

MULTILATERAL INVESTMENT FUND ELIGIBILITY MEMORANDUM

PANAMA

DECEMBER 9, 2008

I. BASIC INFORMATION

Project name: Panama Technology Business Accelerator (PTBA)

Project number: TC-9806110

Project team: Leader: Susana Sitja Rubio (RE2/OD4); other members: Rodrigo Tamayo (RE2/OD4), Morgan Doyle (RE2/OD4), Stefano Tinari (COF/CPN), and Nobuyuki Otsuka (MIF).

Executing agency: City of Knowledge Foundation

Beneficiaries: Start-up and early-stage ventures with knowledge base and high growth potential.

Financing plan:

MIF: Facility III-A	US\$	1,200,000
Local:	US\$	700,000
Total:	US\$	1,900,000

Tentative dates:

Analysis Mission:	December 2000
Donors Committee	February 2001

II. BACKGROUND

A. The City of Knowledge and Technopark

- 2.1 To improve the conditions for diffusion of knowledge in Panama, the **City of Knowledge Foundation (CK)**, a private non-profit entity, was set up to establish and promote “centers of investigation and innovation in the scientific, technological, humanist and cultural fields, for the transfer of knowledge applied to productive activities and programs, aiming at the achievement of excellence in each field of activity”. The main components of the CK at Clayton, a reverted military base near Panama City, are interdisciplinary education, research on global issues, discussion fora, and technology promotion through the **Panama International Technopark (TIP)**.
- 2.2 The TIP, covering 20 hectares close to the Panama Canal and Panama City, is establishing a variety of support services for national and international companies in key fields such as information and communications technologies (ICT), biotechnology, and transport systems. Companies starting operations include Xerox, Citigroup, Cable & Wireless, and Berkshire Financial Services (small venture capital firm), as well as organizations like the National Secretariat for Science and Technology (SENACYT). Among the strengths of the CK-TIP complex are its linkages to universities (e.g.

Technological University of Panama) and research facilities (e.g. the Smithsonian Tropical Research Institute), strong private sector support and verdant surroundings.

- 2.3 Despite the on-going excellent efforts, start-up and early-stage technology-based enterprises in Panama, as in many industrializing countries, suffer from severe constraints such as the difficulties and delays in accessing seed capital, shortages of skilled personnel, lack of trade and technology information, and importantly, poor access to markets. Also, the strategies for promoting technological entrepreneurship and innovation are still emerging in Panama, venture capital sources are scarce and an IPO market has yet to develop.

B. The Panama Business Incubator

- 2.4 Business incubators have evolved in the last 20 years from industrial estates and small enterprise service centers, and now number more than 2,500 worldwide. In addition to the traditional training, counseling and related services, incubators provide shared facilities, affordable work space, synergy among carefully selected companies, services to affiliates outside the facility, and extensive access to external sources of professional support, technology and seed capital. Depending on sponsor objectives and local conditions, business incubators can be developed in many types and configurations; including mixed tenant or special purpose facilities, economic empowerment or regional revitalization, research commercialization or technology focus (e.g. biotechnology or software development). Business incubation systems have generally been oriented towards addressing the problems of local economic development through the expansion of the entrepreneurial base.

- 2.5 **The Incubadora de Empresas de Panama (IDEP)** was inaugurated at the Technopark in May 2000. It has about 3,000 sq.m. of gross space in building 214, an Advisory Board with private sector representation, and a small staff. The IDEP, designed as a traditional incubator, and lacking a proper feasibility analysis or structured entry process, limited initial financing, and accounting and management information systems, and a highly subsidized rent (its only source of income), has nevertheless been successful in nurturing 15 new groups. But IDEP lacks the design need to breed New Economy companies, focused on fostering links and relationships (networking) to promote and sustain innovative technology-based ventures.

C. Emergence of New Incubation modes for the New Economy

- 2.6 To mobilize the exponential growth in ICT, and the challenge of a globalizing economy, a new breed of incubators has emerged in the last two years that seek to accelerate the start and growth of Internet and other high-tech related ventures. These high-tech network incubators or accelerators are, in effect, a for-profit composite of high-tech workspace, *hands-on* management, information and consulting services, and rapid access to seed and venture capital, usually in exchange for equity. Accelerators have the over-all purpose of compressing the time in which the incubated company enters the market, is able to attract a considerable market share, and has a steady rate of income growth and profits.

- 2.7 Since 1999, over 220 accelerators have been set-up in over 140 countries. In Latin America, Internet hosts have grown rapidly, now surpassing 10 million users, representing 4 % of the world total. Nevertheless, high costs and low availability of telecom services have prevented an even faster growth of the sector. This situation is improving rapidly, as foreign investment rises in Latin American Internet Service Providers (ISP), portals and Business-to-Business (B2B) usage. There are now 10 Internet Incubators in Brazil and 2 in Argentina.
- 2.8 The Bank's strategy for Panama seeks to provide support for activities that create incentive for private sector participation. This project seeks to address opportunities offered by the New Economy and to build upon the existing facilities at TIP, by proposing to develop an innovative new structure to help accelerate the start of high-tech based ventures and their entry to the market. The Panama Technology Business Accelerator (PTBA) would be located initially in space available at IDEP, and would be linked to the Technopark, but would operate as an independently managed facility. Once this model is operational, the possibility of transforming PTBA to an independent, for-profit entity would be pursued.

III. BENEFICIARIES OF THE PROPOSED PROJECT

- 3.1 The PTBA would serve the special needs of Panamanian entrepreneurs who have identified a market opportunity together with a technological innovation and have the entrepreneurial energy but need a dynamic business environment, the 'clicks-and-bricks' facility, the management and marketing advice, information sources, and access to seed capital, in order to start and grow their businesses rapidly. The 'technopreneur groups' would come from a variety of local and regional sources, including: (i) spin-offs from large companies; (ii) businesses in the IDEP and TIP; (iii) researchers at institutes wanting to commercialize research results; and (iv) graduate students and faculties at local universities.

IV. OBJECTIVES

- 4.1 The general objective of this project is to promote technology-based entrepreneurship by pro-actively supporting the formation and accelerated growth of new business ventures for smart products, processes and services, particularly in the ICT enabled field through a sustainable mechanism, adapted to the rapid changes of the New Economy. The project would assist the creation of the PTBA and support its development to become a center of excellence for technological entrepreneurship and creation of world-class, knowledge-based ventures in Panama, and establish the structure and strategy needed to achieve a financially self-sustainable Accelerator in 3 years .
- 4.2 The specific objectives of this project are: (i) to support the managerial and technical requirements of the PTBA; (ii) to develop the special skills and knowledge needed for promoting technological innovation and entrepreneurship; (iii) to promote the networking of incubators and their tenant-companies with small business development professionals, education centers and agencies, in Panama and internationally; and (iv) to design and

support the creation of a seed capital fund, as a means to create a deferred stream of income for the PTBA.

V. PROJECT COMPONENTS

- 5.1 PTBA Management and High-Tech Workspace (US\$650,000). This component would finance the implementation of the operational structure and procedures (e.g. selection process for tenants) for the PTBA, a manager, and the development of an area with ‘plug-and-play’ connectivity, shared office facilities and common areas, and modular layout for changing needs. The design of the space in building 214 would need to be modified and properly renovated to world-class standards. A creative but functional space is required, with complete security. Market rates for rent would be charged to tenants.
- 5.2 Business Management/Marketing Counseling & Training Services (US\$800,000). This component would finance a small core staff of experts in high-tech business development and a full range of services including counseling and training on business practices, marketing and financial management, technology commercialization, website development, legal support, intellectual property protection, recruitment and public relations. Also, an *Information Unit* would be created and equipped to provide trade and technology information; Information Technology (IT) trade publications; linkage to the national library; and access to existing websites of the Global IT Forum, European Union, Latin American and North American businesses.
- 5.3 Innovation Center (US\$250,000). This component would finance the improvement of facilities for ‘pre-incubation’ entrepreneurs, and the initial services required to explore their concept, collect market information and network with collaborators. This space would be rented on a monthly basis, until the entrepreneur is ready to enter an incubator. A *Business Plan Competition* would be organized as an activity of the Innovation Center in cooperation with selected university and business partners. The winning business plan could be given preferred opportunities to enter the Accelerator and receive financing.
- 5.4 Structuring of a Seed Capital Fund (US\$200,000). This component would finance the design and establishment of a Seed Capital Fund within the PTBA, as outlined in its business plan (see paragraph 10.3). The MIFs contribution would finance technical assistance for the development of the Fund, the necessary consulting services required for its establishment, and the initial fundraising activities. The CK will contribute up to US\$100,000 in seed capital to be recognized as counterpart funds, and private sector fundraising (through MIF financed activities) is expected to raise another US\$400,000 by the end of the execution period. Since access to Capital is key to the success of emerging companies, and few venture capital institutions are interested in start-up companies, the Fund would be able to take equity positions in incubated ventures, based on negotiations, in exchange for PTBA services, and attract external Venture Capital sources. The purpose of services in return for equity is to co-share both risks and rewards, and create a deferred stream of income for the PTBA.

VI. ESTIMATED COST, FINANCING AND EXECUTION PERIOD

- 6.1 The estimated cost of this Technical Cooperation (TC) is US\$1,90 million; of which US\$1,2 million would be financed by the Bank as non-reimbursable assistance with resources from the MIF's Facility III-A, and US\$700,000 would be local counterpart from the City of Knowledge Foundation. The execution period for this Project would be 36 months, with a disbursement period of 42 months.

VII. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 7.1 The City of Knowledge Foundation, which has legal persona, will be the Executing Agency. It would delegate the responsibility of managing the PTBA to a Managing Board, comprised of representatives from the private sector, academia and the public sector; which will be responsible for setting policies, guiding the management team of the PTBA (executing unit of the project) and for the proper financial management of the resources. During the analysis stage, the project team and counterpart will agree on the governance arrangements needed for the execution of the project, and the administration of the PTBA.

VIII. PROJECT JUSTIFICATION AND ANTICIPATED RESULTS

A. Justification

- 8.1 Traditional incubators are faced with a variety of inherent problems. These range from the inherent risk associated with start-up companies; the perverse incentives caused by a structure that provides little benefits from quick graduation of companies; and below market prices for rent and services, which jeopardized the financial self-sustainability of the incubator. New Economy Accelerators, with a clear for-profit goal, and an financial interest in the success of post-incubation companies, eliminate these problems, and provide a more dynamic, fast-paced and innovative environment more attune with the reality of the New Economy and the internet age.
- 8.2 This project will take advantage of the strengths of the good facilities, supportive business environment and fiscal incentives available to the CK, while at the same time creating a new type of "incubator" for Panama's new technology-based ventures. Utilizing existing IDEP and TIP facilities will help reduce the costs and time that might be required in starting the PTBA from scratch. There is a strong working relationship with the private sector in Panama– often not available in other countries. To complement all this, the project will provide the PTBA with a well-developed business plan and financing structure to insure its self-sustainability.

B. Anticipated Results

- 8.3 The PTBA can help: (i) create the culture of risk-taking and entrepreneurial venture creation; (ii) develop stronger interactions between research, education, business, banking and government; (iii) nurture 6 to 8 successful new ICT businesses each year in a period of

no more than 18 months (half the time of the traditional incubator); (iv) create jobs in the Accelerator, jobs among the successful graduates, and additional indirect jobs in the supply chain; and (v) help position Panama as a leader in the ICT field.

IX. IMPORTANT ISSUES

- 9.1 The infrastructure and leadership at the new CK offer good prospects for the success of the PTBA provided that ten essential characteristics are developed and maintained: (i) clear vision and realistic goals; (ii) commitment of the Executing Agency, public sector and business community; (iii) clearly defined implementation actions within an estimated budget and work plan; (iv) a hands-on Managing Board and a competent, trained management team; (v) clear and strict guidelines for the selection of tenants for entry, and flexible exit procedures; (vi) effective training/counseling programs with access to networks of service providers; (vii) promotion of the spirit of entrepreneurship, competition and business ethics; (viii) plan strategically and flexibly for future expansion of space, services and outreach; (ix) continuing mentoring and financial contributions from the private sector; and (x) rigorous monitoring, follow-up, evaluation and corrective actions. While the linkage to the City of Knowledge Foundation is important, an independent operational status for PTBA would need to be negotiated.
- 9.2 The Bank is currently preparing, with MIF financing, two TCs for Panama that seek to support private sector development. The first, to Promote the Development of Micro, Small, and Medium Enterprises (TC-0006035), through support of the activities of the Authority for Micro, Small and Medium Enterprises (AMPYME), which include improving technological cooperation networks; the regulatory framework for business initiatives; and facilitating integration, among others. The second, for the Development of E-commerce (TC-9911096), that aims to improve the understanding and use by the private sector of the internet for commercial activities. As well, the Bank is preparing a loan for the Development of a Science and Technology Park in Panama (PN-0134), with the objective of aiding the CK in strengthening its institutional structure, in the marketing and promotion of the TIP and in improving its infrastructure to meet the demands of technology ventures. This project complements these activities by promoting the development of enterprises in the ICT field, through an innovative mechanism of support, helping increase the impact of MIF/Bank activities in Panama.

X. PROJECT PREPARATION AND ANALYSIS

- 10.1 The analysis phase of the project would include the development of a project preparation study and a business plan for the PTBA. This phase would require about 4 months of studies, discussions and design, in close collaboration with the CK and the IDEP. A workshop of stakeholders (academic, government and community leadership, potential techno-entrepreneurs and sponsors) would be organized in the initial stages of preparation to promote consensus on the accelerator's objectives, and the responsibilities of the main public and private sector partners.

Approved by:

Date: 12/9/2008

MEMORANDO

Clasificación de Archivo:

FECHA: 4 de octubre de 2000

A: Sr. Kyoichi Kato, Subgerente
Fondo Multilateral de Inversión

DE: Jairo Sánchez, Subgerente (Original firmado)
Departamento Regional de Operaciones II

ASUNTO: PANAMA. Abstracto de Propuesta de Proyecto. Apoyo a una Aceleradora de Empresas Tecnológicas en Panamá (TC-98-06-11-0).

Adjunto sírvase encontrar la Propuesta de Proyecto para la operación FOMIN de la referencia. Agradeceríamos recibir su aprobación y respectivo Memorando de Elegibilidad para esta operación.

La Sra. Susana Sitja Rubio, RE2/OD4 (extensión 3805) estará a su disposición para contestar cualquier pregunta sobre este documento.

Anexo

Cc.: Miguel M. Martínez, RE2/MGR
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Leonardo da Silva, FOMIN
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