

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	COSTA RICA/CID - Isthmus & DR
▪ TC Name:	Promotion of Technology Guarantee and Technology Appraisals for SMEs with Innovative and Technological Potential
▪ TC Number:	CR-T1275
▪ Team Leader/Members:	CRESPI, GUSTAVO ATILIO (IFD/CTI) Team Leader; RADAELLI, VANDERLEIA (IFD/CTI) Alternate Team Leader; GUAIPATIN, CARLOS (IFD/CTI); VARGAS CUEVAS, FERNANDO ESTEBAN (IFD/CTI); SHIN YUNJUNG (IFD/CTI); MORALES REINA GENESIS DEL CARMEN (IFD/CTI); GALEANO BUITRAGO MARIA ALEJANDRA (IFD/CTI); DE DOBRZYNSKI, ESTEBAN (LEG/SGO); CASTILLO GONZALEZ CAROLINA (CID/CCR); BARRIOS BASTARDO ANDREINA DEL CARMEN (IFD/CTI); JUNG YOOJUNG (IFD/CTI)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	01 May 2024
▪ Beneficiary:	Costa Rica's Development Banking System (SBD)
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$325,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	24 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/CTI - Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	CID/CCR - Country Office Costa Rica
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Institutional capacity and rule of law

II. Objective and Justification

2.1 The general objective of this TC is to support the development of a technology guarantee and rating system in Costa Rica by learning from the best practices of the Korea Technology Finance Corporation (KOTEC).

Specific objectives: (i) designing a technology innovation support scheme for Small and Medium Enterprises (SMEs); (ii) designing a technology guarantee and certification system to support innovative SMEs and (iii) design a technology rating methodology to support innovative SMEs. A technology guarantee system provides technology-based startups and innovative SMEs access to financing that they would otherwise have constraints accessing and can have a significant impact on technological innovation of these firms. A financial support system for technological innovation refers to financial policies and instruments that provides firms with funds in the form of loans, equities and guarantees to seek technical improvements and to conduct innovation activities (Jang and Chang).

2.2 CR is a country with a population of 5.5 million and a per capita income of US\$13,090. Its economic growth has been above the Latin American average, but it faces challenges such as infrastructure gaps, declining human capital, and weak domestic innovation capabilities. It's economic structure is dual, with traditional sector accounting for 85% of GDP and a dynamic, high-tech sector contributing 15%. While there are 137,378 registered firms, most of them are small and lack the productivity to be part of the high-tech sector. The Development Banking System (SBD) could play a role in helping SMEs increase their productivity. CR faces challenges in its banking system, with most financing focused on consumption and housing rather than productive development projects. The system is risk-averse, excluding entrepreneurs without sufficient collateral, particularly in the innovation sector. The capital market is limited, and most SMEs rely on reinvesting their own dividends for financing. Access to financing is an obstacle, with only a small percentage receiving support from private banks or the public sector. To address these issues, specific interventions are needed, such as guarantees for improved access to finance and soft loans to address appropriability concerns. CR established the SBD in 2008 to address challenges in financing SME innovation and technological modernization. Yet, the SBD has primarily focused on financial inclusion rather than productive development. In other countries, like South Korea, National Development Banks have implemented specific programs to support innovative SMEs. For example, the Korea Technology Finance Corporation (KOTEC) offers services such as credit guarantees, technology appraisal, equity investment, technology transfer, and management advice. KOTEC has its own technology rating system and has supported technology guarantee-backed investments. It has also conducted knowledge-sharing programs and joint research. Learning from KOTEC's experience could benefit CR's SBD. KOTEC has previously designed the Peruvian Technology Rating System and plans to test it in Peru. Designing a CR Technology Rating model would contribute to accumulating lessons learned and promoting implementation.

The TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact and is aligned with the objective of bolster sustainable regional growth by strengthening the supply of innovation and technology modernization financing form SME's. Is aligned with the operational focus area of productive development and innovation through the private sector by supporting SMEs with financial and non-financial service. As for the IDB Group's Country Strategy (CS) (GN-2977), the project contributes to the CS objectives of: (i) Improve the supply of, and access to, relevant financial products for the production sector, with an emphasis on SMEs; (ii) Reduce the disparity in productivity between SMEs and large companies.

III. Description of Activities and Outputs

- 3.1 **Component I: Design of a Costa Rican Technology Rating System (CTRS) and capacity building for its management and recalibration.** Activities carried out: (i) design of the model for a Costa Rica Technology Rating System (CTRS) with conceptual framework, evaluations metrics, rating algorithm and rating system; (ii) design of indicators, needed to operationalize the CTRS model taking into consideration both country's culture and industry, including detailed guidelines to compute the indicators; and (iii) capacity building and training activities on management and recalibration of the CTRS model for the SBD.
- 3.2 **Component II: Design of the Costa Rica Technology Guarantee Scheme and a pilot plan for testing the CTRS.** Two activities will be carried out: (i) diagnosis of the institutional capacities of CR organizations that should collaborate in the implementation of the CTRS. The organization leading the process will be the SBD, complemented through an assessment of relevant organizations that could support SBD, with the technology assessment part of the CTRS; and (ii) operational model for

the CTRS will be proposed, including a pilot plan to roll over the newly developed CTRS in a controlled sample of firms

- 3.3 **Component III: Benchmark study, dissemination seminar and joint publication.** The activities include: (i) conducting a benchmark study on Korea's innovation policies, considering its rapid economic development since the 1960s; (ii) organizing a final dissemination seminar with high-level policy makers to discuss the benchmark study's policy recommendations; and (iii) publishing a joint IDB-KOTEC report that compiles the experience and lessons learned from implementing the KTRS model in Peru and Costa Rica, aiming to disseminate the findings across the LAC region.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Design of a Costa Rican Technology Rating System (CTRS) and capacity building for its management and recalibration	US\$150,000.00	US\$0.00	US\$150,000.00
Design of the Costa Rica Technology Guarantee Scheme and a pilot plan for testing the CTRS	US\$75,000.00	US\$0.00	US\$75,000.00
Benchmark study, dissemination seminar and joint publication	US\$100,000.00	US\$0.00	US\$100,000.00
Total	US\$325,000.00	US\$0.00	US\$325,000.00

V. Executing Agency and Execution Structure

- 5.1 This TC will be executed by the Bank upon request of the beneficiary.
- 5.2 This is based on the Bank's capacity to implement technical cooperation projects, its knowledge to identify highly qualified international consultants, and its experience in similar operations among different countries in the region. Bank's execution is in compliance with the section 4.5 of the TC Policy which requires, in case of Bank-executed TCs, that: (a) the beneficiary country or group of countries concurs and (b) the proposed activities are consistent with the Bank's country and /or regional strategy and program.

VI. Project Risks and Issues

- 6.1 A risk with the implementation of this TC is that the Government of Costa Rica disagrees with the recommendations emerging from the studies and so does not move forward with the policy implementation of them. To mitigate this risk, the project team will be deeply involved in the dialogue with the SBD and with its Board to accompany the process of discussion and assimilation of the different policy recommendations. Essentially, the core of this project is to transfer the expertise developed by the Korea Technology Finance Corporation (KOTEC) over the past two decades in the field of technology guarantee systems and technology appraisal systems through Technical Cooperation (TC). Therefore, this project will be flexibly designed to suit the local conditions of Costa Rica, considering the policy direction of the Costa Rican government, the economic status, and the opinions of local operating agencies.

VII. Environmental and Social Aspects

- 7.1 This TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).