

# Scaling Innovations in Development: The Experience of IDB Lab

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1.

## Executive Summary

IDB Lab is the innovation laboratory of the Inter-American Development Bank (IDB). It promotes early-stage entrepreneurial innovations that empower poor and vulnerable populations in Latin America and the Caribbean (LAC), activating new and sustainable engines of growth. Scaling up is central to IDB Lab's mission as it acknowledges the explicit need to confront the obstacles standing between successful innovations and solutions to the region's population-level problems.

Based on the research and analysis conducted for this report, IDB Lab has an opportunity to show other development finance institutions (DFIs) how to support the systematic scaling up of successful innovations. Many development organizations have set up competitions and labs to tap into the rich innovation current in the world. But to date, none have yet succeeded in taking innovative pilots to scale, and neither have they mainstreamed innovation into their operations.

### *The opportunity*

The approach to taking innovations to scale in development is broken. On one hand, huge amounts of money are invested in innovations, as evidenced by the sizable support infrastructure of innovation hubs, accelerators, labs, and grand challenges. On the other hand, governments and DFIs operate at scale, but rarely adopt new ways of tackling development challenges.

These two parts of the chain do not connect with each other because of an *absence of skills and funding for an intermediation role*. The skills needed for the scaling-up process differ from the skills for developing an innovation. Specific intermediary skills may include systems analysis, strategic planning, process facilitation and people management, monitoring and evaluation, etc. It is the vital role of intermediation functions that often

proves to be the clutch that connects innovations to scale.<sup>1</sup>

The private sector knows this well; after a venture capital firm acquires a startup, it invests money and effort in finding a

scalable business model and the best customer fit. VCs also assist leadership teams in obtaining the capacities required to scale. However, in the development sector this intermediation role is absent.

There are four principles that IDB Lab should build on, all tightly linked to capitalizing on its intermediation role.

1.

**First**, a consistent and systematic definition of the different dimensions of scale needs to run across all projects, design and assessment tools, and surveys. This is already the case with some tools, but needs to happen across the board. Understanding the difference between scale and growth and deciding whether a scaling strategy will be approached through expansion, replication, or collaboration are two of the most important concepts that every staff member and partner should share.

2.

**Second**, success needs to be defined in a way that is consistent with the maturity of the solution being assessed. For projects that have a 3-to-4-year duration, IDB Lab staff should assess and aspire for scalability rather than scale. Scaling, even in the best of cases, takes 8 to 10 years, so it is unrealistic to define it as the success goal. For investment products that have a 10-year horizon, the measure of success should be scale; and scalability should still be included at the assessment stage as well as through the initial years of an operation. In the same vein, tracking what happened after an IDB Lab project closed should be done routinely to capture scale as well as to learn what worked and what failed.

3.

**Third**, recognize and develop further the intermediation function that IDB Lab plays in most of the successful projects reviewed, and become an example for other development organizations. This would imply embracing a “greenhouse” approach towards scaling: establishing a safe space where projects get some initial funds and capacity building and are nurtured to eventually scale outside. The intermediation role initially focuses on helping to establish a scaling-up plan, with a clear vision defining scalability and a sequence of steps to get there. The second stage of intermediation prepares the organization to mobilize resources, both human and financial, to implement the plan.

<sup>1</sup> Cooley, Larry, and Guerrero, Isabel, *The Broken Part of the Business Model in Taking Outcomes to Scale*, MSI, 2018.

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# 4.

**Fourth,** *invest in agile tracking as well as in developing an organizational culture that learns from mistakes.* The nature of a lab needs to be distinct to offer real value to the IDB Group. IDB loans and IDB Invest equity and loans are focused on delivering on time and at a high quality. In a large organization, room for mistakes is very limited. This realization is the reason behind the drive to develop innovation hubs outside day-to-day operations in DFIs, allowing for a higher risk tolerance, which is necessary to obtain rewards and learn from both failures and successes. Investment in agile tracking is needed so that quick feedback loops can provide just-in-time information for course correction.

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# 2.

## Scaling in Development

Although the concept of scaling up has been used in the private sector since the industrial revolution, it is a relatively new concept in economic development. The first article in a peer reviewed journal was published in 1995 by Urvin in the *World Development Journal*.<sup>2</sup> During the 2000s it received increasing interest from the development community, starting with the World Bank's Shanghai Conference on Scaling Up, and was given impetus by the UN Millennium Development Goals (MDGs) and even more so by the Sustainable Development Goals (SDGs).<sup>3</sup> The definition of scaling up used throughout this report comes from the Scaling-Up Community of

Practice (CoP) and it implies that scale is a relative concept.<sup>4</sup> It needs to be defined in relation to the magnitude of the problem being addressed:

“A systematic process leading to sustainable impact affecting a large and increasing proportion of the relevant need”<sup>5</sup>

<sup>2</sup> Urvin, P, *Fighting Hunger at the Grassroots: Paths to Scaling Up*, 23(6): 927-939. World Development, 1995.

<sup>3</sup> United Nations Development Programme (UNDP) guidance note on the evolution of the definition of scaling up from 1995 to 2012.

<sup>4</sup> The CoP was founded six years ago by Larry Cooley and Johannes Linn to provide a platform for knowledge exchange among experts and practitioners on approaches to scaling up development interventions. Today the CoP consists of over 2,500 participants from over 400 organizations engaged in regular exchanges about how best to support scaling in education, health, climate change, agriculture, social enterprises, youth employment, and nutrition, in fragile states and through effective monitoring and evaluation.

<sup>5</sup> Kohl, R., and Linn, J., *Scaling Up: Scaling Principles*, paper prepared for the Scaling Community of Practice, 2021.

There are three different approaches to scaling up. Scaling up the impact of an intervention calls for an analytic framework that helps prepare a strategy to reach a large number of people. In this context it is useful to consider three approaches to scaling up: expansion, replication, and collaboration (See Figure 1). A decision on which approach to use depends on the nature of the

intervention, the capital available to the firm, and the partnership requirements in terms of skills and human resources. All three approaches represent scaling up, but they differ in the way they are implemented. Moreover, in shifting from expansion to replication, an organization loses brand and quality control, but it gains access to both human and financial resources through partners.

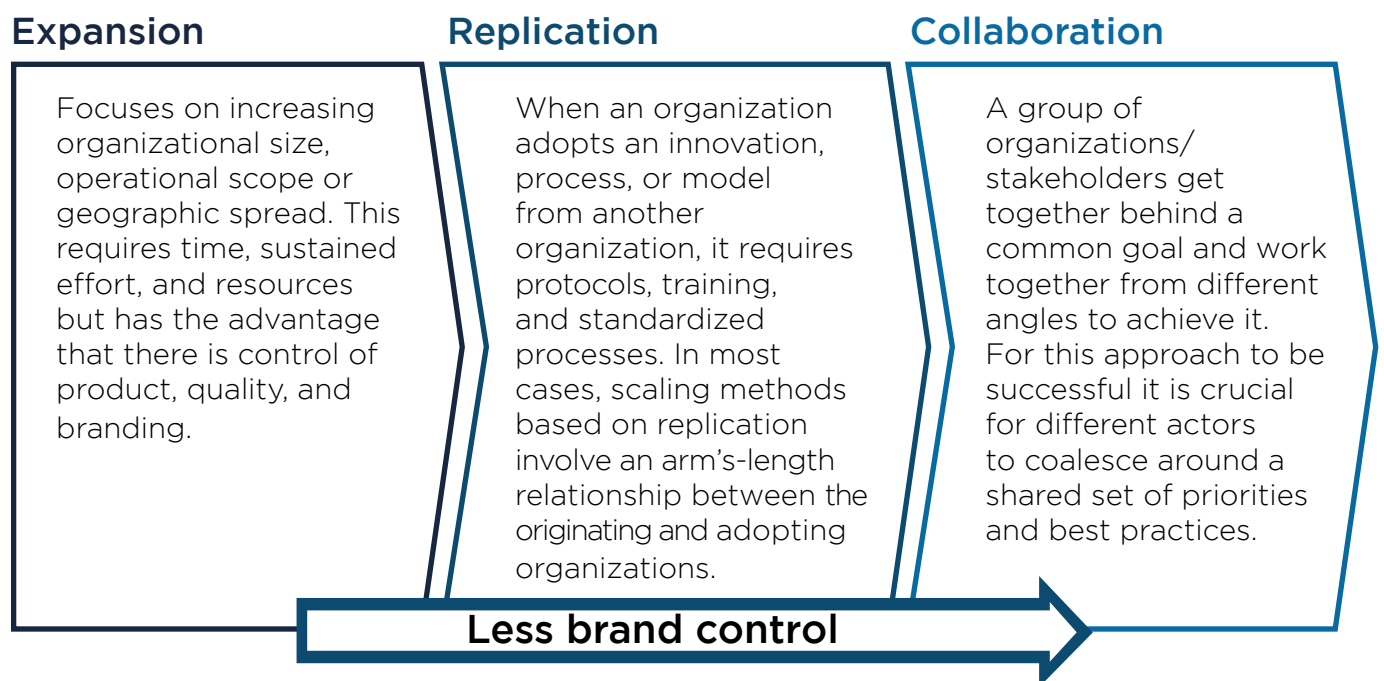
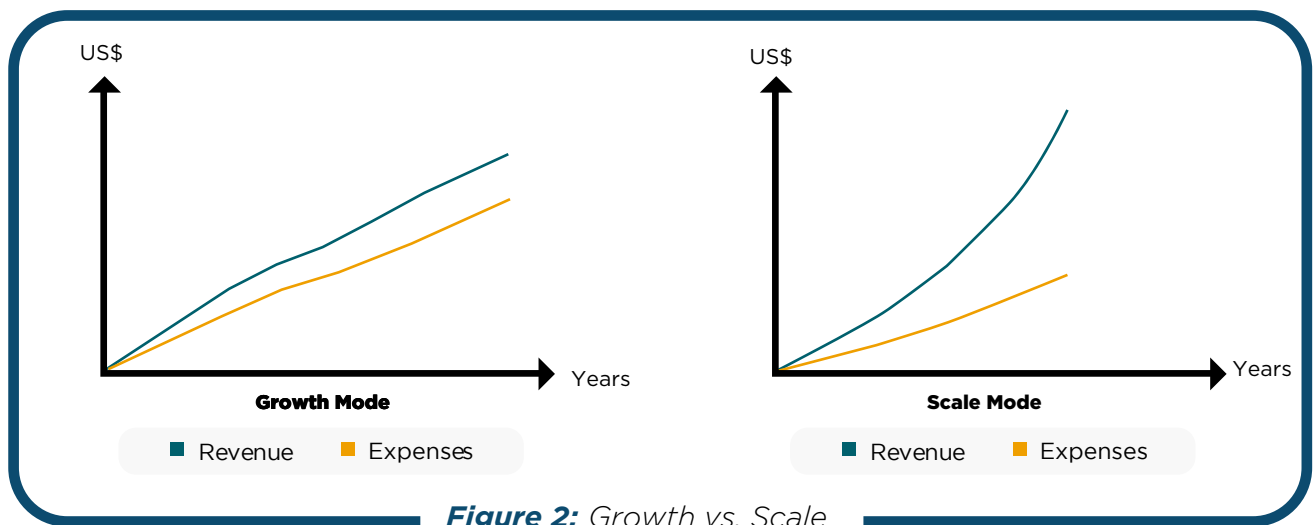


Figure 1: Scaling Approaches

Scaling up is frequently misunderstood as growth. An organization on a sustainable growth path is one whose revenues increase at a similar rate as expenses, the difference being profit. An organization on a scale model is also growing, but revenues grow significantly faster than

expenses (see Figure 2). Growth is a necessary but insufficient condition for reaching scale. Scaling is different from sustainability, which refers to a project or organization's capacity to be sustained over time. An organization can be sustainable without reaching scale.

<sup>6</sup> Scaling Up --From Vision to Large-Scale Change, MSI 2016.



Scalability is another important concept. Even in the best of scenarios, scaling up takes years. This is especially true in development projects. It is more useful to focus on the first step for scaling up impact, which is to have a scalable model. To achieve scalability, an organization must have the capacity to increase revenues without proportionally increasing its unit cost, allowing revenues to eventually increase exponentially instead of incrementally. This entails assessing if the model is credible and relevant and whether it presents advantages over existing ones. Furthermore, the organization must have the capacity to move to accounting, human resources, finance, and communications systems that can support its scaling. One of the best ways to increase revenue beyond cost is to use technology that will allow for an

increase in users without a concomitant increase in human resources.

Bringing innovations from outside to then scale them up through donor agencies and DFIs remains a huge challenge that many have tried to tackle - with little success. These include the *Development Marketplace*, administered by the World Bank since 1998,<sup>7</sup> the *Grand Challenges for Development* (GC) organized by USAID,<sup>8</sup> and the *Accelerator Labs* launched by the UNDP in 2019.<sup>9</sup> Despite large investments in these initiatives, there is no evidence of their ability to scale up innovations. An evaluation of the GCs found that they have provided innovations with support for acceleration, moving organizations along the pathway to scale but not reaching scale.<sup>10</sup> The *Accelerator Labs* have not been able to articulate a clear journey

<sup>7</sup> Since 1998, the DM has awarded more than US\$ 46 million to some 1,000 early-stage, innovative projects worldwide.

<sup>8</sup> Grand Challenges for Development mobilize governments, companies, and foundations around important issues. Through these programs, USAID and public and private partners source new solutions, test new ideas, and scale what works.

<sup>9</sup> The Accelerator Labs is a time-bound initiative from UNDP to inject innovation into its organizational DNA. Labs are teams of three people working inside UNDP Country Offices. By 2021 there are 270 “Labbers” in 91 Labs across 115 countries.

<sup>10</sup> “The focus has been largely on early- to mid-stage innovations, which an official evaluation of the program shows the GCs are better placed to support.” - USAID Grand Challenges Development Meta-Evaluation Final Report (2021).



between the small-scale experimentation that happens at the Lab level and system transformation.<sup>11</sup> This has made UNDP reconsider its previous strategy of focusing on small-scale experiments focused on incremental innovations with limited strategic relevance to scale.

**One of the reasons why these efforts have not worked is because the intermediation function necessary to take innovations to scale is often missing.** It is a common mistake for donors and DFIs to finance and focus all efforts on a promising innovation or technology and assume that it will scale. This is not enough. Intermediation refers to the technical assistance that organizations/projects need in addition to capital in order to reach scale: support with functions such as strategic planning, convening and coordinating stakeholders, systems strengthening, investment packaging and placement, fundraising, etc. Assessing some key elements, such as, the scalability of the business model, cost effectiveness, leadership replicability, and the decision of whether to expand, replicate, or collaborate are all distinct intermediation roles which need to be present when accompanying an organization to scale. Venture funds or impact investors get substantially involved in ways other than providing capital, relying on their own experience

within the sector in which they are investing (“smart capital” in the industry lingo). Moreover, management consulting firms and others compete to support the intermediation function in high-growth, high-margin organizations. Unfortunately, these institutions and this part of the innovation supply chain do not translate well into the world of social outcomes. This often proves to be the clutch that connects innovations to scale in the development space.<sup>12</sup>

**Focusing on the intermediation role and the scalability of innovations has the potential to become one of IDB Lab’s main value propositions.** There is a growing body of evidence about scaling-up concepts and methodologies, as donors, governments, and many private sector stakeholders start to focus more systematically on scaling their mission, strategy, policies, processes, and impact. Moreover, technological innovations are allowing us to reach the last mile in ways we had never dreamt possible. And there is a rich landscape of social enterprises solving problems at local levels all over the world. Despite the confluence of these positive developments, very few of these solutions are reaching the scale needed to tackle the most urgent development challenges. This is a gap that IDB Lab can fill.

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<sup>11</sup> Christiansen, Jesper. *Midterm Evaluation of the UNDP Accelerator Lab Network Project (Report No. 0011678)*. Nueva York: UNDP, 2021.

<sup>12</sup> Cooley, Larry & Isabel Guerrero. *The Broken Part of the Business Model in Taking Outcomes to Scale*. Arlington: MSI, 2018.



## IDB Lab Today

The IDB Group is the leading source of development finance for Latin America and the Caribbean. It helps to improve lives by providing financial solutions and development know-how to public and private sector clients. The group comprises the IDB, which has worked with governments for 60 years; IDB Invest, which serves the private sector; and IDB Lab, which tests innovative ways to enable more inclusive growth.

IDB Lab is the innovation laboratory of the Inter-American Development Bank (IDB). It promotes early-stage entrepreneurial innovations that empower poor and vulnerable populations in Latin America and the Caribbean (LAC), activating new and sustainable engines of growth. IDB Lab aims to mobilize financing, knowledge, and connections to test early-stage entrepreneurial solutions and develop the ecosystems in which they can thrive in order to drive economic and social inclusion at scale by creating quality jobs, improving small business

productivity, and expanding access to essential services, all while addressing the climate crisis and gender and diversity gaps.

Since 1993, IDB Lab has approved more than US\$ 2 billion through over 2,700 projects deployed across 26 countries in the region. Until 2018, IDB Lab was known as the Multilateral Investment Fund (MIF). IDB Lab works with a diverse set of unique stakeholders that the rest of the IDB Group does not reach. It finances venture capital funds, startups, NGOs, social enterprises, hybrid private-social actors, and chambers of commerce, among others.

IDB Lab has two large categories of products: Discovery (grants and contingency recovery instruments) and Investment (reimbursable products). **Discovery products** finance innovative projects that generate opportunities for entrepreneurs and vulnerable populations, raising the living standards

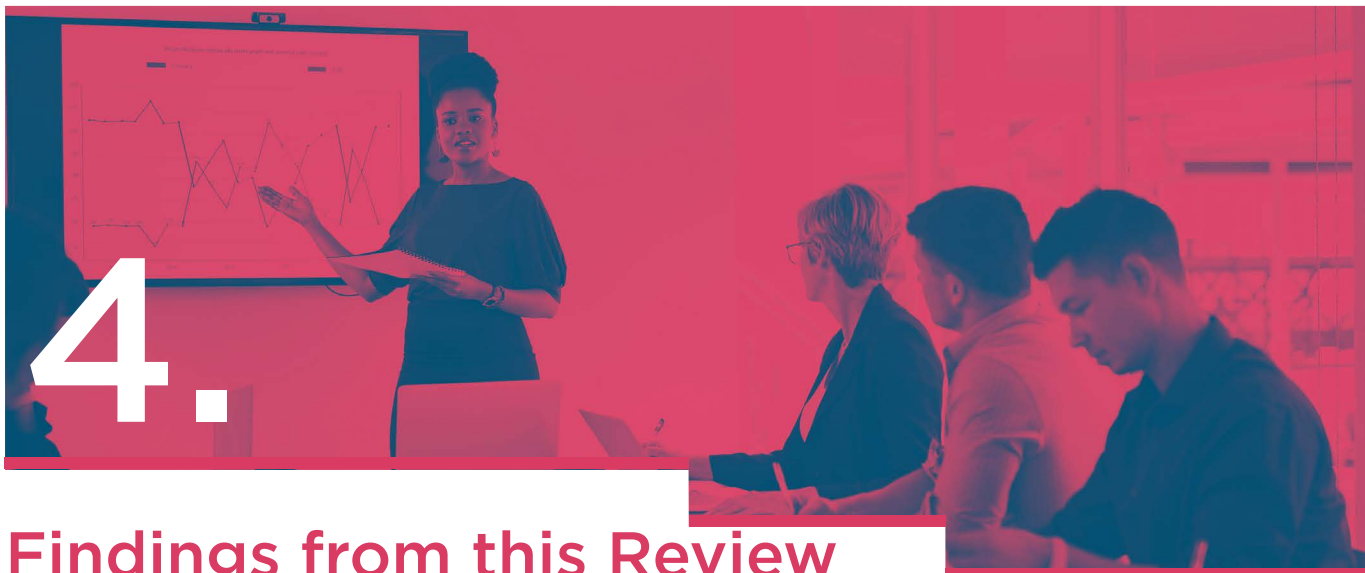
of low-income communities through private sector-led solutions. These include prototype projects that test early stage technologies, products, business models, and/or solutions; spark projects that pilot innovative solutions that could be scaled up or replicated during project execution or in a subsequent stage with IDB Lab investment products; and ecosystem projects to support the implementation of innovations in topics that are relevant to the IDB Lab Mandate.<sup>13</sup> **Investment**

**products** finance companies to unlock the development potential for inclusion and environmental sustainability, provide investment financing for venture capital funds (VC) and debt funds to expand market frontiers. For direct financing, which includes equity and loans, IDB Lab selects highly impactful early-stage ventures addressing key development challenges in LAC, and mostly invests alongside trusted VC co-investors. All these products have different maturities and ticket ranges.<sup>14</sup>

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<sup>13</sup> Discovery products include: 1) Prototype Projects, up to US\$150K, 2) Spark Projects, from US\$250k to US\$700k, and 3) Ecosystem Projects, US\$1 MM and above.

<sup>14</sup> The ticket size for VC funds ranges from US\$ 3 to 5 million, the one for Venture Debt and other Debt Funds ranges from US\$ 1 to 3 million. Direct Equity and Quasi-equity loans range from US\$ 700k to 2 million and Loans and Debt Products typically range between US\$ 1 and 3 million.



## Findings from this Review

This report draws on extensive qualitative information, complementing existing reports and surveys. It includes research on 39 IDB Lab projects and almost one hundred interviews with implementing partners and IDB Lab and IDB Group specialists. This extensive effort was necessary because information on scaling at the project level is scarce and/or obtained through self-reporting, and there is no homogenous end-to-end framing of concepts around scale, scalability, sustainability, and scaling approaches. The projects analyzed were active between 2017 and 2021. This timeframe was chosen in order to have sufficient information and results about implementation. Thirty-two projects were randomly selected<sup>15</sup> from a 124-project sample that IDB Lab

is using to conduct a series of studies complementary to this research.<sup>16</sup> The remaining seven were included after interviews pointed out interesting projects that could help better understand the success factors of IDB Lab projects going to scale.

The projects included in the sample consisted of 54% Technical Cooperation, 10% Equity, 8% Investment Grants, 5% Loans, and 23% that combined more than one instrument (See Figure 3).

The analysis was designed to include both quantitative and qualitative data. The goal was to understand in greater depth than usual the scaling journeys of the organizations in the sample. The quantitative review is based on an extensive desk review of

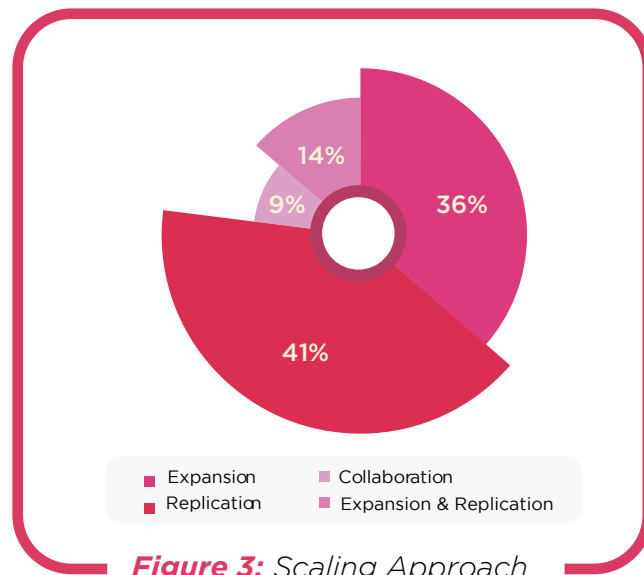
<sup>15</sup> The random sampling was adjusted to mimic the sectorial, budget, and instrument distribution of IDB Lab's active portfolio during 2017 to 2021.

<sup>16</sup> The 124-project sample was selected as follows: from a total of 910 active projects during the 2017-2021 period, IDB Lab eliminated projects approved before 2016 (to keep only the projects most aligned with its innovation mandate) and those without disbursements (since the first disbursement is what marks the start of the implementation phase). The universe of projects active during the 2017-2021 meeting these two criteria is 383. IDB Lab then drew a random sample of 124 projects, adjusting it to make it representative in terms of instruments.

all relevant project documents and external survey results,<sup>17</sup> which included specific scaling questions co-created with IMAGO for this study. This was complemented by individual interviews with all the implementing partners and specialists in the sample, which allowed for unpacking and validating existing information. This was the most in-depth aspect of the data analysis and presented a rich picture that shed light on aspects that were not apparent from a purely quantitative analysis. The most important findings on scale are presented below.

**Almost half of the projects (47%) examined scaled, a larger scale footprint than the one captured through previous surveys.<sup>18</sup>** We assessed scale through in-depth interviews and some tracking of projects after completion, following the definition of scale presented in Section 2. Expansion and replication are the most common paths to scale. Five projects scaled both through expansion and replication (14%) and only two through collaboration (9%), as we see in **Figure 3**. From the 22 projects that scaled, most scaled outside the IDB Group. Projects that scaled through IDB Invest are easier to identify, since financing usually goes to the same implementing partners. Projects that scale through the IDB do it in ways that are more difficult to flag and track. All the projects in the sample that scaled through the IDB are Discovery

grants, while all projects scaled through IDB Invest were Equity or Loans.



**There is a strong positive correlation between size of the project and scaling status:** 80% of scaled projects in the sample received more than US\$ 400,000 and 59% of the scaled projects received more than US\$ one million. This is even more pronounced for non-reimbursable instruments, where 80% of the Discovery grants that scaled were over a million dollars.

**An experienced implementing partners is one of the best predictors for success.** Almost 65% of the projects that scaled were executed by partners that had worked previously with IDB Lab, and only two of the projects that scaled

<sup>17</sup> IDB Lab procures the services of Zigla Consultores to conduct an annual survey which is sent to implementing partners to capture key performance indicators (KPIs) Data to complement information found in semi-annual supervision reports. These surveys have been conducted by Zigla since 2017 and the questions have evolved over time to respond to changing reporting needs.

<sup>18</sup> This is in part because this report looked at projects active between 2017 and 2021, some of which by the time of interviews were a few years after closing, allowing more time for the scaling effects to show. Additionally, surveys before 2021 were not validated, which compounded with other natural self-reporting biases from the instrument to measure scaling.

were implemented by an implementing partner less than five years old. Moreover, in 100% of the interviews with IDB Lab staff specialists, implementing partner capabilities, track record, and commitment were identified as the top success factors behind scaling. Some of these capabilities are visionary leadership, creativity, risk-taking

appetite, and the capacity to learn from failures fast and to adapt to unforeseen shocks.

The tools that IDB Lab uses today in the design phase (iDelta)<sup>19</sup> provide a good assessment of scaling potential. 53% of projects that scaled had an iDelta score of 8-10, and 71% projects that scaled had iDelta greater than 5.

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<sup>19</sup> The iDelta is an internal assessment currently used at the start of a project to evaluate design quality of an IDB Lab project. It has four dimensions with different weights: development outcomes, innovation, resource mobilization, and scaling.



# 5.

## Lessons Learned

The research behind this report was commissioned to bring clarity about how IDB Lab projects scale, to provide a richer understanding of scaling successes and failures, and to address the shortcomings of the reporting information at the project level to improve scaling metrics throughout the project lifecycle.

Although most IDB Lab-supported innovations are intended to scale, IDB Lab does not have a unified framework and set of concepts on scaling up that is consistent end-to-end. In addition to consistency, there needs to be a better understanding among staff of what scale means. This is a common gap in DFIs.<sup>20</sup> A review of IDB Lab documents, surveys, project documents, and interviews confirms the importance of adopting a unified framework and set of concepts on scaling up, such as the one outlined

in the first section of this report. The heterogeneity of IDB Lab projects, from modernization of electric bus fleets, to investments in rural water providers, to artificial intelligence for the provision of government social services, makes it difficult to establish a “one-size-fits-all” definition of scale. But a common scaling-up framework is an essential first step toward understanding IDB Lab’s impact.

The lack of clarity in concepts has ramifications at the project level, since in most instances there are no indicators for tracking scale. Almost half of the projects reviewed for this report (46%) don’t have indicators in their result matrix that reference the specific pathway to scale described in the donors’ memo. Thirty percent of projects in the sample do not even reference scale. Quality at entry assessment tools like the iDelta have more detailed

<sup>20</sup> Kohl, Richard, *Exploratory Study of Mainstreaming Scaling in International Development Funders*, Scaling Community of Practice, 2022.

questions around scale than tools designed to track implementation. In other words, IDB Lab's focus on scale becomes less clear as the project moves to implementation.

**IDB Lab staff in the LAC region play the essential intermediation role described in Section 2, which is the key to helping projects become scalable.** Intermediation functions include assistance in strategic planning, stakeholder management, organizational development, and systems strengthening. However, the depth of IDB Lab's intermediation function currently depends on staff

interest and skill. The deeper the professional network and the longer the specialist has been in the country, the stronger the perception of their importance in scaling projects. Most of the projects that scaled describe the relationship with IDB Lab staff as frequently present and pivotal in structuring operations, as well as in creating trust and links with the public and private sectors. The following case study illustrates the intermediation role played by IDB Lab staff, and how they relied on their experience in the sector and their network.

### **BOX 1: BIM, changing the landscape of local currency microfinance at the base of the pyramid**

Bolivian Investment Management (BIM) is a company specialized in funding small and midsize microfinance institutions (MFIs). BIM has received support through several projects in the last 15 years, and is an example of IDB Lab's ability to help organizations scale and to be a catalyst for the creation of new markets. In 2007, with the help of IDB's Multilateral Investment Fund (MIF),<sup>21</sup> BIM established Locfund I, a fund to provide midterm local currency loans to smaller MFIs in Latin America. This innovative financing vehicle was the first of its kind, helping MFIs reduce their exchange risk. The success and impact of the model led to the creation of Locfund II in 2014 and Locfund Next in 2020, both with support

from IDB Lab. Moreover, in 2022 IDB Invest approved a senior loan of up to US\$20 million to help Locfund Next expand and consolidate.

These investments were complemented by Technical Cooperations (TCs) to strengthen the microfinance ecosystem. In 2015, BIM received TC to implement a regional initiative for improving the governance of MFIs and other financial institutions that serve low-income clients. Since then, more than 114 MFIs have improved their corporate governance practices in seven countries in the region.<sup>22</sup> The project catalyzed the creation of a community of practice that includes and public institutions, multiplying the

<sup>21</sup> Until 2018, IDB Lab was known as the Multilateral Investment Fund (MIF). This report uses either term, MIF or IDB Lab, depending on the context.

<sup>22</sup> Mexico, Dominican Republic, Nicaragua, Ecuador, Guatemala, Peru and El Salvador.



project's impact. The combination of TC and funding has helped de-risk and build small MFIs' capacity to access larger funding markets.

IDB Lab's initial investment of US\$ 29 million catalyzed a portfolio of US\$ 1.5 billion over 15 years. Locfund I disbursed US\$ 69 million in local currency loans to 45 MFIs in 13 countries, reaching 1.8 million final beneficiaries that did not have access to lending before, most of them women. Locfund II has disbursed a total of US\$ 191 million in local currency loans to 55 MFIs in 13 countries, benefitting 1.5 million individuals at the base of the pyramid, 62.3% of whom are women.

The initial investment by the MIF helped attract other investors and included crucial hand holding between 2006 and 2010. This was key in helping to improve the model and build scaling capabilities. For BIM, IDB Lab's value is its staff: their expertise and their ability to convene prominent stakeholders and galvanize their support. This is an example of the intermediation function. This took different forms at each stage of the process. During the preparation of the first loan, the key intermediation functions done by IDB Lab staff included strategic planning and operations research.

This eventually changed to helping BIM with convening and coordinating stakeholders as well providing support and advice on investment packaging. In the process, BIM went from having one small office in La Paz, Bolivia to operations in 14 countries. Furthermore, the success of the model crowded in other funds to provide local currency options.

*Scale factors for success:*

- **Alignment.** BIM improved funding for small and midsize MFIs with limited access to capital markets. This is at the core of BIM's values and business model, which aligned incentives, created trust, and strengthened the commitment.
- **Continuity.** Fifteen years of collaboration between IDB Lab and BIM allowed it to reach critical mass and helped build new regional markets to increase financial inclusion for low-income communities.
- **Progressive learning and intermediation.** Each project's iteration built on the previous one, improving the model by addressing key constraints for the delivery of financial services. The intermediation role of the country staff was period essential.

For most projects that scale through expansion or replication, it is difficult to appreciate how IDB Lab has helped achieve scale without the help of qualitative interviews. The information captured in monitoring instruments (PSRs & PSUs<sup>23</sup>) is not enough to draw a connection between an organization achieving exceptional growth and IDB Lab's additionality. In particular, the

investment monitoring tool (PSU) is focused only on financial indicators and does not include replication as a scaling approach. The qualitative validation of self-reported data reveals implementing partners' tendency to claim success for scaling up without solid evidence. It also lacks clarity about the type of replication at play.<sup>24</sup> The following case study shows a successful replication through government.

### **BOX 2: Lazos de Agua, the replication of a social technology to improve water and sanitation**

One of the most intractable development challenges is to improve access to water and sanitation (W&S) services for low-income communities. Billions of dollars have been invested in projects without success, which is why W&S is frequently referred to as one of the “wicked development problems.” Part of the problem is that investing in infrastructure is not enough. Success in outcomes depends on changing mindsets and behaviors of the population, which is a huge challenge. One Drop, a Quebecois NGO linked to Cirque du Soleil, was able to succeed where others had failed using social technologies based on art and community participation. Lazos de

Agua (“Drops of Water” in Spanish) is replicating this successful model in LAC in rural and peri-urban communities through a partnership with the IDB, Fundación FEMSA, and Coca-Cola, taking it to scale in 5 countries.

IDB Lab's project in Paraguay, called “Y Kuaa” (“knowledge of water” in Guaraní), includes value chain development and strengthening of W&S boards through training programs and community mobilization. In rural areas, the priority is the payment of service tariffs; in urban areas, the goal is connecting households to sewerage networks. Local artists implemented a range of social art methodologies to

<sup>23</sup> PSR (Project Status Report) and PSU (Project Status Update) are the semi-annual reports for Discovery and Investment projects that agencies have provided to IDB Lab to comply with implementation supervision. They must be reviewed and approved by an IDB Lab specialist.

<sup>24</sup> “One of the most common types of replication is policy adoption, where a model is scaled up from a pilot run by an NGO, community group, or private company to a program or practice mandated and often run by the public sector. Two other common forms of replication are grafting, where a model – or one component of a model – is incorporated into another organization's array of services or methods of service delivery and commercialization, where private entities take over the model on a for profit basis. In addition to these more deliberate scaling up methods, replication sometimes occurs spontaneously. While spontaneous replication is common in the private sector where profit provides the necessary incentive, cases of spontaneous replication of new models of service delivery are much less common in the non-profit and public sectors, and rare at the base of the pyramid.” (Cooley and Guerrero, 2018)

bring about behavioral change in order to achieve both goals. The sustainability of rural water and sanitation boards was promoted through radio programs emphasizing the importance of paying for water and sanitation services. In urban municipalities, short videos were disseminated through WhatsApp to strengthen local hardware stores' capacity to become effective suppliers to local service providers. For the long term, songs were composed and recorded in Colombia with messages reinforcing behavior changes.

Y Kuaa was implemented in over 100 communities, surpassing the original target of 56 communities. In rural areas, payment default dropped from 50% to 2% in less than a year. This very impressive outcome prompted the National Environmental Sanitation Service of Paraguay (SENASA) to replicate the social technology nationwide, in all localities with less than 10,000 inhabitants.<sup>25</sup> By supporting this project, IDB Lab helped incorporate a private sector dimension to the traditional social art/behavioral change of One Drop, which made the Paraguayan experience deeper and more successful than the implementation of Lazos de Agua in other LAC countries.

*Scale factors for successful replication:*

- **Long timeframe:** Change of social behavior, as well as infrastructure

building, takes time. Building trust in the communities, adoption of regulatory changes by the government, and the adaptation of social art methodology to the local context all require patience and are reflected in a flat scaling curve for several years. IDB Lab's project lasted 5 years and results were only apparent after that.

- **Synergies between IDB Lab, the IDB, and government:** IDB Lab focused on components 2 (social art) and 3 (value chain), while component 1 (infrastructure) was executed through the government with IDB public sector funding. Thus, both the government and IDB's Water and Sanitation Division were involved from Day One. This paved the way for SENASA's replication of the model at a national level.
- **Systems approach:** The project contemplated water systems in a holistic way, simultaneously incorporating three interrelated aspects: infrastructure, social behavior, and market dynamics.
- **Ingenuity and adaptability:** The project devised ingenious solutions based on WhatsApp and radio broadcasting, two forms of communication that were widely used there and did not require deep tech, but rather profound knowledge of the communities.

<sup>25</sup> The project had the participation of IDB's Water and Sanitation Division as the infrastructure funding came from a loan to the National Environmental Sanitation Service of Paraguay (SENASA).

### Most IDB Lab projects that scale do it through IDB Invest rather than the IDB.

The qualitative interviews found some examples of IDB Lab projects scaling through government in the region, including Lazos de Agua (Paraguay), Social Impact Bonds (Colombia), and Nama Cafe (Costa Rica). However, they are still few, and no clear systematic lessons have emerged so far. Projects that scaled through IDB Invest are easier to identify, since financing usually goes to the same implementing partner. Projects that scale through the IDB are more difficult to flag and track.

### There are significant barriers for IDB Lab projects to scale through IDB Invest.

IDB Lab and IDB Invest have different risk appetites, and the size of operations don't overlap, creating a "valley of death" between IDB Lab's US\$ 1.5 million and IDB Invest's minimum of US\$ 10 million. The combination of technical assistance and reimbursable instruments can help facilitate scale-up processes through IDB Invest. Technical cooperation grants could help develop institutional, governance, and market knowledge aspects that facilitate business model development and de-risk investments. The pioneering role of IDB Lab is also key for the implementation of international financing of funds by the private sector, such as those aimed at combating climate change. An example is CABEF.

#### **BOX 3: CABEF, reimagining green finance for the Caribbean**

The Caribbean Basin Sustainable Energy Fund (CABEF)'s goal is to foster private investments that promote energy security, environmental sustainability, and other economic opportunities in nations across the Caribbean Basin. The size of the fund is US\$ 50 million, with IDB Lab investing US\$ 5 million and the co-investment coming primarily from the Global Environmental Fund (GEF) and Deetken Impact, an implementing partner that has executed previous IDB Lab projects in Central America.

Though this project is still in implementation, it could potentially scale through IDB Invest. IDB Invest

is considering co-investing in a follow-up project that would double the total size of the current fund. Furthermore, CABEF is in negotiations with IDB Invest and other international impact funds to raise more than US\$ 130 million for a new fund that will not only do project finance, but will also include project development and capacity building with a gender focus. Finally, CABEF invests equity money in the development of clean energy projects, some of which have scaled through IDB Invest. In Jamaica, for example, the expansion of a company that was supported by CABEF has been financed through a debt instrument by IDB Invest. Similar examples

rom CABEF can be found in the Dominican Republic and Costa Rica.

*Scale factors for successful expansion through IDB Invest:*

- **The experience of the implementing partner.** Deetken Impact's 20 years of experience allowed the fund manager to innovate and adapt its business model, find local champions, and reimagine the scope of the project.
- **IDB Lab's adaptability.** The willingness to pivot and try new strategies proposed by Deetken differentiated IDB Lab from other DFIs, building trust and impetus at every stage.
- **Working with local champions using different forms of funding.** The implementing partner's extensive networks allowed it to identify experienced entrepreneurs who became ambassadors and incubated small projects. These new projects are usually financed with equity to open the appetite of more risk-averse financiers and break the funding trap.
- **Intermediation support:** One of the reasons behind the failure of similar funds in the region is that projects need intermediation support (legal, financial structure, business model) before they are ready for investment.

While very few IDB Lab projects have scaled up through IDB operations, there are a few cases that illustrate the potential. This is the case, for instance, of NAMA Cafe.

#### **BOX 4: NAMA, the first of its kind in the world**

The project's goal was to develop technology and intervention methodologies to reduce carbon emissions in the Costa Rican coffee sector. The first voluntary NAMA (Nationally Appropriate Mitigation Action) in the agricultural sector in the world was financed by IDB Lab in 2013.<sup>26</sup> It demonstrated that climate change mitigation activities

can lead to increased cost efficiencies at coffee farms and mills, ultimately reducing coffee production costs. Fundecooperación, the partner for this project, now offers climate-oriented credit products to its portfolio of farmers and contributes to the decarbonization of the coffee value chain around the world, thanks to the lessons from this project.<sup>27</sup>

<sup>26</sup> It was approved in 2013 and it was still in implementation in 2017. The total financing by IDB Lab was US\$ 1,274,438.

<sup>27</sup> Linne, K., and Guzmán, J, *Final Evaluation and Learning Exercise: Costa Rica Low Carbon Coffee NAMA Support Project*, 2020.

The NAMA Facility scaled up through two IDB loans in Costa Rica and raised resources from international climate finance funds. In 2015, the international NAMA Facility and the International Climate Initiative invested US\$ 5 million in Costa Rica's coffee NAMA. As of 2022, two loans of more than US\$ 800 million from the Environment Rural Development & Disaster Risk Management Division of the IDB have been approved for decarbonizing the Costa Rican economy. These operations include funding for the expansion of NAMA Cafe as part of a public policy loan, and contemplate the development of three additional NAMAs in the agricultural sector. Furthermore, these operations also mobilized resources from both the Korean and French governments.

Scale factors for successful expansion through IDB:

- **IDB Lab's adaptability.** IDB Lab had the risk appetite and flexibility to support the pilot early on and accommodate the arrival of new donors and public sector interests that required substantive changes (such as including complementary agricultural activities) to scale up the project.
- **The inclusion of private and public sector actors in the project's governance.** Despite making implementation more complex, this facilitated the scaling of the project, both through the private sector (by decarbonizing the local coffee industry as it was perceived to make it more competitive), and the public sector (which requested the inclusion of NAMA Café and new products as part of the credit program with IDB to decarbonize the economy).

### **IDB Lab does not capitalize on scaling successes either internally or externally.**

For example, in most cases where projects have scaled, there has been no explicit recognition of IDB Lab's role in their success by the implementing partner's external communication efforts. There is no systematic effort within IDB Lab to identify and capitalize on these success stories. The focus instead is on disseminating new projects or advances in the implementation of existing operations. Just 32% of the projects that scaled in the sample reviewed for this report clearly share

IDB Lab's role through their websites or social media. Furthermore, IDB Lab does not extract lessons learned and then disseminate them as part of continuous improvement feedback loops.

**Interviews with both IDB Lab and IDB specialists concur that there is increasing collaboration but that it is informal, happens opportunistically, and does not follow a road map.** Interviews also indicate that there is no articulated dialogue between country offices, where most of the scaling intermediation work occurs, and IDB

Lab's leadership team. As a result, IDB Lab's scaling success stories are not widely known or shared. **A recent IDB Lab evaluation<sup>28</sup> highlighted that there is no systematic collection of information after project completion and in most cases, this is when the scaling seeds planted by IDB Lab blossom.**

This is especially true for Discovery projects, whose short duration means that any scaling may not be seen until three or four years after project closure. In Investment projects, which have a

In Investment projects, which have a longer implementation time frame, there is no significant follow-up afterwards. Interviews with specialists suggest that the companies supported by IDB Lab funds continue to expand thanks to IDB Lab's initial funds, along with its experience, know-how, and deep networks, but there is no data to prove the catalytic nature of IDB Lab financing at the portfolio level.

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<sup>28</sup> Haarsager, U., Barbosa, F., De Santis, S., and Putic, M., *Corporate Evaluation of IDB Lab: Evaluation of Operations and Summary of Findings*, Office of Evaluation and Oversight, IDB Group, 2021.



## Recommendations

The most important success stories discovered during the research for this report clustered around the intermediation role that IDB Lab staff carried out with each of these organizations, including financial support. Understanding the components of this function as well as adopting a consistent approach towards scaling are the first steps towards multiplying successes like the ones illustrated through the cases shared in this report. The following recommendations are focused on establishing clear frameworks, structures, and incentives to facilitate the scaling of IDB Lab projects.

**Apply a clear and consistent end-to-end concept of scale across IDB Lab.** Our first recommendation is to build on the simple framework detailed in Section 2 of this report, which considers three approaches to scaling up: expansion, replication, and

collaboration (See Figure 1). This includes a framework for the initial screening of projects, design of the support and expected outcomes, and tools to track implementation and impact. As a first step, projects should identify their scaling approach and agree on a set of indicators of scalability that should be included in the results matrix.

**Adopt a “greenhouse” approach towards scaling.** In an innovation laboratory, few projects survive. However, as this report shows, IDB Lab projects scale up more frequently than what we see in comparative efforts of donors and DFIs. Furthermore, almost two thirds of IDB Lab’s portfolio is sustainable.<sup>29</sup> Perhaps a more apt analogy to describe IDB Lab’s role on scaling is that of a “greenhouse”: a safe space where projects get initial funds, some capacity building, and are eventually scaled

<sup>29</sup> “Based on information provided by IDB Lab and EAs, most development results of completed IDB Lab projects are deemed to be sustainable. Of the 26 completed projects, 17 (65%) are considered likely to be sustainable, and 6 (23%) likely to be unsustainable.” OVE assessment of IDB Lab page 42.



outside. Under this approach the success of a project, unlike in a “Lab” model, depends on selecting projects that have the potential to scale in the “outside world,” facing new challenges with resilience.

**Scaling should not only be considered at the project level but also at the thematic/programmatic level.** IDB Lab carries out projects that have pioneering innovations under thematic umbrellas, with different approaches across countries. One way to assess success should be determined not only by whether a specific project scaled, but by whether the concept promoted by IDB Lab was adopted within IDB operations or in public policy. To do this, IDB Lab needs to measure the scale of thematic umbrellas in the aggregate. This could be as easy as estimating in IDB Lab Board periodic portfolio reports how many IDB Group operations work with a pioneering approach developed through IDB Lab projects. The Regional Inclusive Recycling Initiative, for example, started working with waste pickers in solid waste through IDB Lab and is now included in IDB group operations and public policies.

**Scalability rather than scaling should be the goal for most IDB Lab projects.<sup>30</sup>** This is related to the “greenhouse” approach, where success is defined by assessing the likelihood that the project is ready to achieve and sustain scale after project completion. Scaling takes many years, as illustrated by BIM, Lazos de Agua, NAMA, and CABEF. Moreover, even in the case of LACChain, which

hits a lot marks for rapid success, it is necessary to wait longer in order to see real success in scaling (See Box 5). Finding business models and adapting them to changing circumstances often takes several years of experimentation. However, the timeframe of Discovery projects is usually 3 to 5 years, which is insufficient for new projects to go from prototyping to having a minimum viable product (MVP) and into creating a steady revenue stream. While it is unrealistic to expect scale during the life of an IDB Lab Discovery project, for example, it is possible to assess whether an organization has reached scalability potential - the capacity to eventually increase revenues without proportionally increasing the unit cost.

#### **BOX 5: LACChain**

In 2019 IDB Lab approved a US\$ 3 million Discovery grant to create LACChain, a permissioned public blockchain infrastructure. IDB Lab is using this cutting-edge technology through an innovative intervention model to build a regional blockchain ecosystem. This project ticks many boxes that point towards scale: technological innovation, the establishment of a global alliance with key diverse partners, ambitious and clear scaling goals, etc.

Permissioned private blockchains offer the necessary identification, authentication, and authorization to develop and support which makes them hard to scale in a sustainable way. requirements for banks or public

<sup>30</sup> Scalability is the potential of a particular intervention/project to be effectively scaled up.

institutions to use them. However, they also cost a lot. Originally conceived as a public good, LACChain's promising success in terms of end-user expansion is grappling with how to remain economically sustainable without transaction fees or cryptocurrency. Furthermore, who will continue to support the entities using the network after the project end date? Finding the right market-based delivery business model will be key for LACChain to be able to sustain and expand the scale it has achieved under a donor-subsidized finance model.

**For longer term investment products, the focus should be on scale building on the existing IDB Lab reporting infrastructure.** Given the characteristics of some investment instruments like VCs with maturity of 10 years, larger amounts, and standardized industry metrics, the focus should be on scale rather than scalability.<sup>31</sup> In these cases, supervision instruments like the PSU should include information that clearly distinguishes between the three scaling approaches; for example, how much the companies supported by VCs raise after IDB Lab initial investment, and other metrics that go beyond financial returns and include the catalytic effect of such investments.

**IDB Lab needs to focus on making intermediation scalable.** The approach can be two pronged. IDB Lab can further develop, refine, and systematize some of the intermediation functions that it already plays in most successful projects, becoming an example for other

development organizations. In parallel, it could also enable and fund other organizations that support intermediary functions in the region. This would require IDB Lab to identify these organizations, fund them, and help them achieve a sustainable business model so that this vital clutch allows the gears of innovation and service delivery to mesh in a way that drives meaningful change at scale.

**Invest in tracking and documenting scale, including after project implementation.** Building on the current reporting tools of IDB Lab, the upcoming supervision iDelta and the new PSU, the clarity of scaling concepts should be mainstreamed throughout these tools, including in the PSU. These efforts should be complemented by a scalability checklist for Discovery projects. And the ripple effects after a project has closed should be documented and included in IDB Lab's impact assessment. The cases presented in this report exemplify how post-project effects can be sizable, and often unknown to IDB Lab staff.

**Promote a culture within IDB Lab that learns from failure and from the implementation of know-how, both from headquarters and from the country teams.** One of the advantages of a laboratory is that it is sheltered from day-to-day operational demands so it can experiment, fail quickly, pivot, and continue to experiment until a business model is found that can be scaled. Continuous improvement requires a commitment to learning what happens during and after project completion.

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<sup>31</sup> The ticket size for VC funds ranges from US\$ 3 to 5 million, the one for Venture Debt and other Debt Funds ranges from US\$ 1 to 3 million. Direct Equity and Quasi-equity loans range from US\$ 700k to 2 million and Loans and Debt Products typically range between US\$ 1 and 3 million.

# Key Concepts

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*Additionality* - the unique support that IDB Lab brings to a client/project that is not typically offered by commercial sources of finance. In IDB Lab operations, additionality refers to key inputs to make a project happen or to improve its design or development impact.

*Impact* - the direct social, economic, and environmental results of IDB Lab's operations and projects. Direct results are defined for each project in the respective results matrices and aim to reflect the specific attributes and nature of each project's own theory of change.

*Scale* - a systematic process leading to sustainable impact affecting a large and increasing proportion of the relevant need. Scale is a relative concept: it needs to be defined in relation to the magnitude of the problem being addressed.

*Scalability* - The scalability potential of an intervention or project refers to its ability to grow and expand effectively without significantly increasing unit costs. It also refers to the possibility for revenue growth to increase exponentially rather than just incrementally, through effective scaling.

*Sustainability* - the ability of IDB Lab operations and projects to be sustained over time. A client/project can act sustainably by using resources responsibly, reducing waste, promoting inclusion and fairness, laying a foundation of good corporate governance, implementing sound labor, health, and safety practices, etc. Such behavior is not only in their self-interest; it is also attractive to investors, customers, and the communities where they operate.