneficial to the venture industry moving forward.

PERFORMANCE SUMMARY FOR A SAMPLE OF THE PORTFOLIO

In addition to regular monitoring of project performance, as reported in the next section, in 2022 an analysis was carried out to assess the effectiveness of a sample of IDB Lab projects in terms of reaching their objectives.⁵⁷ The representative sample included 121 active and completed projects approved between 2016 to 2021 across five thematic verticals. The quantitative and qualitative 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, it is important to note that the 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.⁵⁸ It is also important to note that as a lab mandated to test innovative, risky solutions to solve development challenges, the types of projects supported by IDB Lab differ from those of the rest of the Group.

As shown in Figure 4.1, 49 percent of projects were rated positively in terms of effectiveness, meaning that they met or are on track to meet their development objectives.⁵⁹ The remaining 51

⁵⁷ The analysis was conducted by IDB Invest's Development Effectiveness Division. The sample included a mix of active (75) and completed (46) projects.

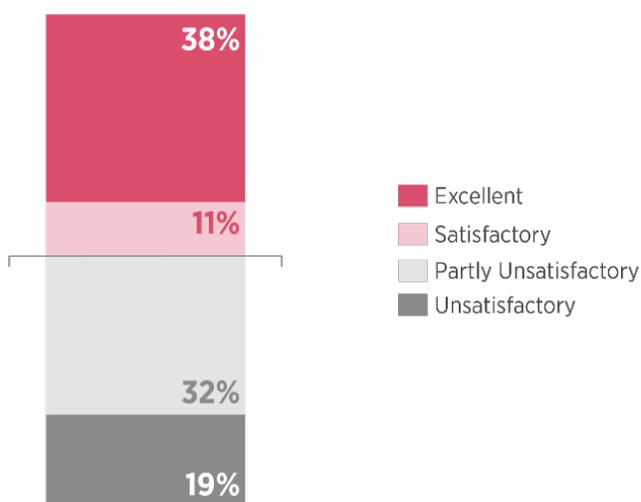
⁵⁸ While the approach is consistent with the IDB Group's evaluation methodology, there are some important differences, including: (i) IDB and IDB Invest only conduct self-assessments using this evaluation methodology for projects that are closed or have reached early operating maturity (projects in execution are monitored through the PMR and the DELTA in supervision, respectively), while IDB Lab's assessment also includes active projects; and (ii) IDB and IDB Invest's self-assessment ratings are validated by OVE, but IDB Lab's performance classifications are not.

⁵⁹ Positive ratings include "satisfactory" and "excellent"; negative ratings include "unsatisfactory" and "partly unsatisfactory."

percent of projects did not achieve most of their relevant objectives. The distribution of effectiveness ratings is expected given IDB Lab’s risk-taking approach. While about half of projects fail to meet some or all their development objectives, among those that do succeed in meeting their objectives, most do so exceedingly well, reflecting the high risk, high reward nature of an innovation lab. Notably, 25 percent of projects classified as “excellent” (11 projects), had exceptional performance, meaning that they exceeded all relevant project objectives.

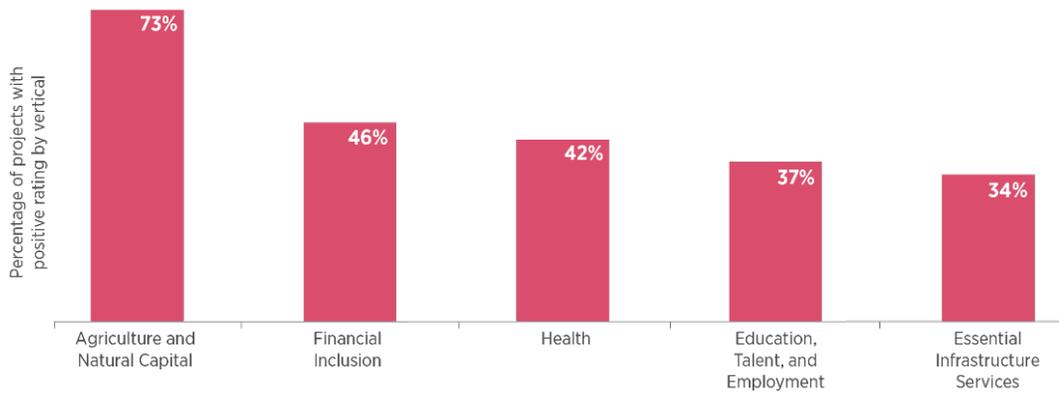
It is also important to note ongoing data and evaluability issues affecting the overall effectiveness of projects. Of the full sample, 28 percent of projects lacked the data necessary to assess whether objectives were being achieved and/or had defined objectives beyond what the project could feasibly achieve and measure. In fact, if the effectiveness analysis is done by omitting projects that have significant data or objectives issues, the percentage “satisfactory” or “excellent” improves to over 70 percent. This percentage provides a quantitative estimate of the potential improvement in performance that could be obtained by addressing these evaluability issues. On average, projects with evaluability problems had lower evaluability scores at approval in the iDELTA.

FIGURE 4.1 PROJECT PERFORMANCE FOR EFFECTIVENESS



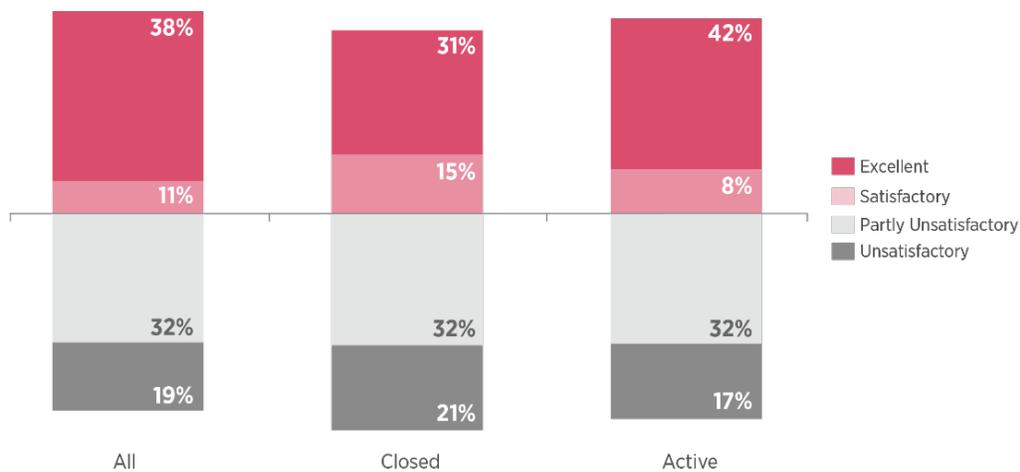
Performance also varies by thematic vertical. As shown in Figure 4.2, Agriculture and Natural Capital projects perform significantly better than those in the other verticals, with 73 percent rated positively. Moreover, projects focusing on Agriculture and Natural Capital are 22 percent more likely to succeed than projects in other areas. This is largely due to the quality of design of these projects which typically have a stronger theory of change and vertical logic than projects in other areas, enhancing their ability to reach targeted beneficiaries and results. At the opposite end of the spectrum, the Essential Infrastructure Services vertical had the worst performance with 34 percent of projects being evaluated as effective. However, this is largely due to the underperformance of housing projects, including three projects testing new mortgage and finance mechanisms that failed to meet their objectives. For instance, in the sub-sector of water and sanitation, 67 percent of projects were successful, including projects to promote small-scale solutions for water in El Salvador ([ES-T1276](#)), reduce water consumption in agriculture ([RG-T1145](#)), and increase investment in climate-resilient water solutions in Peru ([PE-T1378](#)).

FIGURE 4.2 PROJECT PERFORMANCE FOR EFFECTIVENESS BY VERTICAL



Another factor considered in the effectiveness assessment was project stage. As shown in Figure 4.3, while the share of “excellent” projects is lower among closed operations versus active operations, it still represents about one-third of this group.⁶⁰ Higher positive ratings among active projects are likely due to the fact that they are newer and have not yet deviated from targets. At the opposite end of the spectrum, the share of “unsatisfactory” projects also increases at completion, again not unexpected for an innovation lab. In contrast, the proportion of projects rated as “satisfactory” rises at completion versus the active portfolio. The proportion of “partially unsatisfactory” projects remains nearly unchanged across stages, signaling that there may be an opportunity to better identify projects in need of some additional support during execution to meet targets and increase their likelihood of becoming “satisfactory” by closing.

FIGURE 4.3 PROJECT PERFORMANCE FOR EFFECTIVENESS BY STAGE



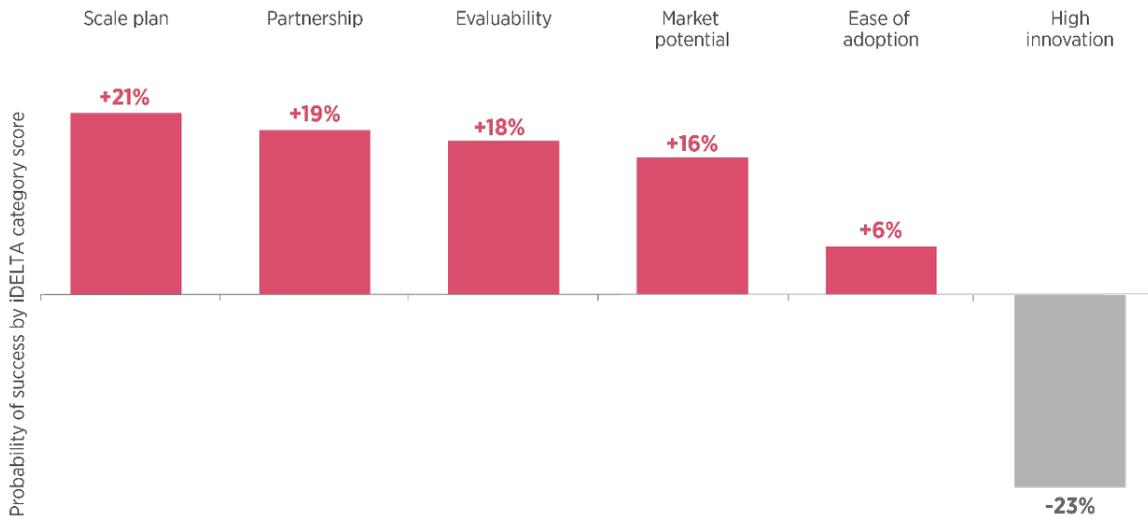
⁶⁰ Positive ratings for effectiveness at project completion are broadly comparable with IDB Invest.

DRIVERS OF PROJECT PERFORMANCE AND UNDERPERFORMANCE

The success or failure of projects is influenced by performance drivers, many of which are measured in the iDELTA. The strongest success drivers are the quality of partnership and the strength of the project's scale plan. Projects with strong implementers in terms of leadership in the market, technical expertise, and financial sustainability are 19 percent more likely to succeed than other projects, and projects with robust approaches to scale are 21 percent more likely to succeed. Projects with strong evaluability scores are also at an advantage and are 18 percent more likely to succeed. Evaluability includes a proper diagnostic, objectives, and project logic, but also includes a strong measurement framework.

Projects with high market potential are also 16 percent more likely to succeed. Simply put, these are projects that address a clear development need that is not readily available in the market. The ease of bringing solutions to market (ease of adoption) is also a success factor. Solutions with simple pathways to adoption, and that do not require big efforts by their clients, are more likely to succeed. On the other hand, as expected, projects that are highly innovative, and face higher technological and market risk, are 23 percent less likely to succeed than those with moderate levels of innovation (there are no IDB Lab projects with low levels of innovation in the sample). See Box 4.1 below for examples of learning from projects that have not gone as planned.

FIGURE 4.4 SUCCESS DRIVERS BASED ON IDELTA SCORE AT ENTRY BY CATEGORY



BOX 4.1 – 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. As the following examples show, failure is nuanced and comes in all shapes and sizes, offering important lessons learned for the IDB Group and others.

HEALTH TECH SOLUTIONS IN CHILE

In the early days of the COVID-19 pandemic, IDB Lab launched a call for innovative health tech solutions to address the emerging crisis. One of the winning ideas seemed to tackle a major concern at that time: preventing the spread of the coronavirus through home deliveries. Specifically, it was a portable UV disinfecting device (UVi Road) designed for food delivery services created by the Chilean startup, Campbell, in partnership with a recognized research and development center. With IDB Lab support (CH-T1245), the company developed the initial prototype, which could be placed into different types of backpacks to disinfect the contents for each delivery. The device proved to be nearly 100 percent effective at eliminating viruses and bacteria, as certified by two university labs in Chile. The company deployed 100 prototypes to food delivery businesses in Santiago, disinfecting around 70,000 deliveries from October 2020 to February 2021. Despite this auspicious start, challenges soon emerged. The devices were easily damaged in overfilled backpacks by delivery drivers who prioritized volume per delivery, requiring frequent repairs and technical support and increasing operational costs. Restaurants preferred to rent, not buy, the devices, calling into question the company's business model. Campbell pivoted to create a stationary device (UVi Terminal) to disinfect contents on site, piquing interest among stores, residential buildings, and other businesses. However, interest was short-lived. In February 2021 the U.S. Food and Drug Administration announced that COVID-19 was not transmitted through food or food packaging, essentially killing market demand overnight. A key lesson from this experience is that in an emergency context, entrepreneurs should expect higher levels of uncertainty and risks, and funders should employ financial instruments that can fail fast with limited financial loss, such as IDB Lab's COVID innovation prototypes; IDB Lab ended up disbursing about 60 percent of the \$144,000 approved for this project. In addition—acknowledging that these were extraordinary times with many unknowns—the company fell into a common pitfall for startups: it was so focused on developing the prototype and convinced that the effectiveness of the device would sell itself that it did not fully understand its market – who would be using its products and what they would be willing to pay for them.

DIGITAL PAYMENTS IN URUGUAY

This case highlights how changes in regulations can both help and hinder a company's growth. In 2015 IDB Lab approved a \$500,000 equity investment in Resonance Uruguay, an electronic payment processing company (UR-Q0004). The project's objective was to increase financial inclusion in Uruguay by expanding the infrastructure and penetration of electronic terminals in small businesses, especially in underserved areas. The timing of this investment seemed propitious. The Government of Uruguay had approved a series of laws and regulations aiming to expand access to convenient, low-cost digital financial services and increase competition in this space, such as a 2014 regulation mandating that point of sale (POS) terminals accept all types of credit/debit cards—basically opening this historically closed market to new players such as Resonance— and the 2015 Financial Inclusion Law. It also authorized a series of tax benefits to incentivize companies to expand their POS networks and small businesses to adopt these terminals. Resonance seized this opportunity, becoming the only new POS player to enter the market, and IDB Lab's investment helped it to purchase more POS terminals to expand its reach. Since 2018, the company has represented about a quarter of all new POS terminals installed, adding over 3,000 small businesses to its network, mainly in the country's interior. It also partnered with the Banco de la República to set up a network of 300 financial correspondents in underserved communities that previously had no access to cash withdrawal services. Despite these achievements, the company faced various barriers to growth. For one, the financial institutions acquiring its POS technology did so slowly, strengthening their market dominance during those delays. Then came another wave of regulations starting in 2020 in the context of a rapidly changing technology landscape. The country's largest POS network provider (POS2000) was dissolved, and in 2022, a "multi-acquirer" regulation came into force whereby merchants can accept all credit/debit payment options through a single provider of their choice (vs. having separate agreements with various acquiring banks to process payments), often with free POS terminals. It became clear to Resonance that it could no longer survive as an independent provider but rather would need to join one of the financial institution-led payment processing integrations taking shape. It was acquired by Grupo Itaú in 2022, resulting in a partial loss of IDB Lab's equity investment. One of the lessons from this experience is that when it comes to rapidly evolving technology, regulatory risks can materialize in ways that cannot be easily anticipated, mitigated, or transferred. Similarly, it reinforced the importance of institutional capacity; the regulator faced challenges in implementing the pro-financial inclusion regulatory push and in keeping up with the pace of innovation in the sector. This in turn affected the ability of the smaller, newer players such as Resonance to gain a foothold in the digital payment space. Another, perhaps more important lesson, is that in some instances failure can be more nuanced. Resonance was

a failure from a financial point of view (IDB Lab lost a significant portion of the equity invested), yet it still produced the expected benefits for clients by creating a deeper network of digital payment services for underserved communities and increasing competition in a previously closed market.

ONLINE YOUTH EMPLOYABILITY TRAINING IN PANAMA

People without college degrees can learn the fundamentals of information technology (IT) support, building the skills they need to access entry-level IT jobs and offering a pathway to higher-level opportunities in the sector. This was the basic premise of an online industry skills certification launched by Google in 2018 and hosted by Coursera - the Google IT Support Professional Certificate (IT Cert). IDB Lab, together with the Social Sector of the IDB, partnered with Google.org to bring this certification to Panama and Brazil (PN-T1236; BR-T1424); the focus here is on the Panama project. More specifically, the project aimed to increase the employability of 340 vulnerable youth through a combination of the online IT Cert with an in-person and online soft skills curriculum, plus wraparound job placement support services. Unfortunately, this blended training plan was derailed by the pandemic, forcing IDB Lab and the executing agency, Glasswing International, to redesign the approach, eliminating in-person activities for much of the duration of the project. This unforeseeable situation brought significant operational challenges. While the project achieved significant results in terms of recruitment and securing internships for youth, it only achieved 76 percent of the expected graduation rate target. This experience offers valuable lessons learned for building the employability skills of vulnerable youth. To start, the forced pivot to fully digital training posed a problem for youth without access to computers and/or internet at home. Instead of offering the training in the community computer labs as planned, Glasswing had to provide laptops and internet service to youth in need. Even with the right equipment, navigating the course was challenging for many of the young people targeted by the project (vulnerable youth who were high school graduates, neither studying nor working) in part because the course was in English with Spanish subtitles. It also became clear that youth needed additional support related to digital literacy, reading comprehension, and math before starting the Coursera course. Likewise, youth required close monitoring and individualized support from tutors to maintain their interest in the course. Although being unemployed was a requirement for participating, some youth had to work off and on, affecting their ability to complete the program. The project also faced major challenges on the job placement front. This was partly due to the smaller size of the market, were bigger companies already had their IT teams, and smaller companies could not afford to recruit an IT assistant, and to companies not being interested in recruiting or hiring during the pandemic, making it difficult to build this network of potential employers for course graduates. However, perhaps more critically, employers in Panama did not recognize the IT Support Professional certification, but rather required entry-level applicants to have a technical or university degree. This resulted in the project having to focus on connecting youth with unpaid internship opportunities with employers rather than paid formal employment as anticipated. Until the market recognizes these sorts of alternative skills certifications, perhaps with the help of endorsements from trusted local educational institutions, job placement within Panama will continue to be a challenge.

SUPERVISION RESULTS

NON-REIMBURSABLE PORTFOLIO

Regarding IDB Lab's non-reimbursable operations (grants and contingent recovery grants), the portfolio consisted of 345 active operations as of end-December 2022 for a total approved amount of \$227.2 million. IDB Lab monitors the results achieved by these operations through the bi-annual PSR. Based on the results captured by PSRs for 2022, 66 percent of projects are "green flag," slightly higher than in 2021. The share of "yellow flag" operations was 31 percent, up from 26 percent in 2021, and operations classified as "red flag" decreased to 3 percent, versus 8 percent in 2021.

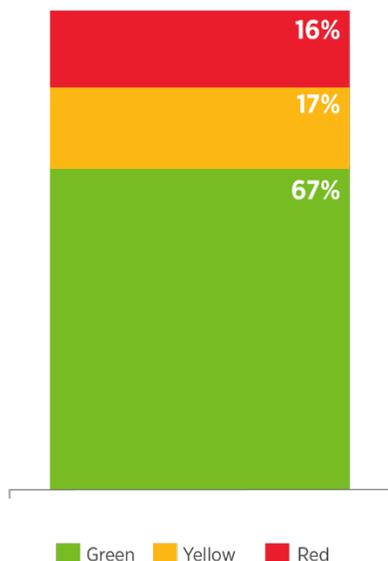
In terms of portfolio composition, the share of contingent recovery grant projects increased in 2022, reaching 18 percent of the active portfolio (61 operations), up from 12 percent in 2021. This flexible instrument, which typically ranges from \$150,000-\$700,000, can be used in cases where the business model implemented by the executing agency has the potential for profitability if the innovation

becomes commercially successful. If the client meets certain pre-defined milestones such as a net sales target, the grant must be repaid. In 2022 IDB Lab received its first repayments of contingent recovery grant operations approved between 2017-2020 totaling \$200,000. IDB Lab also deployed new internal guidelines for the use of this instrument, including more rigorous definitions of disbursement and repayment conditions, aiming to improve the consistency of how these projects are managed in supervision and increase the recovery of funds from high-performing projects.

REIMBURSABLE PORTFOLIO

For IDB Lab’s loan and equity investment operations, financial and operational performance is monitored through the PSU. As of December 2022, IDB Lab had an outstanding loan and equity investment portfolio balance of \$240.7 million, distributed among 142 operations. In terms of portfolio quality, 67 percent of operations were classified as green flag (“on track to reach or exceed target projections”), versus 72 percent in 2021; 17 percent as yellow flag (“underperforming; minor losses less than provision level expected”), similar to 2021; and 16 percent as red flag (“underperforming; major losses less than provision level expected”), up from 10 percent in 2021. See figure 4.5.

FIGURE 4.5 PERFORMANCE OF LOAN AND EQUITY INVESTMENT PORTFOLIO



Red flag operations represented \$25.5 million in risk exposure, or 11 percent of the outstanding amount at the end of 2022. Performance as of December 2022 reflects IDB Lab’s risk appetite and continues to be consistent with its current provision policy and long-term financial projections. As anticipated, this performance represents a small decline in ratings compared to 2021 due to deterioration in three macro trends.

The three macro events associated with deterioration in portfolio performance were the spike in interest rates, global disruptions in supply chains, and the sharp decline in venture finance. All three are responsible for a significant share of rating downgrades with respect to 2021. First, the global rise in interest rates impacted the loan portfolio. Nominal interest rates increased across the board in the region beginning in October 2021, and these increases continued throughout 2022. The higher costs

of capital put financial strain on several IDB Lab clients, leading to lower company growth, slower deployment of goods and services, and a higher incidence of covenant breaches and late/missed payments than would be expected otherwise. Global supply chain disruptions were also important during the year. They contributed to operational difficulties across the portfolio and were also responsible for the decline in portfolio health, especially in the real economy with physical products. For instance, in the case of a producers' cooperative in Peru, the borrower could not access shipments for exporting final products, leading to short-run operational impacts.

Even as interest rates and logistics issues impacted most LAC sectors, the last trend, the sharp decline in venture finance, was particularly relevant for IDB Lab's main clients: entrepreneurs and startups. Venture finance, which had posted record high levels of new approvals in 2021—almost \$40 billion, according to Crunchbase data—saw a dramatic fall in 2022: 79 percent for all venture finance, and 40 percent for the earlier stage companies. In response to the drying up of finance, startups and entrepreneurs pulled back on costs and adopted less aggressive growth strategies to be able to extend the operational time available between financing round. For instance, a few IDB Lab portfolio companies had to cancel planned financing rounds due to the recalibration of expectations across the venture dealmaking community. These companies also took the measures explained above to avoid so-called “down round,” which is when a company is forced to accept a lower valuation in a venture round than the valuation in the prior round. In the short run this is reducing the sector's potential to grow and expand and has led to an increase in the share of yellow or red flags in the equity portfolio. These classifications reflect expectations of future financial performance. Thus far, the IDB Lab portfolio companies have managed to adjust their cash management strategies, so there have been no losses directly associated with the decline in venture, although these may materialize in 2023.

RESULTS ACHIEVED BY THE ACTIVE PORTFOLIO IN 2022

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.⁶¹

- **129,000 jobs created**, 35 percent of which are held by women
- **110,000 households with improved living conditions**—40 percent of which are female-headed—mainly through improved access to financial services, energy, water and sanitation, and environmental services such as clean air and water, and greenspace and forested areas
- **3.6 million people with improved access to essential services** such as health and financial services—58 percent of whom are women—mainly through IDB Lab's direct investments in companies
- **997,000 women benefited from economic empowerment support**, a seven-fold increase over 2021 mainly due to improved sex-disaggregated data collection within the indirect investment (funds) portfolio
- **47,000 companies benefited** through improved productivity or business performance, 55 percent of which are women-led

⁶¹ Note: 78 percent of the results reported in 2022 were sex-disaggregated.

As far as reaching poor and vulnerable populations, 58 percent of projects in the portfolio are benefiting these priority groups, according to reporting from client companies and executing units. While this is 9 percentage points lower than what was reported in 2021, the 2022 results show an increase in the intensity of benefits reaching the poor and vulnerable. According to reported data, 85 percent of jobs and 90 percent of people with improved access to essential services or living conditions are concentrated in projects that report reaching poor and vulnerable populations.

PROJECT COMPLETION AND SCALE

In general, upon project completion, IDB Lab documents cumulative results of each operation in the final edition of its PSR.⁶² In 2022, 69 IDB Lab projects were completed.⁶³

One of IDB Lab's key measures of success is the extent to which the innovations it supports are replicated or scaled up by the IDB Group or others. Of projects completed in 2022, 38 percent were replicated or scaled (versus 32 percent in 2021), surpassing IDB Lab's 20 percent target for the fifth consecutive year. Furthermore, 35 percent of these projects were considered as massively scaled⁶⁴ up from 18 percent in 2021.

While IDB Lab has been achieving notable success in terms of scaling innovations, there is always room for improvement. In 2022 IDB Lab carried out a [study](#) to identify scale success factors among a sample of 39 projects and develop a conceptual framework for scale within IDB Lab. This framework includes four dimensions to help guide IDB Lab's scale efforts moving forward. First, establish a common definition of scale and shared understanding of the three paths to scale—expansion, replication, or collaboration⁶⁵ – across the organization. Second, measure success based on the maturity of the solution. Achieving scale takes years and is not a feasible short-term objective in most cases. Instead, projects with shorter time horizons (2-3 years) should be assessed on their level of preparedness for future scale (scalability). Third, reinforce the intermediation function required to help partners scale their innovations. In most of the successful cases reviewed, IDB Lab played a critical role in nurturing the scale process alongside partners (e.g., support with strategic planning, finetuning business models, and coordinating stakeholders, among others). Finally, invest in agile tracking of scale results while learning from mistakes along the way.

Against this backdrop, the following examples illustrate how recent IDB Lab projects have taken each of the three pathways to scale – expansion, replication, and collaboration-, further enhancing their impact in the region.

⁶² OVE does not conduct annual validations of IDB Lab operations. Rather, a sample of IDB Lab projects have been reviewed by OVE in the context of its corporate evaluations of IDB Lab. The third OVE evaluation of IDB Lab was completed in 2021.

⁶³ IDB Lab's ongoing portfolio cleanup efforts led to the closing of an additional 47 projects in 2022 that had completed execution in previous years but were still open due to administrative reasons.

⁶⁴ Massive scale refers to projects with a +500 percent growth in clients or that have reached 5 times more users than were reached under the original IDB Lab project (5X).

⁶⁵ Expansion focuses on increasing the size of the organization, the scope of the operation and/or geographic coverage; Replication occurs when another organization, public or private, adopts an innovation, a relevant process, or a business model, which usually requires protocols, training, and standardized processes; and Collaboration occurs when a group of organizations or stakeholders work towards a common goal from different angles.

EXPANSION: EXPANDING ACCESS TO TELEHEALTH FOR VULNERABLE POPULATIONS

Telehealth innovations offer a unique opportunity to expand healthcare to hard-to-reach vulnerable and rural populations. To this end, in Colombia, IDB Lab partnered with the University of Antioquia School of Medicine ([CO-T1483](#)) to deploy new digital and telehealth tools to improve the accessibility, timeliness, and cost-effectiveness of health services for vulnerable people in the Department of Antioquia. This project was part of ongoing efforts by the University's LivingLab and the Department's public healthcare providers and agencies to build a comprehensive eHealth model to address priority challenges, including chronic disease prevention and care, maternal health, and mental health, with the addition of COVID-19 in 2020. The project greatly exceeded expectations in terms of results, driven by the dramatic pivot to telemedicine during the pandemic. From 2019-2021 it brought telemedicine services to a total of 860 municipalities in the country, including all 125 municipalities in Antioquia (above the planned 75), serving 285,000 people, more than double the initial target. During the same period, the project served over 127,000 patients through its home teleassistance platform (versus the planned 1,500), answering over 1.4 million telehealth calls, and supporting 600,000 user interactions with its digital tele-education content.

Moving forward, the University of Antioquia is spinning off the model into the "LIME" business unit which is a special-purpose vehicle that allows the public university to negotiate and sell medical services to state agencies and health insurers/providers, including an agreement with Nueva EPS, the country's largest insurance provider. In parallel, the University launched a telemedicine training unit within the LivingLab to continue preparing hospital staff to provide these services. This project is a clear case of scale up through expansion, broadening the geographic and operational coverage of the organization to increase the client reach. Success factors for scale in this case include the quality of the technology itself, which is user-friendly and able to reach areas with low connectivity and digital literacy, the validation of the business model with a real client through the service agreement with Nueva EPS, as well as the strong partnerships built with the state's public sector to ensure the efficient integration and management of eHealth services (See the [LivingLab](#) for more information).

REPLICATION: PROMOTING THE USE OF TECHNOLOGY FOR SUSTAINABLE RURAL DEVELOPMENT

Households in Sabana Yegua Viejo, a poor, rural community in the southern state of Azua in the Dominican Republic, have no access to sources of safe drinking water, improved sanitation, or electricity, greatly impacting people's health and quality of life. Further compounding these issues, already limited public investments in basic services in rural areas are made based on imprecise estimates of the current and future demand for such services. As shown by an IDB Lab project with the Nature Power Foundation ([DR-T1198](#)), technology is part of the solution, both in terms of service delivery and capturing information on people's consumption patterns to better target future public and private interventions.

Specifically, the project aimed to develop the country's first sustainable community, or Nature Village, which provides access to water, power, improved housing, and sanitation through environmentally-sound solutions that cost less than what people already spend to buy water to drink or fuel to light their homes. This included installing solar-powered microgrids to deliver electricity and

water, using remote sensors to measure per household consumption, and developing an open data platform to capture information on consumption and payment for services. As a result, from 2020-2021, 200 households (1,000 people) benefited from new or improved access to essential services. In addition, a community cooperative was created to manage and maintain the system, which is funded by monthly fees paid by consumers of the services. Based on this success, Nature Power is replicating the model in the border community of El Llano in the state of Elías Piña and the Government has formally adopted this model for its “[Mi Frontera RD](#)” program to provide energy, water, and connectivity services in isolated communities along the border with Haiti, benefitting over 5,000 people.

COLLABORATION: REACTIVATING MICRO AND SMALL ENTERPRISES AFTER DISASTER STRIKES

The major earthquake that struck off the coast of Ecuador in 2016 hit already vulnerable communities in the provinces of Manabí and Esmeraldas particularly hard, displacing 70,000 people. The effects severely impacted the micro and small enterprise sector, destroying infrastructure, equipment, and productive capacity, affecting at least 18,000 micro and small entrepreneurs. In response, IDB Lab supported an innovative model ([EC-Q0002](#), [EC-T1353](#)) involving key private sector actors in the reconstruction of their value chains and business community, to not only rebuild what was lost but strengthen resilience for future disasters.

The Re-Emprende Program, led by the *Alianza por el Emprendimiento e la Innovación* (AEI), aimed to provide comprehensive technical assistance and credit to 7,000 micro and small enterprises for the rehabilitation, recovery, and expansion of their businesses and means of production. This called for creating two complementary vehicles with both equity and grant resources from IDB Lab and a group of local private companies: the “Resiliencia” Trust investment fund to finance an affordable credit program to cover the investment and working capital needs of the enterprises, with funds channeled through banks working in the area, and the “Junto a Ti” Trust to provide technical assistance and additional support for enterprises to access credit such as partial guarantees.

From 2016-2022, the program benefited 8,700 entrepreneurs in 29 cantons of Manabí and Esmeraldas, 80 percent of which have been integrated into new productive value chains, and of these, 4,100 are women-led enterprises. Similarly, about 4,300 entrepreneurs have strengthened their business operations and increased sales. In addition, over 3,800 enterprises received credit totaling \$8.7 million with a delinquency rate of only one percent. Ultimately, this combination of technical and financial support helped entrepreneurs strengthen their businesses, leaving them better prepared to cope with the effects of the pandemic.

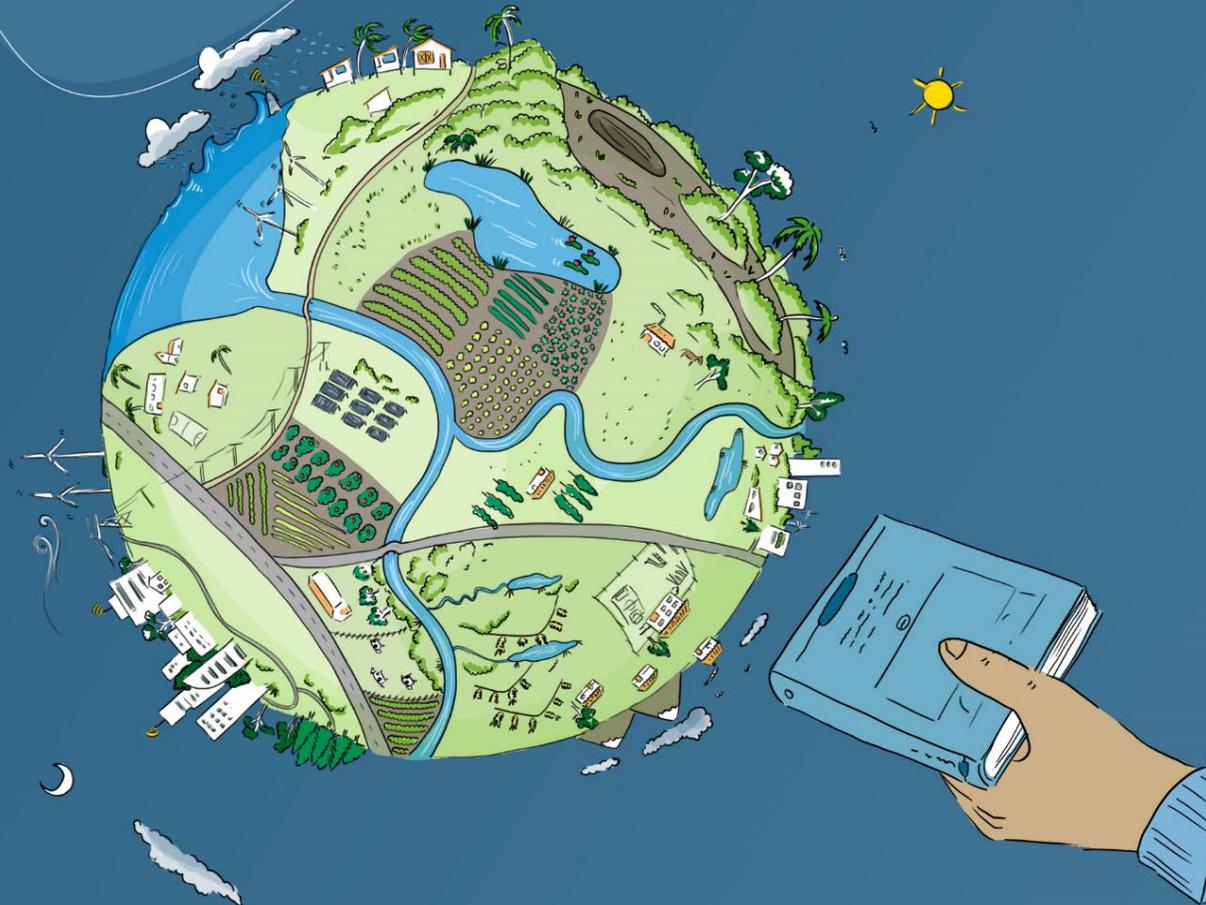
By collaborating through the Re-Emprende program, the private sector partners learned that they could join forces and resources to address local development challenges and have since used a similar model to support entrepreneurs in other sectors and locations. For example, AEI continues with a second phase of Re-Emprende focusing on supporting entrepreneurs in the tourism and gastronomy sectors at the national level. They have also launched other initiatives including “[Se Puede](#),” a productive inclusion program targeting agricultural entrepreneurs that offers a free online education

platform with certifications endorsed by the *Universidad de Las Américas*. In addition, the “[Innovando Amazonia](#)” program launched by the Inter-American Institute for Cooperation on Agriculture and the *Secretaría Técnica Amazónica del Gobierno de Ecuador* with support from private firms, is a portal for certified entrepreneurs to help them access better opportunities for linking with markets.

REFLECTIONS

Since the approval by IDB Governors of its last replenishment in 2017 in Asuncion, IDB Lab has made significant advances strengthening its development effectiveness function. It has developed and refined a best-in-class innovation assessment instrument, in the iDELTA; it now operates with a fully digital project management platform; and it has deployed a dynamic portfolio management function, built for managing risks inherent in its early-stage business model. It has also been able to improve the quality of its measurement framework and has developed unique expertise in scaled projects. IDB Lab is also increasingly becoming more comfortable with failure, and is generating key learnings not just from success, but from its portfolio of failed projects too.

There are, nonetheless, qualitative and quantitative improvements that it must undertake moving forward. A standardized impact tracking system, with outcome indicators that can be “rolled-up” at the portfolio level, will help to better manage the expected results of its innovations. Improved approaches to measure depth of impact, complementing rigorous project evaluations and case studies, will allow IDB Lab to better understand how innovation is improving lives, particularly of the poor and vulnerable. Also, a more granular measurement of scale, both during implementation and after project closure, will make the management of *scalability* possible. Better defined indicators, with more reliable data, and a strong theory of change will also contribute to improved effectiveness. This will be particularly important in emerging topics, where standard measurement approaches are still evolving, such as in the case of digital technologies or resilience and climate adaptation. Lastly, these improvements must be made within a digital transformation mindset, allowing IDB Lab to fully benefit from rapidly evolving digital technologies.



CHAPTER 5

KNOWLEDGE AND LEARNING

INTRODUCTION

Generating and sharing knowledge about what works and does not work in development is core to the IDB Group's value proposition and is highly valued by its stakeholders. Furthermore, the ability to apply this knowledge to influence policy dialogues, transform operational design and execution, and develop innovative solutions to development challenges is critical to adapt to the dynamic challenges faced by the region and enhance impact. The IDB Group works to foster a continuous learning cycle in which the entities of the Group as well as its clients gather new inputs on an ongoing basis to strengthen approaches over time and adjust to evolving realities.

The IDB Group's knowledge work includes a range of products, from impact evaluations and sector studies to online courses, methodological guides, and blogs. Together, these products⁶⁶ help fill knowledge gaps on how different policies work, test new approaches to development, and build capacity in the region. In serving different types of clients and using a variety of instruments to solve development problems, each IDB Group entity—the IDB, IDB Invest, and IDB Lab—contributes a complementary perspective to the Group's knowledge work.

This chapter provides an overview of knowledge generation and its impact within the IDB Group and on our partners and clients. It begins with a look at how the IDB Group generates evidence through impact evaluations and studies to help shape programs and policies. It also reviews efforts to build impact measurement and management capacity with private sector clients as well as public-private synergies in knowledge production and innovation, showcasing the Water and Sanitation sector. Finally, a deep dive reviews lessons learned from IDB Group work supporting financial inclusion with an emphasis on reducing gender biases and incorporating digital technologies. In singling out this area for its critical importance to the region as well as the sizable inroads made by the Group in building evidence around it, the chapter offers a glimpse into what the progression and complementarities of the knowledge agenda can accomplish as evidence is integrated into policy and operational solutions. The chapter's conclusion reviews remaining challenges in terms of strategic knowledge generation and use, noting efforts to improve the prioritization process for knowledge production.

KNOWLEDGE GENERATION AND APPLICATION

KNOWLEDGE GENERATION

Finding solutions to the complex question of what works in development helps inform decisions regarding which programs and policies can effectively improve health, boost student learning, raise incomes, and preserve forests, among other development objectives. One way to do this is through impact evaluations. In providing strong counterfactuals, impact evaluations are a robust tool to measure how programs and policies affect people's lives by quantifying their causal effects on intended outcomes. Impact evaluations offer various sources of benefits. For example, there is evidence that policy makers value evaluations and use this information to influence policy.⁶⁷ Impact

⁶⁶ Accessible through [BID Academy](#) and the [Impact evaluation repository](#) (for IDB), and the [Development through the Private Sector Series](#) (for IDB Invest).

⁶⁷ See Hjort et al. (2021).

evaluations also allow for a more efficient allocation of resources by identifying effective programs among competing ones⁶⁸ and may also allow for the identification of cost-effective approaches to promote development.⁶⁹ Over the past 30 years, the IDB Group has produced more than 800 impact evaluations to learn from its operations and contribute to the international body of evidence on effective solutions to development challenges. In 2022, the IDB Group conducted impact evaluations spanning a wide range of sectors and countries, such as a [study on a behavioral intervention to increase preschool attendance in Uruguay](#) and randomized controlled trials to evaluate [the impact of COVID-19 government-guaranteed loans on MSMEs in Chile and Colombia](#).

Beyond impact evaluations, understanding what works in development calls for a broader identification of market failures and their solutions in specific contexts. In turn, this requires incorporating knowledge in various forms, from lessons learned from project implementation compiled under the [Superheroes of Development Platform](#), to publications, datasets and databases available at [BID Academy](#). Similarly, as highlighted in recent DEOs, integrating the use of big data has expanded learning opportunities, helping to identify impact beyond the project level. Finally, the emergence of AI has prompted new avenues for learning through initiatives such as [fAIR LAC](#), enabling the analysis of areas as diverse as [AI for labor intermediation systems](#), [gender-based violence mitigation](#), and [public bidding improvements](#).

USING EVIDENCE TO FINE-TUNE PROGRAM DESIGN

Whether and how the evidence produced by the Group can transform lives is a key element of the development impact story. The following are just a few examples of how the IDB Group's knowledge products and expertise have been able to shape programs, policies, and clients in several sectors, illustrating the value of our intellectual contributions to the region. This is not intended to be an exhaustive list, as the Group has had an innovative role in other critical areas such as incorporating lessons from behavioral economics into the design and execution of public policies.⁷⁰ Finally, the example provided in Box 5.1 illustrates the first steps in a path from improvements in data collection to evidence generation and application, through an ongoing pilot with BADESC in Brazil.

In the Integration and Trade Sector, a series of comprehensive impact evaluations of export and investment promotion and trade facilitation initiatives not only inspired similar initiatives in other regions (Cadot et al., 2015; Munch and Schaur, 2018) but also were key to inform the design of the trade single windows in Trinidad and Tobago ([TT-L1044](#)) and Argentina ([AR-L1251](#)). In trade facilitation, Carballo et al (2016) find that the implementation of an electronic trade single window in Costa Rica enabled an increase in exports by firms whose products require permits. The single window induced higher shipping frequency, buyer diversification, and greater sales per buyer, particularly for firms that interacted with several public agencies without presence in their regions. The number of exporters has also expanded, suggesting that streamlined trade processing reduces export entry costs. The design of the operations in Trinidad and Tobago and Argentina was informed by lessons emerging from these findings, incorporating mechanisms for inter-institutional coordination,

⁶⁸ See Duflo (2020).

⁶⁹ For example, a body of impact evaluations identified deworming as one of the most cost-effective mechanisms to increase school attendance. For more information, see [J-PAL](#) (retrieved June 6, 2023).

⁷⁰ For a more extensive compilation of these lessons see [Nudging Latin America and the Caribbean: A Decade of Improving Public Policies through Behavioral Economics](#).

modernization of procedures, and change management, as well as incremental step-by-step development. In the area of export promotion, Volpe Martincus and Carballo (2008) find that firms assisted by Peru's export promotion agency experienced a 17 percent increase in the growth rate of exports, relative to similar firms that were not supported. This and other studies were instrumental to the design and evaluation of loans in Paraguay ([PR-L1139](#)) and Uruguay ([UR-L1060](#)). Most recently, in the context of a program to support the internationalization of the Colombian economy ([CO-L1241](#)), Gallego et al. (2022) find that supported firms had a higher probability of exporting and exported larger amounts than those in the control group. That these effects were larger for MSMEs and were mainly channeled by first time exporters have significant policy implications and have helped advance the sector's ongoing dialogue with the country. Finally, investment promotion studies showing positive effects of attracting investments for the local economy when combined with linkage programs have motivated a fine-tuning of the strategic orientation of the export and investment promotion agencies Uruguay XXI and Costa Rica's CINDE.

In the area of policies to stimulate dynamic entrepreneurship ecosystems, a frequent challenge is the difficulty to predict, at the time of application to entrepreneurship support programs, which firms have a high potential for growth. An inadequate selection mechanism may mean lower program impact. Goni Pacchioni and Reyes (2019) evaluated the impact of StartUp Peru, a program that simultaneously provided seed capital and incubation services to innovation-oriented entrepreneurs. They found that, although the program was effective, a calibration of the selection mechanism to better identify the most dynamic entrepreneurs would have increased its impact. The key to identifying entrepreneurs with a higher growth potential lies in relying on proven predictors of success rather than the subjective elevator pitches that are commonly used. These insights were critical to fine-tune the beneficiary selection process of subsequent cohorts of Peruvian entrepreneurs, and inspired research that influenced the design of another start-up program in Jamaica ([JA-L1085](#)).

In the area of efficiency of public spending, [de Michele and Pierri \(2020\)](#) evaluate the effects of a program to increase transparency and efficiency in public procurement processes in Argentina through the introduction of COMPR.AR, a digital platform that allows all public procurement processes to be carried out electronically ([AR-L1303](#)). The authors use a difference-in-differences identification strategy based on the gradual rollout of the platform across various public offices to compare public procurement transactions through COMPR.AR with transactions based on preexisting processes. Based on these data, the authors find that the average unit price of purchases made through COMPR.AR was 4.4% lower than the price that would have been paid otherwise, representing annual government savings over US\$ 35 million. Purchases were made faster, saving the government up to 11 days per purchase, and competition increased, with more numerous bidders. This made COMPR.AR one of the most important components of the reform program. Its effectiveness justified keeping the intervention in place after changes in administration. Further, the mechanisms to ensure integrity and transparency that were found to be key in the program's design were incorporated into the design of subsequent operations in Honduras ([HO-L1232](#)), Paraguay ([PR-L1172/80](#)), and Chile ([CH-L1157](#)), as well as inspired similar initiatives and reforms in the Dominican Republic and Peru.

BOX 5.1 DIGITAL SOLUTIONS TO REDUCE THE COST OF MONITORING AND INCREASE EFFECTIVENESS

Helping underserved MSMEs access the credit they need to invest in their operations, grow, and create jobs is core to the IDB Group's work with financial intermediaries in the region. However, collecting data to measure the effects of these interventions on final beneficiaries can be prohibitively costly: access to information restrictions, data availability lags, and other hurdles generate obstacles for effective monitoring and evaluation. Digital solutions offer new opportunities to overcome these ongoing challenges. For example, the IDB has partnered with IDB Tech Lab to pilot a new data collection application with the Development Agency of the State of Santa Catarina (BADESC) in Brazil. The app will invite users who receive credit from partnering financial institutions to report data on loan amounts, productive investments, employment, and sales. Users will also be able to connect with each other, and to build their own in-App network. This information will help gauge the full impact of credit on final beneficiaries, producing evidence to fine-tune IDB and partnering FI operations. It will also allow partners to conduct annual surveys targeting users that received new loans each year. This spirit also drives IDB Invest's 2022 launch of the FI Impact Measurement Initiative, supported by We-Fi, with the aim of helping FIs in strengthening their impact measurement capacities through optimizing their data collection and analysis processes. Doing so can help FIs to better understand their client base, inform future strategies, and better serve targeted segments such as MSMEs.

BUILDING IMPACT MANAGEMENT CAPACITY IN THE REGION'S PRIVATE SECTOR

As interest in sustainable and impact investing has been accelerating, so has the push for greater transparency, harmonization, and integrity in how companies measure and report on their social and environmental impact. Investors are hungry for credible demonstrations of impact in developing markets, and by promoting greater uptake of robust impact management practices in the private sector in LAC, the IDB Group can help to better connect capital with investment opportunities in the region. IDB Invest is increasingly working with clients in different sectors to build their impact measurement and management capabilities.

In Peru, IDB Invest is working with Danper, a leading agribusiness with a global presence and a business model based on the creation of shared value, to assess the impact of its social programs and measure multidimensional poverty among its workers and their families through a tailored methodology based on the Global Multidimensional Poverty Index (MPI). The MPI captures the multiple deprivations that people face in areas such as education, health, and living standards. By conducting these measurements, Danper is taking the lead and joining the few companies in the region, and worldwide that are doing so. The company plans to continue collecting this information periodically in order to track employee welfare and enhance the impact of its social programs to improve their quality of life.

The results of the baseline survey (based on 711 survey respondents) show that 28 percent of worker households were multidimensionally poor, with a higher incidence among female workers (32 percent compared to 22 percent for males) and older workers (39 percent of workers aged 47 to 66). The top two indicators reported were related to deprivations facing workers' household members: precarious employment (48 percent) and lack of private health insurance (46 percent). Comparing workers' MPI levels and the information collected about Danper's six social programs provides additional insights. For example, regarding its primary/secondary education equivalency program, only 13 percent of program graduates were found to be multidimensionally poor, compared to 50 percent of workers who did not participate in the program.

In the financial sector, together with the UNDP, IDB Invest is working with the Bolivian Private Banking Association (ASOBAN) to implement an impact monitoring system for its 11 member banks, the first-of-its-kind in LAC. The objective is threefold: 1) help member banks collect relevant impact information from their clients and report on it in a standardized way following international best practices; 2) use this information to better understand their clients' needs and improve their services accordingly, and 3) strengthen their sustainability and impact reporting capacity in order to tap into the impact investing market. A pilot was carried out with three banks to calibrate the data collection tools and processes. Among its capabilities, the system can automatically pull information from existing bank systems and complement it with impact data collected by credit officers at specific points in time. So far more than 1,500 employees have been trained. IDB Invest will continue supporting ASOBAN during the initial system rollout to ensure the quality of the incoming data and to process aggregated information to support the association's first sustainability report using this type of data. This initiative has the potential to generate important systemic effects both within the Bolivian banking system, as well as in the region at large as more financial institutions engage in impact reporting.

Finally, IDB Invest has been working with BRK Ambiental, one of the largest private providers of water and sanitation services in Brazil, to estimate the health impacts of increasing water and sewerage coverage in the country. This study is part of an ongoing collaboration between IDB Invest and BRK Ambiental to build the company's capacity to measure and manage the impact of its water and sanitation operations. IDB Invest's technical support also includes testing behavioral approaches to increase household water savings among its customers, together with the IDB Behavioral Economics Group (see this [blogpost](#)). Based on an analysis of 12 years of data (2010-2021) from over 800 Brazilian municipalities, the results show that increasing water and sewerage coverage leads to reduced hospitalizations and healthcare expenditures for water-related diseases. Regarding dengue in particular—Brazil has the second highest incidence of this disease in LAC—the findings show that a 10-percentage point increase in drinking water and sewerage coverage could reduce hospitalizations due to this disease by more than half. For more information see this [brief](#) and [blogpost](#).

USING IDB GROUP SYNERGIES TO PROMOTE INNOVATION IN WATER AND SANITATION

Complex development challenges call for solutions that incorporate multiple perspectives. These may not be purely public or private, nor necessarily arise from a single discipline. Coordinating solutions closely and ensuring they reflect innovative lessons from different sectors is a critical part of the value added of the IDB Group.

In LAC, one out of five people live without access to safely managed water and two out of three without access to sanitation services,⁷¹ and only half of collected solid waste is adequately managed.⁷² Reaching universal coverage requires a fivefold increase in investment over current levels (UN DESA, 2022). It also calls for innovations in how these essential services are managed and delivered to enhance quality, efficiency, and sustainability.

⁷¹ [WHO-UNICEF Joint Monitoring Program](#). Data accessed on May 19, 2023.

⁷² IDB-UNEP Hub de Residuos Sólidos y Economía Circular.

Reinforcing the need for public-private collaboration with external partners to tackle this challenge, the IDB Group launched the [Source of Innovation Alliance](#) to promote the development and adoption of innovative solutions in the sector to achieve smart, inclusive, and sustainable services. Co-led by the IDB's Water and Sanitation Division and IDB Lab, this initiative involves the Knowledge, Innovation and Communication Sector,⁷³ the Office of Outreach and Partnerships, and the Competitiveness, Technology and Innovation Division of IDB as well as IDB Invest and external partners.

The alliance builds on the Group's track record of innovation in this sector through recent IDB initiatives such as [AquaRating](#) and [HydroBID](#), as well as lessons learned from its operational experience. For its part, IDB Lab brings to bear extensive experience developing pilot projects for vulnerable groups in water, sanitation and waste management and deploying innovative private financing instruments, as well as a broad network of innovators, startups, entrepreneurs, and civil society organizations among others.

Source of Innovation gained speed in 2022, approving 10 technical cooperation projects, ranging from a project in Belize to implement innovative on-site water disinfection technologies in urban and rural areas ([BL-G1007](#)), to an acceleration program for start-ups in the sanitation sector in Guatemala, Honduras, and Peru ([RG-T4144](#); [RG-T4148](#)). The alliance also organized 20 knowledge-sharing events throughout the year and produced nine publications, sharing insights and lessons learned about trends in the water and sanitation sector and digital innovations, among other topics.

A key challenge to reach the goal of universal access has been the lack of reliable and comparable data to inform the design, monitoring and evaluation of effective solutions and innovative management models. As an example of alliances with external partners, the IDB has partnered with the UN Environment Programme (UNEP) to launch the solid waste and circular economy HUB. The HUB is a conglomerate of open data and seeks to support countries in their digital transformation to promote effectiveness and innovation. Internally, as part of the IDB's Digital Transformation initiative, the Bank's Office of Strategic Planning and Development Effectiveness is leading a coordinated effort with the Division of Water and Sanitation to develop an interactive dictionary of results indicators to help enhance the measurement of progress and effectiveness of operations. This work will be later extended to other sectors of the Bank.

LESSONS LEARNED IN FINANCIAL INCLUSION

Financial inclusion means that households and firms have access to and use quality, affordable financial products and services. The financial inclusion landscape has improved significantly in LAC over the last decade. In 2021, 73 percent of adults had access to a bank account, up from only 39 percent in 2011.⁷⁴ Technology and digital innovations have accelerated this evolution, especially during the pandemic. In 2021, nearly one in four adults in the region had a mobile money account (versus only 5 percent in 2017), and there were nearly 2,500 fintech companies or platforms in the region, more than double the amount in 2018 (IDB and Finnovista, 2022) offering new digital channels to access financial products and services. Notably, five of the ten countries that experienced the biggest

⁷³ Where the Knowledge and Innovation Division led a strategic planning process for a knowledge agenda with the participation of different stakeholders.

⁷⁴ The World Bank, [Global Findex Database](#), 2021.

improvements in financial inclusion scores in the [Global Microscope](#)'s dataset between 2014 and 2020 were in Latin America.

Nevertheless, significant barriers to financial inclusion remain among households and firms. The region's MSMEs, despite representing 99 percent of firms and 60 percent of employment, face the second largest financing gap in the world. This gap is even deeper for women-owned MSMEs which also face entrenched gender biases in the financial sector.

In line with international evidence and experience, the IDB Group has promoted financial inclusion through: (i) policies that aim to strengthen the institutional environment for access to finance, (ii) supporting productive financing policies, and (iii) programs and initiatives that educate and support access to financial products by underserved populations (IDB, 2017). This section's general focus on MSMEs⁷⁵ emphasizes their considerable heterogeneity across the region, and the ensuing need to identify targeted solutions to their access to finance challenges. The lessons included here are not meant to be comprehensive, but rather highlight key learning from the IDB Group's operational and knowledge work in terms of better understanding the behaviors and barriers that affect MSMEs, their financial services providers, and the innovations that enable more effective financial access solutions. This topic was selected given its salience for inclusive economic and social development in the region. Financial inclusion is an enabler of seven of the 17 SDGs, a common thread across many of the IDB Group's development priorities. Further, making improvements in the specific area of MSME access to finance will be key to the region's post-pandemic growth prospects.⁷⁶

REACHING FINANCIALLY EXCLUDED POPULATIONS CALLS FOR UNDERSTANDING THEIR NEEDS

People and businesses are left on the sidelines of the financial system for many different reasons. Smaller and younger firms, as well as those that operate in what are perceived as riskier sectors often cannot access affordable, formal credit. Women-led MSMEs are more likely to be financially excluded (Piras et al., 2013). Failure to identify and understand these differing needs and barriers can diminish the impact of financial inclusion programs, as illustrated below.

You achieve what you measure. Evaluations of IDB credit operations in [Colombia](#) and [Argentina](#) showed that channeling funds to financial intermediaries can improve credit conditions for MSMEs as well as the performance of those that are already accessing credit. However, the second study also found that these interventions do not necessarily increase access to finance to previously unreached firms, since most beneficiaries that received credit were found to be existing clients of those financial intermediaries. These elements have been useful in creating awareness on the need to be purposeful in reaching unbanked firms, beginning with including clear mechanisms at project design.

⁷⁵ While the focus of this section is mostly on MSMEs, the need to identify the particularities that set beneficiaries apart also applies to individuals, as evidence production efforts in the IDB Group have long recognized. An example of this is a compilation of best practices to address the needs of older customers in the 2022 IDB Group report [Silver Finance: Reversing Financial Exclusion](#). Another example focuses on the needs, financial behavior, and preferences of ride hailing app drivers in Chile, Colombia, Mexico and Peru in Azuara et al. (2022a) and Azuara et al., (2022a). After the pandemic accentuated the use of flexible modalities on work-on-demand platforms, it is indispensable to identify new insurance products that can expand coverage and bring social security systems in line with the needs of the digital age.

⁷⁶ This topic was also selected to leverage the portfolio analyses of financial inclusion projects carried out by IDB Invest (thematic review of XSRs) and IDB Lab in 2022, as well as the IDB's recent analysis of impact evaluations of projects aiming to increase access to credit for MSMEs.

Subsequently, at least two projects⁷⁷ have been tailored from their design to reach previously unbanked firms and include metrics for monitoring. They have also contributed to institutionalizing a Guide (designed in coordination with OVE), that requires the systematic inclusion of portfolio-level metrics in financial intermediation projects since 2020.⁷⁸ to trace the impact of financial intermediary operations geared towards expanding access to finance. These metrics go beyond the IDB supported subprojects to trace the impact of operations at the portfolio level of participating FIs, geared towards ensuring IDB loans are effectively expanding access to finance rather than substituting existing resources.

Asking the right questions to identify customer needs helps tailor solutions and enhance program delivery. The entrepreneur's gender can have implications on how a firm approaches financial services, and whether and how the MSME has access to credit. [An IDB study](#) finds that self-limitation of credit demand among women-led MSMEs constrains credit access. The resulting recommendations urge national development banks to stimulate demand by providing accessible information on financial products to potential clients, as well as offering non-financial services targeting the specific needs of these firms. In Brazil, Pereira Porto and Azar Barros (2022) map out specific factors that contribute to barriers in access to finance faced by women-led MSMEs, deriving recommendations that became a key piece of dialogue with development banks via the *Associação Brasileira de Desenvolvimento*, and with the federal government, informing the design of the program “*Brasil pra Elas*.”

Likewise, the recent review of lessons learned from IDB Invest's final evaluations of financial inclusion projects found that one of the factors behind clients not growing their targeted portfolios as expected was insufficient understanding of the barriers facing the segments they were trying to reach, both on the supply and demand side. For instance, in some cases the bank's loan application process was too burdensome or complex for inexperienced MSME applicants and the customer service infrastructure was not equipped to meet their needs. Coupled with other barriers such as MSMEs' lack of credit history or limited digital and financial literacy, the portfolios did not grow as envisioned. One solution to mitigate this issue is the use of psychometric tools instead of credit scores to evaluate loan applicants without a credit history, as explained below.

When the requirement to pledge a specific asset as a guarantee for the loan restricts access to finance, guarantees were useful in providing access to credit to firms that would otherwise have been rejected. In Argentina, guarantees granted by a mutual guarantee firm increased access to finance and employment, without affecting repayment ([AR3452A-01](#)) (Giuliodori et al., 2020). In Colombia, credit facilitation through partial guarantees provided through the National Guarantee Fund was effective in relaxing restrictions on growth for SMEs that did not have enough qualifying assets to pledge as collateral in the formal credit market (Arraiz, Melendez and Stucchi, 2014). Beneficiary firms were able to grow both in terms of output and employment. Further, these findings have been instrumental in the design of programs such as a \$300 million initiative in Ecuador with the Corporación Financiera Nacional ([EC-L1279](#)) to support the economic recovery of MSMEs, through an expansion of their access to credit.

⁷⁷ Such as CO-L1289 (not yet approved) and EC-L1279.

⁷⁸ Between 2020 and 2022, 18 PCRs of sovereign guaranteed operations with financial intermediaries included such metrics.

Conditionalities must be designed with the needs of specific groups they target in mind. For example, in a project with an FI in El Salvador, IDB Invest offered partial credit guarantees to support the client's MSME portfolio growth strategy. The guarantees were contingent upon the completion of training courses by the MSMEs, which ended up discouraging demand for the guarantees and the operation fell short in achieving its objectives. Instead, interventions should facilitate the participation of targeted clients; instead of mandatory training, consider offering an optional capacity building component as an additional incentive for potential borrowers to strengthen their businesses. In turn, this can also help lower their lending risk.

BETTER UNDERSTANDING HOW FINANCIAL INTERMEDIARIES OPERATE CAN REDUCE THE INTERMEDIATION COSTS OF SERVING THE UNDER/UNBANKED AND THE INFORMATION PROBLEMS THAT CAUSE THEM.

To bring excluded groups into the formal financial system, IDB Group operations work through financial intermediaries, including banks, microfinance institutions, non-bank financial institutions, cooperatives, and fintechs, among others. Therefore, understanding how our partners and clients operate and strengthening their ability to reach these target populations is critical.

Project objectives must be clearly aligned with the FI client's strategy to increase the likelihood of success even under adverse conditions. While some IDB Invest clients may just be beginning to serve targeted segments, such as MSMEs, others have a longer track record. In either case, it is important to look at an FI's business strategy to ensure alignment with project objectives. For example, an operation with a cooperative in Brazil aimed to increase a particular lending portfolio for small farmers. Since some cooperative members already had strategies in place to expand their participation in this segment, they were able to meet and even surpass growth targets, according to the final evaluation of this operation. In contrast, in the case of an operation in Costa Rica, while the client bank already served the MSME segment, growing this portfolio was not an explicit part of their strategic plan, leading to the operation not meeting its development objectives. Similarly, IDB Invest experience has shown that the client focus of FIs matters. For instance, banks that serve multiple client segments in addition to the MSME beneficiaries targeted by the operation, are more likely to deviate from reaching MSMEs when faced with negative external shocks, versus clients whose business model focuses on serving this segment. At the same time, even banks that have a strategy in place to reach underserved segments may have to pivot when faced with external shocks, as was the case of an operation in Ecuador. Underserved segments tend to be more vulnerable to such shocks (macroeconomic instability, natural disasters, social and political unrest), making these portfolios riskier. Clients face a trade-off between maintaining the growth of these portfolios and maintaining their non-performing loan (NPL) ratios; an increase in NPLs forces banks to increase loan loss provisions to reflect the risk of the portfolio with consequences for its profits and capital.

Understanding our FI partners' models and operating conditions can help identify the knowledge gaps that must be filled to enhance financial instruments and deepen their reach among underserved populations. Information asymmetries further exacerbate financial exclusion for MSMEs, the vast majority of which have limited or no credit history. Low-cost alternative credit scoring approaches, such as psychometric tools that assess applicants' personality and character, have proved

to be a viable way to evaluate a potential borrower's ability and willingness to repay loans. In the case of a large bank in Peru ([PE-L1136](#)), an IDB Invest and IDB Lab study evaluates psychometrics as an alternative scoring tool for potential borrowers. The findings show that among MSMEs that did not have a credit history, the tool increased loan use by 54 percentage points, without leading to worse repayment behavior. This demonstrates that even in information-constrained contexts, banks can deploy innovative tools to identify bankable clients and expand access to finance (for more information see the [study](#), [brief](#), and [blogpost](#)). Similarly, in another case, Banco Familiar in Paraguay developed a credit product and alternative scoring system targeting the underserved market. Loan eligibility decisions were made based on demographic information, such as age, gender, and address, as well as earnings estimates and a short questionnaire; credit scores from the credit bureau were not considered. An IDB Invest study together with Banco Familiar found that people without credit histories benefited the most from being approved for a loan: they had stable credit scores and fewer defaults two to three years down the road, compared to their more experienced counterparts (for more information see the [study](#), [brief](#), and [blogpost](#)). More recently, fintechs are increasingly using alternative data sources such as digital payment transaction history and social media activity to assess the creditworthiness of clients without credit histories. For example, the IDB Lab-supported fintech Galgo,⁷⁹ operating in Chile, Peru, Colombia, and Mexico ([RG-L1157](#)), developed a credit scoring methodology adapted for underbanked populations, initially targeting migrants in Chile (especially Venezuelans), which incorporates alternative data from information on the income and transactions they generate in the gig economy, among other sources. Fintechs are also helping reduce gender bias in lending by using algorithms to make loan decisions based solely on applicants' credit risk, as discussed in Box 5.2.

BOX 5.2 – UNCOVERING THE HIDDEN COST OF GENDER BIASES IN LENDING TO WOMEN

When businesses owned or led by women apply for a loan, they are more likely to be rejected than their male peers and when they do access credit, the terms are typically worse: smaller amounts, shorter tenors, and higher rates and collateral requirements. For example, an [IDB study](#) of the Chilean consumer credit market found that women were 18 percent less likely to get their loan applications approved, even when their applications were identical to those of men. This is largely due to entrenched, often unconscious, gender biases that affect lending decisions. This is not only a loss for women and the economy, but for banks that are leaving millions of dollars in foregone profits on the table.

To raise awareness about this issue in LAC, IDB and IDB Invest developed an online tool to measure the impact of gender biases on credit offers and quantify the potential impact on bank profits. Based on this analysis, the IDB Group recommends interventions for our partner banks to pilot to reduce or mitigate these biases. The survey tool measures both the implicit and explicit gender biases of bank personnel and the likelihood that these will negatively influence their behavior towards women-owned businesses, including a series of hypothetical loan applicant cases. The results are then validated using real data on credit officers' past loan approvals provided by the partner bank.

The Group's experience with several financial institutions in Ecuador, Colombia, and Peru—including more than 1,000 credit officers who have used the tool to date—shows that the real data backs the results observed in the hypothetical cases. Businesses with similar risk profiles and characteristics that are owned by women consistently get worse loan terms and conditions versus their male peers. Women applicants are also rejected more often and end up using less attractive credit products (more credit card debt, fewer working capital loans). Nonetheless, the data shows that women repay at least as well (or better) than their comparable male counterparts (see [blogpost](#)).

Not only are women missing out on opportunities, but the opportunity cost for banks is also real. In the analyzed cases, an estimated 8 percent of the financial income generated by these portfolios is foregone income. In addition to measuring the impact of gender biases, what actions can the financial sector take to uproot them?

⁷⁹ The company changed its name from Migrante to Galgo in 2023.

One way is to minimize the discretion that credit officers have when setting loan terms. The Mexican fintech Konfio is doing just this by using an unbiased algorithm to make lending decisions based solely on applicants' credit risk, resulting in identical offers for men and women. To dig deeper into the impact of access to credit for women-owned firms, IDB Invest partnered with Konfio to estimate the impact of its lending on companies' sales growth. After two years, the sales growth of Konfio clients was 19 percent higher than that of similar businesses whose application had been rejected, and the difference was more than double among women-owned businesses. Why is the growth rate more than twice as high when only considering women-owned businesses?

Since it is often harder for women-owned businesses to access credit and, when they do, it is typically on less favorable terms, it is likely that the women-owned businesses rejected by Konfio experienced lower growth rates than the rejected male-owned companies, which likely had easier access credit elsewhere. In short, the large difference in sales growth among women is likely less due to Konfio's female clients performing better, and more due to the other women performing much worse due to prevailing credit market constraints, including gender biases, in Mexico (See [DEBrief](#) and [blogpost](#)).

LEVERAGING TECHNOLOGY AND INNOVATIONS TO PROVIDE MORE APPROPRIATE SOLUTIONS FOR EXCLUDED POPULATIONS.

Continuing to expand the digitalization of the financial sector is crucial for bringing the more than 200 million citizens in the region without access to financial services into the modern economy (Fonseca et al., 2021). Fintech platforms are a powerful tool for financial inclusion, both by offering financial services directly to MSMEs and excluded populations and by providing technology solutions to traditional banks to spur their digital transformation. The fintech ecosystem has been growing rapidly in the region, comprising about 2,500 firms in 2021, over a third of which focus on unbanked and financially excluded groups.⁸⁰ Along with these advancements in the region, and to better coordinate its internal operational and knowledge work in this area, the IDB Group is developing the [FINLAC](#) platform, focusing on digital payments, the digital transformation of the financial sector, and open finance.

Improving access to finance for underserved or unbanked populations requires innovations to solve market failures and reduce barriers to access. Digital payments can serve as a gateway to other financial services, as outlined in the 2022 IDB Lab publication [Accelerating Digital Payments in Latin America and the Caribbean](#). Despite the steady growth of digital payments in LAC—in 2020 alone the number of active mobile money accounts increased by 67 percent spurred by the pandemic—cash is still preferred by a large share of the population, many of whom work in the informal sector. Banking agents, or local businesses contracted by banks to process client transactions, are one way to bridge the gap between the cash and digital economies, serving as a trusted broker for the unbanked to enter into digital payments. These networks also provide a cost-effective way for banks to expand their reach to low-income populations in urban peripheries and rural areas. For example, IDB Lab worked with Banco Fihogar in the Dominican Republic ([DR-G0003](#)) to expand uptake of its e-wallet (Reset), which can be opened without visiting a bank branch. Banco Fihogar partners with a network of MSME banking agents that process payments using Reset and offer deposit and withdrawal services. To date, the growth of Reset accounts has nearly matched the number of savings accounts opened in bank branches before the e-wallet was launched, with 60 percent of accounts opened by underserved people. Another example is IDB Lab's partner MOVii in Colombia ([CO-T1489](#)) which also offers an e-wallet and works with a large cash-in/cash-out network of retail stores that reduce barriers and costs

⁸⁰ IDB, IDB Invest 2022. [Fintech in Latin America and the Caribbean: A Consolidated Ecosystem for Recovery](#).

for users and broaden its coverage area. Underscoring the accessibility of this solution, the government used MOVii to distribute aid to vulnerable populations during the pandemic. Finally, banking agents, many of which are MSMEs, also stand to gain from partnering with banks to provide financial services. Evidence generated by IDB Invest and IDB Lab shows that banking agents in Ecuador not only benefit from fees and greater access to financial products, but also from increased sales due to higher foot traffic (for more information, see the [study](#), [brief](#), and [blogpost](#)).

Regulatory reforms around fintech must be tailored to the specific stage of development of the financial innovation ecosystem. There is a widely documented need for financial regulation to be updated to help fintech realize its potential (Gershenson et al., 2021). What is less clear, for countries at the gates of the fintech opportunity, is which regulatory innovations they should prioritize and how. A 2022 fintech survey by IDB and IDB Invest provides evidence to this end, while disseminating a tool that maps out developments in financial regulation in the region. It also identifies two broad sets of regulatory innovations, as well as the conditions under which each is more appropriate. First, innovation hubs digitally enable dialogue between financial regulators and fintech firms, through an iterative process that may inform subsequent regulations. Currently, eight countries⁸¹ have innovation hubs, several of which have been supported by the IDB. These are most effective when financial innovation ecosystems are incipient, with few actors and when there is no specific regulation around fintech verticals or open finance. Second, regulatory sandboxes, which offer a testing ground for products and services, are better suited to relatively more developed ecosystems, with greater numbers of entrepreneurs. Currently, six countries in the region (Mexico, Colombia, Brazil, Barbados, Jamaica, and Trinidad and Tobago) have these initiatives in place, while Peru and Uruguay are developing similar efforts.

REFLECTIONS

The knowledge work and lessons learned highlighted in this chapter are just a sampling of IDB Group efforts to make continuous learning and improvement a core part of its culture. The IDB Group's analytical work has contributed to reducing knowledge gaps in the region and has been instrumental in better understanding our clients and beneficiaries. However, generating knowledge is not enough. Moving forward, the Bank faces three important challenges on the knowledge generation and application front. Providing effective solutions for them is key to both maintain the Bank's intellectual leadership in the region, and to refine the cycle of continuous improvement that must guide operations.

The first challenge has to do with having mechanisms to strategically map out and prioritize evidence gaps to be tackled, as OVE has noted.⁸² Systematically mapping out existing impact evaluation findings and remaining evidence gaps in every sector is critical to align knowledge generation to research gaps and pressing regional needs. To that end, it is worthwhile to note recent initiatives,⁸³ such as ongoing efforts towards capturing sector-specific thematic evidence gaps, as well as the upcoming series of monographs on What Works to Improve Lives. Similarly, a methodology to define knowledge agendas that include mechanisms of prioritization has been implemented and

⁸¹ Bahamas, Colombia, Argentina, Costa Rica, Dominican Republic, Brazil, Guatemala, and El Salvador. Honduras is the latest country to be taking steps towards implementation.

⁸² See OVE's 2018 [Review of Knowledge Generation and Dissemination in the Inter-American Development Bank](#).

⁸³ These include the Behavioral Economics Group, GD Lab, and Skills Bank.

applied in the education and labor market sectors, the Paraguay and Brazil Country Offices, and the Regional Integration Unit, among others. In the future, prioritization mechanisms must be strengthened to identify a clear knowledge agenda that is driven by improving understanding of how policies work to align projects and resources to the most effective approaches.

The second challenge has to do with enhancing data collection to measure development impact, leveraging the potential of digital technologies and alternative data. At times, the cost of accessing administrative data or deploying large surveys can be an obstacle to measuring the development impact of an intervention. To address this issue while leveraging digital technologies, the Bank has made inroads into the use of alternative data and creative data collection methods. This includes recent efforts to use satellite imagery (e.g., luminosity as a proxy for economic development) and navigation software (e.g., Waze as an instrument to gauge congestion), as well as a non-traditional [partnership with LinkedIn](#), the employment-focused social media platform, to measure labor indicators in the aftermath of the COVID-19 pandemic. Finally, as noted in Box 5.1, the IDB is partnering with BADESC in Brazil to develop an application that final beneficiaries of financial intermediary loans can download onto their mobile phones and enter relevant data. This will improve data collection and allow banks to better know their client base, at a fraction of the cost.

To close the cycle of continuous learning-based improvements, the final challenge is to strategically use knowledge, tracing how the body of evidence provided by the Group feeds into tangible impact. In that sense, there have been improvements in mechanisms for internal knowledge reutilization, such as the integration of searchable lessons learned repositories in the Group's knowledge platforms, including *Findit* and IDB Invest's Development Effectiveness Analytics platform. Further improvements are in the works to speed up a well-informed design of new projects. For instance, IDB Invest has an Automated Virtual Assistant integrated into its knowledge management platform, which automatically matches relevant lessons from past operations to new investments in the pipeline, while the IDB uses an automatic message mechanism to deliver Knowledge Packages with similar information. IDB Lab is deploying two AI-powered tools, the Genoma platform to search project documents and extract lessons learned, and a large language model-based application to help teams develop their project's theory of change and results matrix. Furthermore, the platform [Superheroes of Development](#) systematizes and shares lessons from implementing agencies and clients on how to overcome challenges related to project execution. In the future, knowledge reutilization should be systematized and mainstreamed, producing lessons learned of higher quality and feeding them into project implementation and design. Considering that PCRs are an instrument of accountability, but their temporality does not always allow for a timely capture of an intervention's full effects, mechanisms should be included to ensure that evidence of a project's effectiveness does not stop being tracked after PCR submission. Closing the loop also requires making sure that clients can access and use knowledge they find relevant. Regarding the first, as a response to client feedback, the Client Connectivity Platform offers executing agencies a tool to incorporate knowledge and learning modules with valuable project information. An example of the second is the [recent Latin American and Caribbean Microeconomic Report: Digitalizing Public Services](#), where high-performing, easily implementable interventions in education, health, transactional services, and fiscal management are examined and supported with cost-benefit analyses to provide policy makers with agile decision making tools for public policy design. Finally, adequately capturing how clients receive and use this knowledge is critical to steer future agendas. The Bank has developed a [proof of concept on an index](#)

that will better gauge the influence of its knowledge products in the dimensions of reputation, policy landscape, and operations, constituting an innovative approach at understanding what happens once the product reaches its target audience, and how it contributes to broader IDB Group goals. As implementation advances and allows for data gathering over time, future DEOs will report findings on the capacity of IDB Group knowledge to influence the integration of evidence into policymaking in the region.

As the IDB Group makes strides towards becoming a fully results-oriented institution, institutionalizing its approach to generate, systematize, and use knowledge and improving the application of learning will be essential.

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