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MULTILATERAL INVESTMENT FUND

EL SALVADOR

DIGITAL ECOSYSTEM 503 – SNBX

(ES-T1328)

DONORS MEMORANDUM

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PROJECT SUMMARY
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This intervention arises in an adverse context for entrepreneurs, where the high levels of unemployment and informality affecting Salvadoran society are reflected in the way businesses are being created as a means of obtaining an income. Such companies remain basic and informal, however, being regarded as subsistence businesses: 35% of entrepreneurs start a business out of necessity, while 39% do so to pursue an opportunity for improvement. Against this backdrop, it is not surprising that the country's environment and conditions for generating, sustaining, and scaling ventures are among the least favorable: according to the latest (2019) Prodem¹ Índice de Emprendimiento Dinámico [Dynamic Entrepreneurship Index], which looks at 64 countries, El Salvador is in 62nd position, jointly with Venezuela and Guatemala, which together comprise the group of countries with the least favorable conditions for entrepreneurship. Its biggest weakness is its use of science, technology, and innovation as a platform for the development of successful, competitive ventures.

The project aims to respond to the limitations of the country's entrepreneurial and innovation ecosystem, and transform them to catalyze key existing features to structure and accelerate the incipient ecosystem formation process by developing an inclusive model that generates and scales high growth companies, driven by **open innovation** between startups and the public and private sectors.

The COVID-19 pandemic and the resulting crisis have shown the importance of countries having open innovation spaces where they can look for creative data-driven solutions to problems, based on collaborative partnerships, and directly addressing the problems affecting citizens. Meanwhile, these spaces can help companies adapt their business to the new reality where social distancing, the shuttering of nonessential businesses, new modes of work and education (telework, tele-education, etc.) have become a part of daily life, creating a context in which flexible digital solutions are essential in order to remain competitive.

The project's main innovation envisages a digital platform making all the facilities developed to structure the ecosystem and promote the process of open innovation available to startups, corporations, governments, and nongovernmental organizations (NGOs). The core of the platform will be a data lake,² which is a centralized repository in which structured and unstructured data from companies, government entities, and/or NGOs interested in promoting open innovation processes can be stored without scale limitations. Three main actions are envisaged to give shape to the project's strategy and innovation: (i) leveraging data to catalyze corporate ventures; (ii) startup strengthening and acceleration; and (iii) generating the conditions for financing innovation and entrepreneurial growth. The project will benefit a total of 40 startups sustaining average growth of 20% and generating at least 200 direct jobs through entrepreneurial activity. It will also improve conditions and remove constraints in the entrepreneurship and innovation ecosystem. Additionally, the ventures supported through the project are expected to address problems affecting vulnerable groups country-wide (youth, gender,

¹ Informe Prodem 2019.

² Data repository consolidating all the organization's raw information for later querying and use in reports and situation analyses that may improve business performance to make their business model more efficient.

microenterprises, rural and/or perirurban populations, etc.), to offer innovative solutions that incorporate technology in their proposals.

The project is aligned with the Country Strategy with El Salvador 2015-2020 on the pillar of enhancing the quality of expenditure on human capital, and it is focused on the IDB Lab priority area of the knowledge economy, specifically as regards the opportunity for impact from building the innovation ecosystem. It also envisages collaboration and synergies with IDB Lab projects such as: Cubo (BR-T1403), Inclusive Innovation, Civic Participation, and Youth Social Entrepreneurship (ES-T1281), Impact Hub (RG-T2903), Startup Ignition Bootcamp (RG-T3526), the fAlr LAC alliance, etc.

The total project funding comes to US\$1,535,800, with a contribution of US\$753,300 from the executing agency, SEED COMMUNITY, S.A. de C.V., and US\$782,500 from IDB Lab, in the form of nonreimbursable technical-cooperation funding.

ANNEXES

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INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF THE IDB LAB PROJECT INFORMATION SYSTEM

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ABBREVIATIONS

AWS	Amazon Web Services
CONAMYPE	Comisión Nacional de la Micro y Pequeña Empresa [National Commission for Microenterprises and Small Businesses]
DICA	Dirección de Innovación y Calidad [Innovation and Quality Department]
ECLAC	Economic Commission for Latin America and the Caribbean
GDP	Gross domestic product
GEDI	Global Entrepreneurship Development Index
MINEC	Ministry of the Economy
MVP	Minimum viable product
NGO	Nongovernmental Organization
OECD	Organisation for Economic Co-operation and Development
Prodem	Programa de Desarrollo Emprendedor [Entrepreneurial Development Program (Argentina)]
R&D	Research and Development
SDGs	Sustainable Development Goals
TBC	To be confirmed

EXECUTIVE SUMMARY
DIGITAL ECOSYSTEM 503 – SNBX
(ES-T1328)

Country and geographic location:	El Salvador, San Salvador, its metropolitan area, and other cities in the country through its data lake.		
Executing agency:	SEED COMMUNITY, S.A. de C.V.		
Focus area:	Knowledge Economy		
Coordination with other donors/ Bank operations:	There will be coordination, synergies, and sharing of lessons learned with projects promoted in El Salvador and the region, such as: Cubo (BR-T1403), Inclusive Innovation, Civic Participation, and Youth Social Entrepreneurship (ES-T1281), Impact Hub (RG-T2903), Startup Ignition Bootcamp (RG-T3526), fAlr LAC, etc.		
Project beneficiaries:	<p>The project will benefit a total of 40 startups that are averaging sustained growth of 20% and generating at least 200 direct jobs through their entrepreneurial activity; it will also mobilize US\$600,000 to help startups become established by efforts including purchasing their solution, contracting them as suppliers, or making direct investments.</p> <p>Additionally, indirect impacts are expected from the efforts of the project's successful entrepreneurs to unlock opportunities in the country for inclusive entrepreneurship, tackle problems affecting vulnerable social groups (particularly as regards offering opportunities to Salvadoran youth), harness the digital transformation to boost the country's productivity factors (particularly the large numbers of SME businesses with limited access to technology), and boost the economic dynamism of peripheral regions.</p>		
Financing:	Nonreimbursable technical-cooperation funding:	US\$782,500	51%
	Total IDB Lab contribution:	US\$782,500	
	Counterpart:	US\$753,300	49%
	Total project budget:	US\$1,535,800	100%
Execution and disbursement periods:	36 months for execution and 42 months for disbursement.		
Special contractual conditions:	The conditions precedent to the first disbursement will be: (i) creation of an operations coordination committee bringing together the executing agency and its main partners (AGRISAL and INNBOX), together with other key actors in the innovation ecosystem if deemed necessary; and (ii) signature of an agreement between the executing agency and AGRISAL as a strategic partner in promoting the initiative.		

Environmental and social impact review:	This operation was screened and classified in accordance with the requirements of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703) on 16 April 2020. Since the impacts and risks are limited, the proposed classification for the project is category "C."
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I. THE PROBLEM

A. Description of the problem

- 1.1 Given the high levels of unemployment and informal work affecting Salvadoran society, many citizens create their own companies to make a living. However, these businesses remain basic and informal, as they are viewed as a means of subsistence: “35% of entrepreneurs start a business out of necessity, while 39% do so to pursue an opportunity for improvement; this falls far short of Latin American and Caribbean averages, of 22% and 51%, respectively.” As a result, El Salvador has Latin America’s highest rate of business closures, according to the Global Entrepreneurship Monitor report (GEM: 2014-2015). This means entrepreneurship is making very little contribution to the country’s socioeconomic development.
- 1.2 It is no surprise then that the country’s environment and conditions for generating, sustaining, and scaling ventures are among the least favorable. According to the latest (2019) Prodem³ Índice de Emprendimiento Dinámico [Dynamic Entrepreneurship Index], which looks at 64 countries, El Salvador is in 62nd position, jointly with Venezuela and Guatemala, among the group of countries with the least favorable conditions for entrepreneurship. Its biggest weakness is its use of science, technology, and innovation as a platform for the development of successful, competitive ventures.
- 1.3 El Salvador ranks 120th out of 137 economies on the three essential components of entrepreneurship—entrepreneurial attitudes, entrepreneurial skills, and entrepreneurial aspirations (Global Entrepreneurship Index 2019)⁴—having serious shortcomings in terms of the lack of process innovation, technology absorption, and limited competition (this latter point being understood as a factor in the creation of unique products and services that can be brought to market). Together these factors demonstrate the weakness of the local entrepreneurial ecosystem.
- 1.4 The countries of Latin America—El Salvador included—continue to underinvest in science, technology, and innovation. Although investment in research and development (R&D) relative to gross domestic product (GDP) in Latin America edged up from 0.63% to 0.74% between 2009 and 2013 and stood at 0.8% in 2018,⁵ the innovative dynamism of the countries of Latin America falls well short of that of Organisation for Economic Co-operation and Development (OECD) countries, which invest around 2.3% of GDP in R&D. This state of affairs makes Latin America’s main challenge that of mobilizing R&D investment by combining public and private efforts for an agenda of structural change.⁶
- 1.5 The dynamics of the period of strong growth have not yet brought about a structural change and innovative dynamism that would have allowed more local value added to be generated in a wider range of sectors and economic activities. To spur

³ Informe PRODEM 2019.

⁴ Published by [GEDI](#).

⁵ 2018 World Bank data.

⁶ Development Centre Studies. Start-Up Latin America 2016: Building an Innovative Future. Progress Report, OECD, 2015.

- innovation a substantial increase in private investment in R&D is needed, together with growing and better support by the public sector. It is therefore essential to advance the design of incentives and policies that stimulate private sector investment in innovative activities, including support for the creation of new tech-based companies. Support for innovation and intelligent industry policies that enable the opportunities of global knowledge economies to materialize is still a challenge for Latin America (ECLAC, 2015).
- 1.6 Although the lack of official gender-disaggregated statistics means there is insufficient quality data to document this, it can be suggested that gender discrimination in Latin American countries considerably reduces the effective participation of women in the development of new businesses, and therefore constrains their options for professional progression and limits the opportunities for development for their families. Worse still, inequality prevents women from contributing to business development efficiently in the countries of the region.⁷ And if innovation and technology considerations in the business environment are included, the gap is wider still.
- 1.7 In light of this situation, the new administration (2019-2024) acknowledges the urgency of structuring and stimulating the local entrepreneurial environment to turn it into a driver of socioeconomic development. The features of the digital revolution offer countries an opportunity (strong demand for digitalization from business and the public sector; possibility of starting businesses with low levels of investment; more direct access to markets; easy access to networks and online training; possibility of replicating successful business models and digital products that do not regard an economy the size of El Salvador's to be an attractive market; etc.) to minimize country environment constraints. Thus, the Ministry of the Economy (MINEC) has announced two major strategic lines on which work is under way: (i) digital ecosystem services;⁸ and (ii) the innovative entrepreneurship⁹ support system; along with areas of action to close the country's innovation and technology gap.
- 1.8 It is worth noting that MINEC's effort builds on and structures local business success stories (examples include AB InBev, Microsoft, and Banco de América Central), which contribute key factors (such as skills, role models, networks, concentration, and critical mass) to developing the entrepreneurial ecosystem. Additionally, MINEC and successful entrepreneurs see an opportunity for inclusive entrepreneurship in the country, understood as entrepreneurship conceptualized from the outset to have a beneficial impact on vulnerable social groups (offering opportunities to Salvadoran youth being of particular relevance), harnessing the digital transformation to boost the country's productivity factors (particularly among

⁷ *Emprendimiento y Género en América Latina y su Papel en el Desarrollo Económico*, 2017.

⁸ In January of this year the government launched the *Agenda Digital El Salvador 2020-2030: Plan de Desarrollo El Salvador Digital*, a strategic document led by the Innovation Secretariat in coordination with various government departments (including MINEC), which sets out a vision for the country promoting digitalization over the next 10 years.

⁹ Various entrepreneurship promotion and support initiatives have been spearheaded by the public sector, particularly from the MINEC Innovation and Quality Department (DICA) (with programs such as INVENTA, PIXELS, INNOVATICS, and INNOVAEMPRENDE) and the National Commission for Microenterprises and Small Businesses (CONAMYPE), which has run nationwide programs to foster entrepreneurship among young people and women. Close coordination has been established with both entities from the operation design stage onward to achieve synergies and coordinate actions during implementation.

the large numbers of SMEs with limited access to technology), and fostering economic dynamism in peripheral regions.

- 1.9 The COVID-19 pandemic represents a challenge to the global socioeconomic system. Starting with the implementation of the first health measures, in a context exacerbated by the fear of contagion, evidence began to build up of the importance of digital technologies in countering isolation, disseminating preventive health measures, and enabling economic systems to continue functioning.¹⁰ IDB Lab deployed its network of connections to harness innovation and entrepreneurship in Latin America and the Caribbean, and worldwide, in order to respond to the health and economic impacts of the COVID-19 pandemic. This experience illustrated the value of the innovation ecosystem in responding to specific real-life problems, which startups can tackle with rapid and innovative tech-based solutions. Thus, over 500 solutions across the region were mobilized in under four weeks, and the 20 best proposals addressing healthcare issues selected in coordination with startups, companies, nongovernmental organizations (NGOs), and the public sector.
- 1.10 This is a powerful demonstration of the importance of an open innovation space where varied and creative solutions can be sought for emerging problems (such as health, food, and economic crises) efficiently and in a way that is based on hard data, developing a collaboration between various actors, cutting red tape, without losing sight of the need to address citizens' hardships and problems during and after the crisis.
- 1.11 The relevance of these spaces stems not only from their role in responding to the immediate crisis caused by COVID-19, but also in helping companies adapt to the new reality in which social distancing, the closure of nonessential businesses, new modes of work and education (telework, tele-education, etc.) become part of daily life, creating a context in which flexible digital solutions are essential in order to remain competitive.
- 1.12 **IDB Lab experience creating innovation and entrepreneurship ecosystems.**¹¹ IDB Lab played a decisive role in the initial configuration and strengthening of the entrepreneurship ecosystem and industry, and it has supported the Latin American market through a series of technical cooperation projects, such as Developing the Venture Capital Ecosystem in Brazil and Latin America (operation BR-M1102); Promotion of the Socioenvironmental Impact Investment and Enterprise Ecosystem (operation BR-T1346); and more recently, CUBO (operation BR-T1403). IDB Lab's accrued experience has shown that, in ecosystem projects, it is essential to have partners working at the cutting edge who can act as poles of attraction for other partners in order to expand programs' scope and impact and create business opportunities for entrepreneurs, startups, investors, and other ecosystem agents, and thereby generate interest and create aligned incentives. These lessons were factored into the design of this project.
- 1.13 **Open innovation.** Traditionally, companies and public agencies have managed innovation in closed systems (closed innovation), in which research projects are managed exclusively with the organization's own knowledge and resources. Under

¹⁰ ECLAC, April 2020.

¹¹ IDB Lab project BR-T1403: CUBO, approved in November 2018.

this classic model, projects can only start from within the company and end in their own market. By contrast, under the open innovation model, initiatives may originate either within or outside the company, and they may be incorporated at the start or during intermediate phases of the innovation process, and may reach the market through the originator or another company (patent licensing, technology transfer, etc.). This means combining internal and external knowledge to advance R&D and strategic projects. In this context, universities and research centers take on special significance within the ecosystem of agents with which the organization has dealings. To some extent, open innovation is being put forward as a process of identifying responses to issues in the context described in this section, while capitalizing on IDB Lab's experience and lessons learned in Latin America.

B. Beneficiaries

- 1.14 The main beneficiaries in the specific case of the intervention proposed here will be startups and entrepreneurs, with creation of 40 startups projected, at least 30% of which will be led by women. These startups will address specific problems through innovations applying cutting-edge technology to achieve greater impact and reach. They will also consider the needs of the value chain of dynamic economic activities to improve the lives of vulnerable groups associated with them, aiming to create jobs, generate income, and/or address environmental issues. The people supported may be anywhere in the country, extending the project scope (eastern, western, and central zones), thanks to the use of platforms and data to leverage the ventures. It is projected that 200 direct jobs will be created linked to startups, and that this number will be increased indirectly through actors in the value-chain (suppliers, distributors, support activities) boosted by these startups.

II. THE INNOVATION PROPOSAL

A. Project description

- 2.1 The **objective of the project** is to transform and respond to the limitations of El Salvador's entrepreneurial and innovation ecosystem, catalyzing existing elements of success to structure and accelerate it, with an inclusive model of high-growth company generation and scale up, driven by **open innovation** in a way that brings together startups and the public and private sectors. The project will act on the barriers to entrepreneurship (both those inherent in the entrepreneurial process, such as skills, networks, financing, and institutions; and the country's socioeconomic dynamics).
- 2.2 **The solution** envisages the creation of a virtual and physical innovation hub (through the data-lake-based platform) called Sand Box San Salvador, designed, implemented, and run by the project executing agency, SEED COMMUNITY S.A. de C.V., in partnership with one of the country's major business groups (AGRISAL), with a series of services being included in the model to make the initiative sustainable.
- 2.3 **Innovation.** One of the project's main innovations will be a digital platform on which all the facilities developed to structure the ecosystem and promote the open innovation process will be made available to startups, corporations, governments, and NGOs. The core of this platform will be a data lake, which is a centralized repository in which structured and unstructured data from companies, government entities, and/or NGOs interested in promoting open innovation processes can be

stored without scale limitations. This tool will allow data to be stored as is, without prior structuring, and enable various types of analysis to be run, from panels and displays, to big data processing, real-time analysis, and machine learning to spur challenges/calls where startups can develop ad hoc solutions to the issues raised.

- 2.4 Data lakes are a powerful emerging architectural approach to handling the growing volume and variety of data, especially as companies are turning to cloud-based and Internet of Things (IoT) mobile applications for on-time delivery for big data. One of the main advantages of the data lake is that it allows data to remain in their native format, as well as offering: (i) the possibility of storing all types of structured and unstructured data, from CRM (customer relationship management) data to publications on social media; (ii) greater flexibility: it does not need to have all the answers in advance; and (iii) democratized access to data through a unified single data view. It should be noted that access to data and the solutions generated from them will be based on the “principles for digital development”¹² where addressing data privacy and security is one of the new fundamental elements to take into account. It is also important to confirm that the project at hand does not infringe any data protection laws or policies in the country.¹³
- 2.5 The data will be the basis on which Salvadoran entrepreneurs will be able to identify business opportunities (particularly sectors using digital technologies, such as urban mobility, logistics, retail, etc.). Moreover, this platform will facilitate nationwide connectivity (east and west of the country) to maximize scope and impact, exploring the model for developing an entrepreneurship ecosystem in areas remote from the capital.
- 2.6 Another of the proposal’s fundamental innovations is the implementation of a business model based on open innovation processes as a key factor in the corporate strategy of both public and private entities, through collaboration with startups as partners, paying for the solutions they propose in response to the challenges launched on the platform, sale of startup acceleration services with more competitively pricing due to the use of technology, organization of roadshows, and curating startups outside the capital to promote collaboration between corporates and startups. These, and other services, will mainly be offered digitally, with a smaller percentage channeled through Sand Box San Salvador, located in the heart of a nationally important corporate center.¹⁴ Another income source for the model will be promoted in this physical space,¹⁵ through the rental of space to startups and other interested firms, NGOs, or technology entities that want to leverage the open innovation process the hub promotes and the synergies it generates.
- 2.7 The approach to monetizing startup support services will involve: (1) creating a cost-recovery mechanism for the provision of these services; (2) coordinating with the various government business support programs that help create a market for startups; and (3) connecting with the various corporate open innovation and

¹² <https://digitalprinciples.org/>

<https://blogs.iadb.org/conocimiento-abierto/es/bid-avala-los-principios-para-el-desarrollo-digital/>

¹³ El Salvador does not currently have a Personal Data Protection Law. Two legislative bills have been under evaluation in the Legislative Assembly since 2019, but to date, none has been put forward.

¹⁴ Torre Futura and Word Trade Center with the presence of over 90 private corporations and government entities nearby.

¹⁵ Owned by Grupo Agrisal, Unidad Inmobiliaria.

- support programs (such as Microsoft for Startups, “100+,” and the AB InBev “Corona Challenge”, or the Banco de América Central innovation program) present in the country, to bring them into the initiative as “founders,”¹⁶ obtaining benefits of the open innovation services fostered by the project.
- 2.8 Lastly, another of the model’s innovations is to promote the creation of conditions to make investments in startups a reality in El Salvador, through an investment readiness program, where startups and investors can find out about one another, meet up, and gear themselves up for potential financial vehicles able to inject capital into early-stage ventures. This program will be based on a hybrid mechanism that is mainly online, but includes the in-person modality.
- 2.9 To implement the project’s strategy and innovations, the following components are envisioned:
- 2.10 **Component I: Leveraging data to catalyze corporate ventures (IDB Lab nonreimbursable funding: US\$363,400; Counterpart: US\$587,500).** The objective of this component is the creation of an online platform operating as a data lake, with the potential to be an innovation hub where large corporates and the public sector (central and municipal government) can share data (privately and securely). The creative process will be galvanized by challenges or calls taken up by startups for the cocreation of innovative solutions. The initiatives offering the best solutions will be awarded resources and/or prizes to prototype and demonstrate their effectiveness and fit to the proposed problem, either by corporates or public sector entities. In a way, this access to data will reduce the need and facilitate access to financial resources for growth, partially mitigating the as yet incipient capital market in El Salvador, by enabling the development of prototypes (digital “proof of concept” and “minimum viable product”).
- 2.11 The main activities in this component include: (i) development of the digital platform to promote services for startups and the ecosystem centered on the data lake; (ii) establishment of a physical innovation center called Sand Box San Salvador to connect startups with corporates, local and/or central government; (iii) forging strategic partnerships to develop the innovation and entrepreneurship ecosystem (corporates, universities, NGOs, etc.); (iv) stimulating the digitalization of chambers of commerce and professional associations to raise awareness and facilitate their involvement in open innovation processes with the overarching goal of promoting disruptive business models that consider technology in their solution; (v) organization of challenges/calls to promote open innovation processes; (vi) developing events to foster a culture of innovation, seeking to encourage the participation of women-led startups or ventures; and (vii) promoting the scaling up and sustainability of the initiative nationally and across the region.
- 2.12 The main outcomes of this component include: (i) one online platform (data lake); (ii) two innovation hubs (Sand Box San Salvador) up and running; (iii) four partnerships and 30 companies confirmed as founders of the innovation center; (iv) at least seven chambers of commerce and/or professional associations

¹⁶ The “founders” are companies, public entities and/or NGOs interested in innovation on the basis of the SNBX San Salvador value proposition. They will provide resources (in cash and/or in kind) in exchange for the benefits of the innovation hub, such as: solutions provided by the startups through challenges, physical space in SNBX, participation in events, etc. To formalize this relationship contracts and/or agreements will be signed by the executing agency and the founders.

involved in digitalization, with prototypes of innovative business models in place at the end; (v) 75 innovation events held in the ecosystem to promote the entrepreneurial culture; and (vi) 18 challenges organized to promote solutions for corporates, local/central government, etc. through open innovation processes.

- 2.13 **Component II: Startup strengthening and acceleration (IDB Lab nonreimbursable funding: US\$202,500; Counterpart: US\$8,000).** The objective of this component is to support startups through direct services (delivered digitally and in person) to strengthen the capacities of the founding team, and provide mentoring, coaching, knowledge transfer, training, and business linkage and support (national and international). This package of services is projected to address the strengthening and acceleration needs of the data lake's active participant startups. Development of this component will begin with a study of the startup ecosystem by global experts such as [Startup Genome](#),¹⁷ in order to generate value added through inputs that catalyze the startup ecosystem in El Salvador, developing a roadmap for public and private ecosystem partners to play an active role in implementation.
- 2.14 The activities in this component will promote the involvement of women in order to raise awareness and increase their participation in the tech startup industry, where the gender gap is significant.
- 2.15 The main activities in this component include: (i) preparation of the Startup Genome report for El Salvador, which will aim to identify the gender gap in the industry and how to work to narrow it in this ecosystem; (ii) identifying potential beneficiary startups for the support services envisaged in the intervention in a way that promotes the participation of women in entrepreneurial initiatives; (iii) support services provided to startups to strengthen their business model and raise awareness with a view to increasing the participation of women in the industry; (iv) linking startups to businesses nationally and internationally to accelerate them; and (v) organizing and running meetings to showcase startups solutions to sell them and their investment potential; these events will aim to actively promote the participation of women as speakers so as to promote role models and women entrepreneurs.
- 2.16 The main outcomes of this component include: (i) two Startup Genome reports written; (ii) 70 startups identified and registered in the database (30% led by women); (iii) 35 startups receiving support, mentoring, coaching, and other support services (30% of them led by women); (iv) 30 domestic and/or international clients linked to startups for the sale of their services; and (v) 15 startups (30% of them led by women) showcased with the support of the Sand Box San Salvador innovation hub.
- 2.17 **Component III: Generating the conditions for financing innovation and entrepreneurial growth (IDB Lab nonreimbursable funding: US\$70,000; Counterpart: US\$0).** The objective of this component is to lay the foundation on which startups and investors (domestic and international) can prepare for potential venture capital funding, by facilitating knowledge, connections, and market access through a clear understanding of the corporate financial valuation system,

¹⁷ [Startup Genome](#) is the world leader in innovation policy research and advisory services. It has provided advisory support to over 40 governments over the past year on ecosystem development strategies and action plans.

- structuring a digital strategy to go to market, developing financial models for startups, advising on areas of intellectual property, and other activities. This will educate and raise ecosystem awareness primarily of investment mechanisms used in digital ventures such as those promoted by the proposal. As preliminary ideas, some of the models being considered include raising the profile of entrepreneurs in the local business community, peer selection,¹⁸ crowdfunding, contingent recovery, or leverage funds. As part of the investment readiness course for investors, materials on addressing persistent gender prejudices will be included, so as to initiate a process of attitude change.
- 2.18 The main activities in this component include: (i) running a training program for investors and startups; (ii) mobilizing financial resources to give shape to the ventures and the solutions proposed in challenges/calls; (iii) simulation of the financial vehicles to promote the venture capital market; and (iv) kick-starting case studies drawing on the experience gained with financial vehicles.
- 2.19 The main outcomes of this component include: (i) 30 startups (30% led by women) receiving the investment readiness course; (ii) 30 investors receiving the investment readiness course; (iii) US\$300,000 mobilized to help startups' initiatives get established; (iv) one simulation and/or minimum viable product (MVP) executed as a financial vehicle for entrepreneurs; and (v) three case studies prepared and disseminated, with their respective lessons learned based on the actions in this component.
- B. Project outcomes, measurement, monitoring, and evaluation**
- 2.20 **Impact.** The Results Matrix (Annex I) contains the following project indicators. After three years of execution, and with an ex post measurement after five years, the following impacts are projected: the project will benefit a total of 40 startups (30% led by women) that are averaging sustained growth of 20% and generating at least 200 direct jobs through their entrepreneurial activity; it will also mobilize US\$600,000 to help startups become established, such as by buying their solutions, contracting them as suppliers, or making direct investments. The country's average position on globally recognized international rankings measuring ecosystem and innovation conditions for entrepreneurship will also be improved.
- 2.21 Additionally, indirect impacts are expected from the activities of successful entrepreneurs benefitting from the project, who see opportunities in the country for inclusive entrepreneurship, understood as entrepreneurship conceptualized from the outset to have a beneficial impact on vulnerable social groups (particularly as regards offering opportunities to Salvadoran youth), harnessing the digital transformation to boost the country's productivity factors (particularly the large number of SME businesses with limited access to technology), and promoting the economic dynamism of peripheral regions.
- 2.22 **Monitoring.** SEED COMMUNITY, S.A. de C.V. will be responsible for monitoring project outcomes as presented in the Results Matrix, using the analytical tools developed on the online platform and data lake for monitoring or the project dashboard and the semiannual monitoring tool. This will enable measurement of the degree of fulfillment of the Results Matrix indicators as well as the effectiveness

¹⁸ An innovative methodology developed by Village Capital for the selection of borrowers/investees from among the acceleration group members, who decide among themselves who is to receive the investment.

of the intervention model proposed by the project. Gender-disaggregated data will be included. Additionally, the project outcomes may be revised semiannually with technology tools that enable independent statistics on the platforms to be gathered.

- 2.23 During project monitoring, the intervention will aim to show the effectiveness of the theory of change and proposed innovation by promoting real-time feedback from beneficiaries and the strategic actors involved so that the program adapts to the needs of startups and the ecosystem; the offering of support, strengthening, and acceleration services will be demand-driven and will change over time; once operating at scale, the project will be a robust initiative underpinned by the lessons learned from the initial implementation; the innovation hub, strategy, and open innovation focus will be maintained, but details will be fine-tuned to make it more effective and efficient, seeking to add more value for startups, corporates, and the ecosystem in each iteration through the monitoring process.
- 2.24 **Evaluation.** This project will include a midterm and final evaluation to be contracted by SEED COMMUNITY with the agreement of IDB Lab. The evaluations will study the fulfillment of the impact targets and project indicators described in the Results Matrix. Some of the questions that will guide this process are:
- 2.25 What are the most common barriers to women running tech startups? What barriers (whether regulatory, administrative, user-related, or others) prevent more startups from using cutting-edge technology in their solutions? What are the most effective digital tools with which to extend entrepreneurs' reach and enable them to develop technology solutions? What impact does access to a data lake platform have for startups in terms of developing solutions for corporates and/or government agencies through open-innovation processes? What other lessons have been learned that can be applied to promoting tech startups? What lessons can be learned from supporting actions targeting women-led startups so they can win contracts with corporate clients or boost the competitiveness of their businesses? What lessons can be learned to develop financial vehicles for tech startups, with emphasis on those led by women?
- 2.26 In this stage, the main impacts defined in the Results Matrix will be monitored, including the creation of 40 startups with 20% growth sustained over three successive years, creating at least 200 direct jobs as a result of these entrepreneurial ventures; also, it is projected that at least 30 companies will be involved as "founders," consisting of corporates linked to sectors driving the country's economy, thereby enabling actors in their value chains (such as suppliers, distributors, and support activities) to benefit, and thus contributing indirectly to the generation of new businesses and new job opportunities.
- 2.27 Additionally, students, academia, NGOs, public and private sector employees, among others, may access innovation initiatives and programs offered by SNBX, benefiting from the knowledge offered in order to learn, work, and create innovative solutions.

III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND PROJECT RISKS

A. Alignment with the IDB Group

- 3.1. The project is strategically aligned with the productive development dialogue area of El Salvador's Country Development Challenges, and it is focused on the IDB Lab Knowledge Economy priority area, specifically as regards the opportunity for impact on building the innovation ecosystem, where tech startups can find an environment that fosters their creation and scale-up.
- 3.2 This initiative is linked to Sustainable Development Goals (SDGs) eight and nine: Decent Work and Economic Growth; and Industry, Innovation, and Infrastructure, respectively.
- 3.3 It is envisioned that the lessons learned in projects supported in El Salvador, or elsewhere in the region, on similar topics, may be shared, provide inputs, and accelerate the process of implementing the intervention. In this area, the following projects may be instructive: CUBO (BR-T1403), Inclusive Innovation, Civic Participation, and Youth Social Entrepreneurship (ES-T1281), Impact Hub (RG-T2903), Startup Ignition Bootcamp (RG-T3526), fAIr LAC, etc.

B. Scalability

- 3.4 The early participation of Grupo AGRISAL as a business sector partner will facilitate project scaling at the regional level, supported by its presence in Central America and its market recognition as a pioneer in key economic development initiatives in countries where the group does business. The project will also develop an inclusive data lake platform for use by residents and businesses, initially in the 14 departments of El Salvador, particularly Santa Ana and San Miguel, then rolled out to other countries in Central America, which will benefit from the establishment of wider-reaching business challenges, where the potential IDB Group actor that can support this project's scale-up is IDB Invest.
- 3.5 In order to make startups better known, strengthen ties to investors, and help the innovation ecosystem get established, SNBX will hold innovation events to promote an innovation culture in the country. It will also run showcases, pitch nights/demo days, accompanied by an investment/investor readiness education program to help entrepreneurs achieve better economic growth outcomes. These activities will be planned to influence specific external audiences to help consolidate project outcomes.

C. Project and institutional risks

- 3.6 The **weak business innovation culture and lack of awareness of open innovation processes** widespread among private businesses in the country could hold back the mobilization of financial resources to support ventures taking on the challenges planned under the project. This makes knowledge transfer from international actors central to development of this initiative; key actors such as CUBO in Brazil (IDB Lab project BR-T1403), the Microsoft Innovation Center in Chile, or Ciudad del Saber in Panama have been taken into account to foster an exchange of experience between these entities and SNBX San Salvador so as to capitalize on the lessons learned and strengthen the innovation hub business model.

- 3.7 The **economic crisis triggered by the COVID-19 emergency** may also put a brake on investment in some industries. One execution strategy should be to turn this crisis into a growth opportunity for partner companies.
- 3.8 The **country's technology gap remains an unresolved challenge** and may constrain progress of the intervention. Therefore, from the outset, a strategic partnership is being forged with Microsoft to harness its wealth of available technologies to make it part of the services the executing agency and its partners provide to startups and the ecosystem.
- 3.9 The use of a **data lake as a digital tool to leverage tech startups and ventures will be an innovative element in El Salvador** and the region, and it is likely that the lack of a specific legal framework will result in a degree of resistance from the ecosystem. To address this, the executing agency and its partners will base their approach on international data-protection standards (such as those applied in the European Union), and the Principles for Digital Development. They will also be supported by a solid legal advisory team¹⁹ (through contracts and/or agreements) to bolster confidence and ensure the confidentiality of the data used to develop solutions.
- 3.10 The integrity and institutional capacity assessment of the executing agency, which found no potential risk indicators, is included in the technical file. Project risks will be analyzed by the executing agency (see Chapter V) and the Bank to produce semiannual updates of the project status report.

IV. INSTRUMENT AND PROPOSED BUDGET

- 4.1 The total cost of the project is US\$1,535,800, of which US\$782,500 (51%) will be contributed by IDB Lab, with US\$753,300 (49%) in counterpart funding. The financial instrument used by IDB Lab is nonreimbursable technical-cooperation funding.

Summarized project budget

Project components	IDB Lab (US\$)	Counterpart		Total (US\$)
		In Cash (US\$)	In Kind (US\$)	
Component I: Leveraging data to catalyze corporate ventures	363,400	558,500	29,000	950,900
Component II: Startup strengthening and acceleration	202,500		8,000	210,500
Component III: Generating the conditions for financing innovation and entrepreneurial growth	70,000			70,000
Project administration	111,600	39,600	118,200	269,400
Evaluations	20,000			20,000
Contingencies	15,000			15,000
Grand total	782,500	598,100	155,200	1,535,800
% of financing	51%	39%	10%	100%

¹⁹ Provided by Grupo AGRISAL as part of the counterpart contribution shown in the Project Budget Administration.

V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Description of the executing agency

- 5.1 SEED S.A. de C.V., SEED entrepreneurship center, an acknowledged leader in the entrepreneurship community and the Salvadoran ecosystem, will be in charge of project execution and will promote the linkages with startups, entrepreneurs, large corporates, and public entities.
- 5.2 SEED COMMUNITY, S.A. de C.V., began operations in April 2018, using the coworking space model to create a community of entrepreneurs and innovative professionals working together to develop their ideas and grow their businesses. It opened its second coworking space in January 2019, taking a more corporate approach, based in FUSADES (a Salvadoran think tank located in Santa Elena). It plans to open two new coworking spaces in Zona Rosa (San Salvador) and Guatemala, with the name Seed XPO. One of the most important pillars is its community of entrepreneurs, who are firm believers that being part of a collaborative community gives its members a major competitive advantage.
- 5.3 SEED will have two strategic partners from the private sector, one being Grupo AGRISAL, a corporation founded in 1906 as a beverages manufacturer, which is currently divided into three business units: (i) Agrisal Hotels (1958) with 10 hotels in six countries under the Crowne Plaza, Plaza & Suites, Holiday Inn, and Holiday Inn Express brands; (ii) Agrisal Automotores (1980) with a major leasing business, RENSICA, and Star motors (Mercedes Benz); and (iii) Agrisal Inmobiliario (1999), engaged in development of corporate and commercial spaces, currently owning iconic office and commercial properties, such as WTCSS, Torre Futura, Plaza Futura, and Plaza Mundo in San Salvador, and Plaza Tempo in Costa Rica. The latter is the division that will be most closely linked to the implementation of this initiative.
- 5.4 The executing agency is also partnered with INNBOX, LTDA. de C.V., a consulting firm formed in 2015 by a multidisciplinary group of professionals and experts in innovation, technology, design, digital manufacturing, and business who are bringing to bear their know-how to develop a platform making innovation accessible to the local ecosystem. This will be implemented primarily through three types of service: workshops, innovation projects, and specialized technical advisory services in four strategic sectors (business, institutional, educational, and creative). One of this entity's strengths is its networks. It has a team of national and international consultants such as Fablab Millennium Project and Riber, which the project will be able to draw upon to strengthen its value proposition.
- 5.5 Planned coordination and relations with these partners will be as follows: (i) a contract and/or collaboration agreement will be signed with Grupo AGRISIL for the physical construction of the San Salvador Sand Box (SNBX) and promotion of linkages with the group's large corporates and open innovation processes; and (ii) a partnership agreement will be signed with INNBOX, LTDA. de C.V., whose intellectual capital and networks will strengthen the project's value proposition, and the achievement of the defined outcomes and impacts.²⁰

²⁰ A collaboration with ANDE (Aspen Network of Development Entrepreneurs), which is coordinating pilot initiatives to develop entrepreneurial ecosystems in Central American countries, is also being considered, as it would generate significant knowledge on the topic.

- 5.6 It will also promote a partnership with the Salvadoran Ministry of the Economy, which has expressed a formal interest in becoming a strategic partner in the project, specifically through its Innovation and Quality Department (DICA), and synergies will be pursued for active participation in open innovation processes in public sector entities.
- 5.7 To coordinate these and other potential actors that may join during execution, an operations coordination committee will be set up, as a mechanism for organizing, coordinating, and governing the participating entities. The committee's governance and regulations will be set out in the project work plan.

B. Implementation structure and mechanism

- 5.8 SEED will set up a project execution unit and the necessary structure to execute the project activities and manage the project resources effectively and efficiently. SEED will also be responsible for delivering project status reports. Details on the structure of the executing unit and the requirements for project status reports can be found in Annex V of the technical files for this operation.
- 5.9 SEED will sign a working partnership agreement with Grupo AGRISAL and INNBOX as the main project partners in resource mobilization for the ventures implemented and the linkage between the first innovation hub (which is a space for learning, designing, testing, and connecting) and this space, dubbed SNBX, located in a building owned, managed, and maintained by Grupo Agrisal. Meanwhile, the project will look for a supplier/partner to develop the data lake platform (i.e. a repository of unstructured data), which will be the launchpad for the challenges involving startups and private corporations, which will identify funders and partners to support resource mobilization. They will also seek partnerships with top-level academic institutions, NGOs, the public sector, and others, to build resilience into the country's innovation ecosystem.²¹

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will commit to the standard IDB Lab arrangements concerning results-based disbursements, procurement, and financial management, as specified in the technical file. Project disbursements will be subject to verification of fulfillment of the milestones, in accordance with the means of verification agreed by the executing agency and IDB Lab (the preliminary milestones agreed are set out in the project technical file). Fulfillment of milestones does not exempt the executing agency from the responsibility of meeting the logical framework indicators and project objectives.
- 6.2 Under the risk- and performance-based project management modality, the project disbursement amounts will be determined in accordance with the project's liquidity needs, estimated for a maximum period of six months. These needs will be agreed on by IDB Lab and the executing agency and will reflect the activities and costs programmed in the annual planning exercise. The first disbursement will be subject to fulfillment of conditions precedent and subsequent disbursements will be made provided that the following two conditions are met: (i) verification by IDB Lab that

²¹ Including the Escuela Superior de Economía y Negocios (ESEN), Universidad Gerardo Barrios de San Miguel (UGB), among others that have expressed interest.

milestones have been fulfilled, as agreed in the annual planning document; and (ii) the executing agency has justified at least 80% of cumulative advances of funds.

- 6.3 **Procurement.** Except as otherwise determined by the Bank during execution, the executing agency's policies will be used for procurement. An annual plan indicating the necessary procurement for project execution and fulfillment of milestones will be submitted each year, together with the annual work plan. IDB Lab will conduct ex post reviews of technical considerations only for those procurements that in its judgment warrant such review.

VII. INTELLECTUAL PROPERTY

- 7.1 The Bank will retain ownership and control of any and all intellectual property rights, including but not limited to copyright, in relation to and/or associated with all deliverables to be developed, i.e., specialized technical assistance; study of trends, studies on alternative financing instruments for the sector; and studies of modalities of recording/use of intellectual property in the sector, or other similar studies relevant to the project.