

Technical Cooperation Abstract

I. BASIC PROJECT DATA

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| Country/Region: | Regional |
| ▪ TC Name: | Building a Regional Innovation and Entrepreneurial Ecosystem for the Pacific Alliance |
| ▪ TC Number: | RG-T2593 |
| ▪ Team Leader/Members: | Juan Carlos Navarro (IFD/CTI) Team Leader; Adrián Magendzo and Carolina Chelle (IFD/CTI) |
| ▪ Taxonomy: | Research and Dissemination |
| ▪ Date of TC Abstract: | February 6, 2015 |
| ▪ Beneficiary countries: | Chile, Colombia, México and Perú |
| ▪ Executing Agency: | Inter-American Development Bank |
| ▪ IDB Funding Requested: | US\$380,000 |
| ▪ Local counterpart funding, if any: | US\$120,000 |
| ▪ Disbursement period (which includes execution period): | 18 months |
| ▪ Required start date: | July 1, 2015 |
| ▪ Types of consultants (firm or individual consultants): | Firm and/or Individuals |
| ▪ Prepared by Unit: | IFD/CTI |
| ▪ Unit of Disbursement Responsibility: | IFD/CTI |
| ▪ Included in Country Strategy (y/n): | No |
| ▪ TC included in CPD (y/n): | No |
| ▪ GCI-9 Sector Priority: | Competitive Regional and Global Integration |

II. OBJECTIVE AND JUSTIFICATION

2.1 There is consensus among economists about the importance of innovation as an engine for maintaining competitive and growing economies. There is a worldwide race between countries to maintain leadership in innovation, essential tool to remain competitive. Our countries are not and should not be oblivious to this challenge. A number of international indicators show that unfortunately the situation in Latin America with respect to innovation is not favorable. For example, a recent study by WIPO (World Intellectual Property Organization) describes Latin America as "insignificant in innovation" in terms of patent applications worldwide, which is considered a proxy of the capacity of innovation of countries.

2.2 In general, governments have been focusing in the support for enabling "inputs" required for innovation and entrepreneurship ecosystems, such as Research & Development financing, seed capital funds, human capital training, technology transfer offices, business incubators and accelerators among others; unfortunately this is not enough. An ecosystem of innovation and entrepreneurship is built providing not only adequate human capital, and needed physical and financial resources for a conducive business and regulatory environment, but also by the exposure of companies to relevant markets where there is extensive freedom of movement of goods, services, and human and financial capital which allows them to be allocated where they

are most productive. Alongside and with equal importance, there should be an environment that facilitates interactions between different actors within the system (researchers, entrepreneurs, inventors, government agents, etc.) resulting in the formation of dense networks of business interactions which will set the allocated inputs in motion and give life to the innovation ecosystem.

2.3 The Pacific Alliance is an economic integration agreement between Chile, Colombia, Mexico and Peru. The goal of the Pacific Alliance is the formation of an economic block of countries with open economies, similar development models and democratic governments, with an emphasis on fostering trade and economic relations with Asia and within the region. It has been defined as a pragmatic integration initiative without political bias and with the aim of creating a spacious zone for free movement of goods, services, people and capital. The Pacific Alliance thus becomes the 8th largest economy in the world with more than 210 million inhabitants, 40% of GDP, 50 % of trade, and 40 % of the FDI in Latin America.

2.4 In 2013 the High Level Group of the Pacific Alliance (GAN – Grupo de Alto Nivel, for its name in Spanish) mandated the creation of the Innovation Technical Committee (GTI - Grupo Técnico de Innovación, for its name in Spanish). This Committee is composed by two government officials of each country, usually one representing the Ministry of Foreign Affairs and one from the country's innovation or economic development agencies. The GTI is in charge of the design and definition of concrete activities to foster the creation of a regional innovation and entrepreneurship ecosystem. It also acts as a coordination body between the innovation agencies in each individual country and between these agencies and the CEAP (Comité Empresarial de la Alianza del Pacífico, for its name in Spanish) -the private sector committee of the Pacific Alliance.

2.5 The decision by the GAN to institutionalize a specific and dedicated policy execution team, the GTI, sends a very strong signal on the importance of innovation and entrepreneurship as part of the Pacific Alliance policy agenda.

2.6 As previously mentioned, interactions between diverse actors within an innovation and entrepreneurship ecosystem are crucial. These interactions are facilitated in an environment of trust, cultural and language compatibility, which are assets that can be leveraged by the countries of the Pacific Alliance. The Pacific Alliance provides the right environment that, as a whole, has greater potential for the development of an innovation and entrepreneurship ecosystem than the sum of each individual country: a large market with sufficient critical mass that justifies initial R&D expenditures, human, financial and physical resources, and cultural and language affinity that stimulates interactions and business development.

2.7 This Technical Cooperation has the overall objective of strengthening the GTI and supporting its five action pillars: (i) Support of associative human capital development and training for innovation and entrepreneurship in the region of the Pacific Alliance; (ii) Support of the development of a culture and mindset for innovation and entrepreneurship; (iii) Support of technology and knowledge transfer; (iv) Financing; and (v) Regulatory framework. Specific

objectives are: (a) supporting the GTI in the definition of a strategy and a medium term agenda in line with these action pillars; and (b) supporting the GTI in the implementation of a short term 2015-2016 agenda.

III. DESCRIPTION OF COMPONENTS AND OUTPUTS

3.1 **Component 1: Definition of a strategy and a medium term agenda in line with the GTI's action pillars.** This component is meant to support activities that will enable the GTI to define a medium term agenda in line with the five action pillars defined in paragraph 2.7 above: (i) map and understand the current state of each country's innovation and entrepreneurship ecosystem; (ii) identify gaps and opportunities for improvement aimed at leveling the field within the Pacific Alliance countries; (iii) define metrics that will allow a year to year benchmarking and progress evaluation; and (iv) define mechanisms to benchmark and communicate the work that is being done on a yearly basis. Three activities have been defined within this component:

- a. Studies, Metrics and Benchmarking. The goal of this activity is to study and report the current government and private sector institutional structure, programs, and instruments that support innovation and entrepreneurship in each of the countries of the Pacific Alliance. Alongside, a metric system that allows benchmarking between countries and at regional level will be defined. This will enable the identification of gaps between countries and regionally allow the measurement of annual progress of the ecosystem development. This study will be updated annually, thus measuring the progress and impact of the interventions.
- b. Support in creating the 2016 – 2019 agenda. This activity will support the GTI to develop a strategy and a medium term agenda of activities aligned with the five defined pillars aimed to form the ecosystem of innovation and entrepreneurship of the Pacific Alliance.
- c. Annual Report and quarterly newsletter. This activity will support the GTI in the elaboration of the 2015 annual progress report to be presented at the annual LAB4 meeting. LAB4 is an annual innovation and entrepreneurship forum where actors of the Pacific Alliance innovation ecosystem such as entrepreneurs, government officials, scientists, investors and intermediate organizations meet to exchange best practices and information, network, and present the latest developments and trends. In addition, a newsletter will be published quarterly with relevant information on issues of innovation and entrepreneurship at a regional level.

3.2 **Component 2: Implementation of a short term 2015-2016 agenda.** This component will support the GTI in the design and execution of a set of activities to be executed during 2015-2016 in the areas of human capital training, early stage investments, and business acceleration. Four activities have been defined within this component:

- a. Human capital and Training. This activity will generate instances to train different actors of the ecosystem of innovation and entrepreneurship in an environment of interaction

between countries and actors, with a focus on "learning by doing". It includes training of entrepreneurs, executives of incubators and business accelerators, capital venture funds officials, executives of technology transfer offices, and government officers of the respective countries.

- b. International Acceleration Program. This activity will support the design and pilot testing of an international acceleration program where high-impact entrepreneurs from the four countries will be able to start, accelerate or escalate their business in an environment of interaction and mentoring.
- c. Culture for Innovation and Entrepreneurship. Creating regional heroes. This activity will support countries in the organization of an international boot-camp and award to selected entrepreneurs of the Pacific Alliance.
- d. Financing. The goal of this activity is to support the GTI in the design and implementation of a pilot program to establish an early state investors and venture capital regional network and test interaction initiatives between investors and between investors and entrepreneurs.

IV. INDICATIVE BUDGET (IN THOUSANDS OF US\$)

| Component | IDB | Local counterpart | Total |
|---|------------|-------------------|------------|
| 1. Definition of a strategy and a medium term agenda in line with the GTI's action pillars | | | |
| Studies, Metrics and Benchmarking | 60 | 10 | 70 |
| Support in creating the 2016-2019 agenda | 40 | 20 | 60 |
| Annual Report & Quarterly Newsletter | 20 | 30 | 50 |
| 2. Implementation of a short term 2015-2016 agenda | | | |
| Human Capital and Training | 90 | 20 | 110 |
| International Acceleration Program design and pilot | 70 | 20 | 90 |
| Culture for Innovation & Entrepreneurship. Regional Heroes | 50 | 20 | 70 |
| Financing. Investors interaction design and pilot | 50 | | 50 |
| TOTAL | 380 | 120 | 500 |

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

5.1 Given the Bank's technical and administrative capability, and at the request of the beneficiary countries, the executor of the TC will be the Bank through the Competitiveness and Innovation Division (IFD/CTI). The implementation of the TC will be executed in close coordination with the Innovation and Entrepreneurship Technical Group (GTI). It is very important to note that the Bank is a knowledge hub in innovation and entrepreneurship policy in the region, and in order to build an ecosystem a great deal of coordination and networking needs to be done between countries. No individual country has the knowledge and the coordination capacity that is required. Therefore the countries have requested that the Bank leads this effort.

VI. PROJECT RISKS AND ISSUES

- 6.1 The following risks and mitigation activities have been identified:
- a. Dynamic Inconsistency. Even though it is well understood by all countries and political spectrum the importance of innovation as a means for economic growth, results occur and are often measured in future political periods. The risk is that in the scenario of new administrations or other immediate needs, this type of programs may be postponed or face lack of political will to continue. The mitigating factor in this case is very obvious as the Pacific Alliance has created the GTI. As long as the four countries do not cancel this TC, its continuity is granted.
 - b. Coordination efforts. The implementation of this TC entails a great deal of coordination efforts as it requires the four countries to agree on implementing the specified activities. In order to mitigate the risk of needing additional coordination capacity, the INT area of the Bank, who has an ongoing relationship with the Pacific Alliance in various programs and has the ability and goodwill to assist in these efforts, has been included in this TC.
 - c. Management requirements. Along with the previous line of thought, the fact that four countries will participate in this TC entails a great deal of management efforts. To mitigate this, a dedicated consultant will be assigned to the project.

VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

- 7.1 Given the nature of the program, the project team has not identified associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as "C." (See [Safeguards Policy Filter Report and the Screening Form](#)).