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MULTILATERAL INVESTMENT FUND

URUGUAY

**TRANSFORMING URBAN SERVICE DELIVERY THROUGH
PRIVATE INNOVATION**

(UR-T1224)

DONORS MEMORANDUM

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CONTENTS

PROJECT SUMMARY EXECUTIVE SUMMARY

I.	PROBLEM AND OPPORTUNITIES	1
A.	Analysis of the problem to be addressed	1
II.	THE SOLUTION	3
A.	Project description	3
B.	Project beneficiaries	4
C.	Project components	4
D.	Project impact, monitoring, and evaluation	6
III.	PROJECT ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND RISKS	7
A.	Alignment with the IDB Group	7
B.	Scalability	8
C.	Risks	9
IV.	COST AND FINANCING	10
V.	PROJECT PARTNERS AND IMPLEMENTATION STRUCTURE	10
A.	Description of the executing agency	10
B.	Implementation structure and mechanism	11
VI.	FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS	11
VII.	ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY	12

PROJECT SUMMARY

TRANSFORMING URBAN SERVICE DELIVERY THROUGH PRIVATE INNOVATION (UR-T1224)

Growth in our region's cities poses major challenges in the delivery of services to their inhabitants, particularly the most vulnerable, in terms of access, affordability, and quality. As the document *Inclusive Cities* (document [MIF/GN-238](#)) points out, urbanization and climate change have brought strong pressure to bear on the capacity to deliver good-quality and resilient services in the areas of housing, mobility, energy, water and sanitation, waste management, and telecommunications.

At the same time, citizens are better informed and connected today, and the advance of digital technologies has increased service delivery expectations. In particular, citizens want greater control and participation and differentiated, personalized services. Women are one of the main groups affected by the quality of these services, given their responsibilities for providing care or the division of labor in the household.

In Uruguay, urban services are mainly provided by public institutions that generally face restrictions or obstacles to incorporating innovations. The main problems in incorporating innovations into essential urban services include: (i) the difficulties encountered by public essential urban service providers (PEUSPs) in identifying problems and challenges, engaging in technology prospecting and oversight, and holding a dialogue with the market to communicate challenges and identify potential solutions; (ii) the difficulties in attracting universities, research, development, and innovation (RD&I) centers, and innovators to address the challenges facing PEUSPs; and (iii) the small, fragmented market coupled with the uncertainty in innovation processes that leads to scant private sector participation in total spending on RD&I.

In light of the problem described, the project proposes to improve access in terms of the quality and affordability of urban services for citizens by tapping new knowledge and technologies through open innovation mechanisms to benefit the public, with a focus on the vulnerable population.

This project has three lines of action: (i) to promote demand for innovation by the institutions responsible for delivering urban services; (ii) to inform innovators about the business opportunities that could stem from developing solutions jointly with service providers; and (iii) to reduce the financial risk associated with innovation for the suppliers of services and the suppliers of solutions. It is hoped that this first pilot project will help to improving access to and the affordability of essential basic services for 200,000 vulnerable households, 50% of which are headed by women. This will be made possible through co-developed proposals to upgrade four essential services, in the process of implementation by PEUSPs and at least 60 private innovators.¹ Examples could involve better waste management in periurban zones, systems to optimize building maintenance in centers for early childhood care used by low-income families, better connectivity in rural areas, or new housing for people with disabilities to increase their independence, etc.

The executing agency will be the Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency] (ANII), the leading actor in implementing science, technology, and innovation policies and programs.

¹ Each of these pilot projects is expected to originally impact an average of 50,000 households.

ANNEXES

Annex I	Results Matrix
Annex II	Summary Budget
Annex III	iDELTA

APPENDICES

Proposed resolution

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

Annex IV	Itemized budget
Annex V	Diagnostic needs assessment of the executing agency (DNA)
Annex VI	Procurement plan
Annex VII	Table of preliminary milestones

ABBREVIATIONS

ANII	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency]
IDB	Inter-American Development Bank
IDB Lab	Multilateral Investment Fund
PEUSPs	Public essential urban service providers
RD&I	Research, development, and innovation

URUGUAY
TRANSFORMING URBAN SERVICE DELIVERY THROUGH
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EXECUTIVE SUMMARY

Country and geographic location:	Uruguay		
Executing agency:	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency] (ANII)		
Focus area:	Inclusive cities/essential services		
Coordination with other donors/Bank operations:	The project complements the technical cooperation project led by the Competitiveness, Technology, and Innovation Division (CTI) on Promoting innovation in Latin America through best practices and public procurement policies (RG-T3389), which is building public capacity to implement public procurement mechanisms that spur innovation in companies while simultaneously improving the delivery of public goods and services in Uruguay.		
Direct and indirect beneficiaries:	The beneficiaries will be 200,000 vulnerable households that will have better access to services in terms of quality and affordability, at least 50% of which will be headed by women; 400 employees of public essential urban service providers (PEUSPs) who will have increased awareness of the advantage of using open innovation, 50% of whom will be women; and 60 innovative companies or other organizations in the RD&I system that propose solutions to public challenges, 30% of which will have female co-founders on their teams.		
Financing:	Nonreimbursable technical-cooperation funding:	US\$780,000	41%
	Counterpart:	US\$1,122,100	59%
	TOTAL:	US\$1,902,100	100%
Execution and disbursement period:	36 months for execution and disbursement.		
Special contractual conditions:	The following will be conditions precedent to the first disbursement: (i) submission of the annual work plan together with its milestones; and (ii) selection of the ANII facilitator who will be responsible for this line of work with the PEUSPs.		
Environmental and social impact review:	This operation was evaluated and classified in accordance with the requirements of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703) on 28 October 2019. Since the project's impacts and risks are limited, it was classified as a category "C" operation.		

I. PROBLEM AND OPPORTUNITIES

A. Analysis of the problem to be addressed

- 1.1 Growth in our region's cities poses major challenges in the delivery of services to their inhabitants, particularly the most vulnerable, in terms of access, affordability, and quality. As the document Inclusive Cities (document [MIF/GN-238](#)) points out, urbanization and climate change have brought strong pressure to bear on the capacity to deliver good-quality and resilient services in the areas of housing, mobility, energy, water and sanitation, waste management, and telecommunications.
- 1.2 At the same time, citizens are better informed and connected today, and the advance of digital technologies has increased service delivery expectations. In particular, citizens want greater control and participation and differentiated, personalized services that respond to their needs. Women are one of the main groups affected by the quality of these services since they are more dependent on them, given their responsibilities for providing care or the division of labor in the household.
- 1.3 In Uruguay, these services, including water and sanitation, energy, housing, waste management, health, and telecommunications, are mainly provided by public institutions called public essential urban service providers (PEUSPs). PEUSPs lag behind in incorporating innovations. Bommert (2010) points out that: *"there is a need for a new form of innovation in the public sector because bureaucratic (closed) ways of innovating do not yield the quantity and quality of innovations necessary to solve emergent and persistent policy challenges."*²
- 1.4 The main obstacles to promoting the incorporation of innovation in essential urban services include:
 - a. **Capacity of the PEUSPs.** The difficulties encountered by PEUSPs in identifying problems, engaging in technology prospecting and oversight, and holding a dialogue with the market to communicate challenges and identify potential solutions. This is compounded by their lack of capacity to identify requirements in functional terms and to evaluate offers according to the life cycle of the product. Procurement officers are understandably reluctant to run the risk of buying goods or services that do not exist as yet or whose existence is uncertain. Their main objective is to ensure that the most tested and reliable product is procured even though it may not be the most suitable for solving the identified challenge. Although Uruguay has developed a legal framework that facilitates the procurement of innovation (Presidential Decree regulating Public Procurement for Development), there is still no experience in putting it to use.
 - b. **Attraction of innovators.** The difficulties in attracting organizations engaged in the RD&I system and innovators to address the challenges faced by PEUSPs, particularly academia, high-tech startups, and innovative SMEs. This is due to different factors, such as the requirements governing linkage with the public sector and selling to it; the lack of room in regulatory frameworks to accommodate testing; public sector payment mechanisms that

² [The purpose of public sector open innovation](#) (Pedersen, 2019).

give the impression that it is a bad payer; and the need to wait until the good procured is incorporated into the procurement plans for the following year.

- c. **Market size and uncertainty in innovation processes.** Despite the many public policy efforts, Uruguay invested 0.49% of GDP in R&D in 2017,³ which is still considerably lower than in countries that are successful in RD&I production. For example, in the OECD countries the figure was 2.3% in 2017.⁴ Just 26.8% of spending on RD&I comes from the private sector.⁵ One of the explanations for this low private share of total spending is the limited size of the market and the uncertainty implicit in innovation processes. In this kind of market for innovation, public sector demand is normally a highly dynamic factor if the capacity exists and the regulatory framework permits.
- 1.5 The problem and the above-mentioned causes have resulted in a major failure of coordination between demand for innovation and the supply of solutions, which has a negative impact on more dynamic development of the innovation ecosystem, specifically the incorporation of innovation by PEUSPs.
- 1.6 IDB Lab and the IDB Group have supported Uruguay over the last 18 years in developing innovation policies, ranging from horizontal market interventions in the form of RD&I subsidies, to other supports such as incubation and acceleration services, seed capital, and venture capital. The course of events has prioritized companies as generators of knowledge incorporated into new products and processes, assuming that demand for such innovations exists. This ignores the fact that innovation stems from the interaction between producers and users and that pioneer users are just as important as pioneer producers.
- 1.7 Specifically, open innovation, by tapping the innovative capabilities and capacity of the entrepreneurial infrastructure and academia, is a more efficient facilitator of the co-development of solutions for users.
- 1.8 The public sector is a key component in the demand for local innovation and it can, under certain conditions, play the role of pioneer user. Today there is growing interest in the potential of the public sector (including public companies) for stimulating demand for innovative products and services, creating incentives for business innovation, and accelerating the dissemination of new technologies. At the same time, the public sector is also increasingly interested in exploring new mechanisms for interaction with the supply of knowledge and innovative companies for the explicit purpose of adopting innovations that enhance the effectiveness and efficiency of the public goods and services it provides.
- 1.9 Given the relevance of PEUSPs in Uruguay in the delivery of quality services, incorporating open innovation into these institutions is a key first step in generating lessons that can later be extended to other central and departmental government agencies. This would involve establishing an agenda of challenges that could be solved through innovative developments by entrepreneurs and companies in the country, followed by the selection of the most promising solution, providing financing to implement prototypes, with adequate monitoring of the execution of

³ ANII, Portal Prisma, <https://prisma.org.uy/eportal/web/anii-prisma/principales-indicadores>.

⁴ <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>.

⁵ ANII, Portal Prisma <https://prisma.org.uy/eportal/web/anii-prisma/inversion-por-moneda>.

such projects. This is important because open innovation facilitates more efficient co-development of solutions for users by tapping the innovative capabilities and capacity of the entrepreneurial infrastructure and academia.

II. THE SOLUTION

A. Project description

- 2.1 The general object of the project is to improve citizen access to urban services in terms of quality and affordability by incorporating technologies based on open-innovation mechanisms to benefit the public, with a focus on the vulnerable population.
- 2.2 To achieve this objective, the project has three lines of action: (i) to promote demand for innovation by the institutions responsible for delivering urban services in the areas of housing, mobility, energy, water and sanitation, waste management, and telecommunications; (ii) to inform innovators about the business opportunities that could stem from developing solutions jointly with service providers; and (iii) to reduce the financial risk associated with innovation for the suppliers of services and the suppliers of solutions.
- 2.3 **Innovation.** The project is the first to work with open innovation in PEUSPs supported by IDB Lab, and it will develop core capacity to bring the needs of the service providers closer to the innovative solutions that are continuously being developed by the private sector and the RD&I system, thereby creating new solutions, upgrading services, and making the entrepreneurship and innovation ecosystem in Uruguay more robust. The project will therefore be fundamental in integrating the country's innovation ecosystem with its public sector.
- 2.4 The term 'open innovation' appeared for the first time in 2003 in the book *Open Innovation*, by Henry Chesbrough. While the closed model of innovation focuses on internal development inside organizations, open innovation "is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology." Although Chesbrough focuses on technological development and private companies, governments can reap considerable benefits from the exchange of information and the joint construction of solutions with the private sector to everyone's advantage.
- 2.5 Different studies cited by Keld Pedersen in *The purpose of public sector open innovation (2019)* perceive open innovation as a way of making the public sector more open. It is a way to reach out and engage with citizens and other organizations in initiatives that can have a social impact and that cannot be dealt with by the public sector in isolation. The primary purpose of public sector open innovation is to plan, innovate, develop, recruit, improve, maintain, and optimize the exploitation of material and immaterial resources in domains outside public sector organizations.
- 2.6 The proposed project is also novel in that it will generate lessons on how to promote the innovation ecosystem in small economies, with the public sector acting as a pioneer user that promotes the development of solutions that do not exist on the national market by defining its needs based on functional or

performance requirements. The project will also make it possible to identify enabling factors that promote and bottlenecks that stand in the way of expanding innovation with open innovation mechanisms in the public sector.

B. Project beneficiaries

- 2.7 The project's beneficiaries are households that are current or potential users of essential urban services, who either do not receive them at present or who receive poor-quality services. Given their responsibilities for providing care or the division of labor in the household, **women** will be the main beneficiaries of better services, particularly women heads of households, who suffer most when services fail since they depend on them as caregivers for children, the elderly, and the sick.
- 2.8 Preferences for location and service priorities differ between men and women, which is why improvements in essential urban services could favor women more. For example, a recent report by the International Labour Organization indicates that limited access to transportation and safe transportation is one of the main barriers encountered by women to joining the workforce. Moreover, preferences for housing location do not just depend on income but also on household responsibilities. For example, young mothers sacrifice housing ownership and quality to live in more central and accessible areas that allow them to manage their many responsibilities and reduce their insecurity. In energy and sanitation, precarious access to these services can have a disproportionate impact on women, given their roles as caregivers at home or their greater reliance on such services, etc.
- 2.9 Other beneficiaries will be private sector solution providers or members of the RD&I system whose first buyers are PEUSPs, which will validate their products, demonstrate the results, and eventually lead to their scale-up.

C. Project components

Component 1: Activation of demand for innovation by PEUSPs (IDB Lab: US\$103,400; Counterpart: US\$164,000)

- 2.10 The **objective** of this component is to spark the interest of PEUSPs in open innovation mechanisms. The project's success depends on obtaining real innovation challenges for them and their users and creating an environment for testing the solutions.
- 2.11 The **activities** to be carried out by the executing agency include: (i) raising awareness of the use of open innovation mechanisms to improve urban services through solutions that are not yet available on the market but which could be developed within a reasonable time frame (the objective is to reduce the perception by PEUSPs of the risks or higher costs of open innovation, which is why activities will be conducted such as workshops and the development of communication materials about success stories in other countries; this activity will also make it possible to identify which PEUSPs will facilitate communication of the challenges as well as their execution); (ii) technology prospecting for PEUSPs (e.g., technology visits, participation in trade missions, sector prospecting studies to learn about trends, thereby becoming proactive clients with greater capacity to find solutions to their needs); (iii) strengthening the innovation, procurement, and other areas of PEUSPs to enable them to permanently engage in exercises to

identify opportunities for improvements (e.g., training in design thinking, nimble methodologies, etc.); and (iv) establishment of systems of incentives for innovation in the PEUSPs (e.g., through internal ideas competitions that reward outstanding teams).

- 2.12 The expected outputs of these activities are: (i) 15 PEUSPs with heightened awareness of the benefits of using open innovation mechanisms; (ii) eight PEUSPs holding internal ideas competitions; and (iii) three strengthening workshops.

Component 2: Promotion of the supply of innovation to address the challenges faced by PEUSPs (IDB Lab: US\$61,600; Counterpart: US\$13,000)

- 2.13 The **objective** of this component is to encourage private sector participation in the open innovation exercises of PEUSPs.

- 2.14 The **activities** to be developed by ANII include: (i) raising awareness among innovative companies of opportunities for working with PEUSPs (covering potential demand and the procurement requirements of PEUSPs, etc.); (ii) legal, technical, and commercial advisory support for innovative companies through the contracting of specialized services; and (iii) strengthening the portal that channels the challenges faced by PEUSPs to the innovation and entrepreneurship ecosystem.

- 2.15 The expected outputs of this activity are: (i) 100 innovative companies with heightened awareness of opportunities for working with PEUSPs; (ii) advisory services established; and (iii) the portal www.desafios.uy redesigned.

Component 3: Financing for the pre-commercial stage (IDB Lab: US\$552,000; Counterpart: US\$756,000)

- 2.16 The **objective** of this component is to promote the pilot testing of new solutions to improve essential services.

- 2.17 The **activities** to be developed by ANII include: (i) support in defining the challenges to promoting participation by high-tech startups, innovative SMEs, and organizations in the RD&I ecosystem in the process of solving the challenges (including an explicit definition of the challenge to be solved, supported by tools for addressing the problem that include **mandatory attention to vulnerable households, gender equity, and environmental sustainability**, selection criteria and participation in the challenge, time frames, the evaluation process, and selection of solutions); (ii) financing of the prototypes to be tested on a small scale and in a controlled environment (sandbox), which will facilitate the identification of obstacles, measurement of results, and understanding of how they can be scaled up; (iii) cofinancing of projects for the linkage of academic and R&D institutions with PEUSPs (partnerships); (iv) design of a proposal for financial sustainability to provide funding to enable the PEUSPs to assume the risk of prototype development and provide certainty for the institutions providing solutions that timely funding will be available; (v) initial implementation of the prototypes (supported by advisory services for the buyer in areas such as intellectual property rights or functional specifications of challenges); and (vi) a study of the lessons learned and a proposal for improvements to the public procurement regulatory framework, also taking account of the need for adjustments to facilitate scaling up of the proposed solutions.

- 2.18 The expected outputs of these activities are: (i) six public innovation challenges launched; (ii) six prototypes financed; (iii) a project involving a partnership with an academic institution financed; (iv) a mechanism for financing prototypes designed, with clear reimbursement criteria subject to the success of the prototype; (v) the prototype financing fund is funded;⁶ and (vi) a study of lessons learned and a proposal for improvements to the public procurement regulatory framework developed considering the program on this issue, with support from the IDB.

D. Project impact, monitoring, and evaluation

- 2.19 The promotion of open innovation among PEUSPs will make it possible to upgrade the services they deliver as well as to develop private innovation using procurement by these institutions. In particular, the project is expected to improve coordination between suppliers and purchasers, consolidate internal demand for RD&I, and significantly reduce market uncertainty for the innovative private sector.
- 2.20 The project's main expected outcomes are: (i) 200,000 households with better access to services in terms of quality and affordability, with 50% of those households headed by women; (ii) six PEUSPs participating in challenge mechanisms; (iii) four essential services with a proposal for improvements developed (preimplementation); (iv) 400 PEUSP employees with heightened awareness of the advantages of using open innovation, 50% of whom are women, (v) 60 innovative companies or other organizations in the RD&I system proposing solutions to public challenges, 30% of which have women cofounders; and (vi) more than 3,000 annual visits to the challenges portal.
- 2.21 **Project monitoring and evaluation.** ANII's Monitoring and Evaluation Unit will be responsible for project monitoring activities, using the indicators in the results matrix as a frame of reference, disaggregated by gender when warranted. A monitoring and evaluation plan—to be presented at the launch workshop—will be developed to capture information on project activities that will establish a starting point or baseline with indicators, and provide for a final report that will produce evidence to validate the initial hypothesis. The monitoring plan will include surveys and data from, for example, report by companies that provide solutions or from the PEUSPs themselves.
- 2.22 ANII will produce a knowledge product that will describe the stages in the process, the lessons learned, and best practices, which will be an important input for scalability and proposals to improve the regulations of the law governing innovative public procurement. This knowledge product will answer the following questions: *Has open innovation been an effective way of connecting with citizens and other organizations in initiatives that can have a social impact and that cannot be addressed by the public sector alone? Have women as heads of households benefitted from the innovation processes? Have the awareness raising activities and incentive programs made the PEUSPs more likely to incorporate open innovation processes? Has participation by ANII—as the lead institution in the entrepreneurial ecosystem—created confidence among private actors in offering solutions? Has the existence of financing been an element in reducing the risk for participating PEUSPs and for private actors? How can open innovation processes*

⁶ This fund will be funded pursuant to the recommendations arising from the design of the financial sustainability proposal and will be allocated to ANII to ensure the sustainability of this line of action.

be coordinated with application of the Law on Public Procurement for Development? What difficulties had innovative companies previously encountered in becoming involved in providing solutions for PEUSPs?

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

A. Alignment with the IDB Group

- 3.1 The project is aligned with the **Second Update to the Institutional Strategy** ([document GN-2933-5](#)) which strengthens the IDB Group's emphasis on promoting productivity through the adoption of technology and innovation, incorporating the crosscutting themes of climate change and environmental sustainability, and gender equality and diversity.
- 3.2 The project is aligned with the **IDB Country Strategy with Uruguay 2016-2020** ([document GN-2836](#)) in the priority area of boosting "productivity and competitiveness by promoting innovation" and the strategic objective of promoting business innovation. It also complements the technical cooperation project **Promoting innovation in Latin America through best practices in public procurement policies (RG-T3389)**, which, through the Competitiveness, Technology, and Innovation Division, is supporting strengthening of public capacity to implement public procurement arrangements that spur innovation by companies while simultaneously improving the delivery of public goods and services in Uruguay.
- 3.3 Uruguay offers an ideal venue for exploring ways of promoting open innovation in the public sector on account of its low levels of corruption⁷ and the high technical capacity of its public employees.⁸ The size of the country is also an asset for testing new innovations linked to the delivery of public services.
- 3.4 The rationale for mobilizing innovation to benefit the services provided by PEUSPs meshes well with the policies to boost the efficiency of public spending in a context of constant pressure to do more with less in a framework of transparency and accountability to the citizenry.
- 3.5 The project is aligned with the **Innovation, Science, and Technology Sector Framework Document** (document [GN-2791-8](#)) in the promotion of public policies that directly foster business innovation, prioritize activities with the largest direct impact on productivity and competitiveness, while generating externalities, and encompass broader needs and demands through different mechanisms that facilitate social innovation. To prioritize activities with the PEUSPs, consideration will also be given to the strategic guidelines established in the Urban Development and Housing, Climate Change, Energy, Water and Sanitation, and Transportation Sector Framework Documents.

⁷ Uruguay is the best positioned country in this respect in the region.

⁸ Uruguayan public servants have a higher professional level than the regional average (Latin American and Caribbean Economic System, 2014).

- 3.6 The project is aligned with the **Sustainable Development Goals** (SDGs), particularly with: (i) SDG 5, Gender Equality; (ii) SDG 9, Industry, Innovation, and Infrastructure; (iii) SDG 11, Sustainable Cities and Communities; and (iv) SDG 17, Partnerships for the Goals.
- 3.7 The operation falls under IDB Lab's **Inclusive Cities** thematic area (document MIF/GN-238), since it is consistent with the objective of improving the quality and affordability of uninterrupted (resilient) essential urban services, incorporating technologies and new business models.
- 3.8 In addition, for IDB Lab, this project will generate lessons on how to promote innovation in smaller developing economies and ecosystems similar to Uruguay's.

B. Scalability

- 3.9 In the initial phase, four success stories are anticipated (in which the tested prototype demonstrates positive results) that can serve as examples for other public institutions that deliver essential urban services, and generate confidence and higher demand for this instrument. To facilitate the scaling of open innovation in the public sector, the project's success stories and lessons learned will be highlighted to reduce the perception of risk among relevant actors when it comes time for other government agencies to address new innovation challenges.
- 3.10 After the project has ended, it is expected that ANII will extend it to other public institutions not necessarily involved in the provision of services, but which also need to incorporate innovation. As part of the project and to facilitate the scaling of these innovation processes and the incorporation of innovation into the public sector, necessary modifications to the public procurement regulatory framework will also be identified.
- 3.11 By the end of the project, a mechanism will have been established to provide resources to enable PEUSPs to assume the risk of creating the prototype and make the institutions providing solutions confident that timely funding will be available.
- 3.12 ANII has a Conditional Credit Line for Investment Projects (CCLIP) with the Bank that provides a natural opportunity for incorporating these experiences into the next tranche. The content of the loan currently in execution has already been agreed upon by the Uruguayan government and the Bank and only includes horizontal instruments for innovation with companies. Through this pilot project, ANII seeks to extract lessons learned to be applied in the next tranche of the loan. In the future, more ambitious projects may be promoted that demand more sweeping instruments offered by ANII (implementation, Orestes Fiandra Fund, line of cofinancing, etc.).
- 3.13 Changes in the Bank's procurement policies to incorporate mechanisms that facilitate the acquisition of innovation in Bank-financed operations will open up more opportunities for scaling the project in other geographic areas.
- 3.14 The Bank's Competitiveness, Technology, and Innovation; Water and Sanitation, Transportation; Energy; and Housing and Urban Development divisions have expressed their interest in piloting innovations of this kind that can serve as a source of knowledge for their operations in Uruguay and on the regional level.

Integration of the project team with a multidisciplinary group of specialists is a good avenue for the project's dissemination and potential scaling up.

C. Risks

- 3.15 **Risk:** Open innovation processes generate a high perception of risk for the PEUSPs and their procurement offices that undermines their will to commit to the processes. **Mitigation measures:** Awareness raising and the activities of component 1 are highly important in this regard and the success stories will demonstrate that open innovation is not just possible in the public sector but beneficial as well.
- 3.16 **Risk:** Open innovation processes rely on the participation and contributions of institutions of different kinds which, a priori, do not share the same strategic objectives and as a result there may delays in project execution that could discourage participation by PEUSPs. **Mitigation measures:** A series of awareness raising activities and gradual mobilization will be undertaken to ensure that the project timetable is adjusted to the times required for participation by the different actors to mature. Project execution will not be guided by specific steps but by milestones that will lend flexibility to implementation and allow for changes to be made if the results are not as expected.
- 3.17 **Risk:** The response capacity of the local supply is low. In Uruguay and other countries of the region, innovation levels in the entrepreneurial fabric continue to be low, innovation networks are insufficiently developed, and technology centers that promote the development of highly innovative solutions rooted in a more entrepreneurial vision are nonexistent. **Mitigation measures:** Correction of these conditions is beyond the scope of the project. Nonetheless, since this risk could have an impact on scaling open innovation in other public sector institutions, the project will focus on working with sectors where the entrepreneurial fabric is more developed, such as information and communication technologies.
- 3.18 **Risk:** The PEUSPs are unable to overcome their perception of risk regarding innovative firms having the capacity to develop, maintain, and comply with the other requirements subsequent to implementation of the solutions they develop. **Mitigation measures:** Partnerships can be facilitated with companies with greater experience in developing solutions for the public sector so that they are the ones to effectively turn a prototype into a minimally viable product.
- 3.19 **Risk:** Generating scalable solutions to improve the quality of services is a challenge that must overcome public sector inertia and the scaling potential itself of prototype solutions. **Mitigation measures:** The project includes support for the initial implementation of prototypes with advisory services for the buyer in areas such as intellectual property rights, functional specification of challenges, and proposed improvements to the regulatory framework governing public procurement, also addressing the need for adjustments to facilitate the scaling up of prototype solutions.

IV. COST AND FINANCING

- 4.1 The project has a total cost of US\$1,905,100, with US\$780,000 (41%) to be provided by IDB Lab as a nonreimbursable contribution and US\$1,122,100 (59%) by the local counterpart (at least 50% of which will be in cash).

Expenditure category	IDB Lab	Counterpart	Total
Component 1. Activation of demand for innovation	103,400	164,000	267,400
Component 2. Promotion of the supply of innovation	61,600	13,000	74,600
Component 3. Financing for the pre-commercial stage	552,000	756,000	1,308,000
Project management ⁹	54,000	186,100	240,100
Notes to the financial statements		3,000	3,000
Contingencies	9,000		9,000
Total	780,000	1,122,100	1,902,100

V. PROJECT PARTNERS AND IMPLEMENTATION STRUCTURE

A. Description of the executing agency

- 5.1 The National Research and Innovation Agency (ANII) will be the executing agency for this project and will sign the agreement with the Bank. ANII is a public institution under private law whose objectives include the promotion of entrepreneurship and innovation in the private sector. In its 12 years of operation, it has financed over 700 innovation projects in the private sector for US\$45 million in open innovation processes. Its budget for the period was US\$280.5 million. ANII is a strong partner and is highly regarded by the business and entrepreneurial sectors.
- 5.2 ANII is the main actor in implementing science, technology, and innovation policies and programs. In that capacity, its activities are divided into four main lines: innovation, ventures, research, and training. ANII was established by Law 17930 of 2005 and is a relatively small and nimble institution today, with the capacity to efficiently execute resources to promote technical, scientific, and innovative capacity development with competitive allocation mechanisms.
- 5.3 ANII already has suitable, tested tools for supporting open innovation, in particular the Leonel Viera Fund for Public Sector Challenges, which, since its creation, has generated lessons learned that have been incorporated into the design of the proposed project, for example the need to strengthen the capacity of public enterprises, reduce innovation risk by establishing financial mechanisms, and the need for personnel working full time on this activity.¹⁰
- 5.4 ANII has executed the following sovereign-guaranteed loan operations: Technology Development Program II (2004/OC-UR); Program to Support Future Entrepreneurs (2775/OC-UR); the Innovation Program for Productive Development; and is currently executing the CCLIP and the loan for the Business Innovation and Entrepreneurship Program. It is also currently executing

⁹ The project management category includes US\$19,800 for the monitoring and evaluation team.

¹⁰ <https://www.anii.org.uy/apoyos/innovacion/118/desafios-del-sector-publico/>.

two IDB Lab technical-cooperation projects in the creative and logistics sectors, where the expected results are being attained, which have permitted ANII to demonstrate its technical leadership capacity and permanent quest for innovative solutions to effectively and efficiently reach the productive sector.

B. Implementation structure and mechanism

- 5.5 ANII will hire a facilitator and administrative technical assistant to execute the project. The person answerable to the Bank will be ANII's Operations Manager. ANII will support the physical structure and logistics needed to execute the operation efficiently and effectively. It will also be responsible for the counterpart needed to supplement the funds from the contribution to execute the activities. ANII will also be responsible for submitting semiannual status reports on project implementation through IDB Lab's project management platforms.
- 5.6 Although ANII is responsible for project implementation and execution, it will coordinate its activities closely with Transforma Uruguay (National System for Productive Transformation and Competitiveness).¹¹ ANII and Transforma Uruguay will meet every three months and their functions will include verifying project progress and making pertinent suggestions to improve its results. ANII will designate a person to act as secretary for the meetings.

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 The executing agency will commit to IDB Lab's standard arrangements for results-based disbursements and procurement and financial management policies applicable to the private sector, consistent with the provisions of the Financial Management Policy for IDB-financed Projects (document OP-273-12), version of 12 June 2019, and the Guide to management by milestones and financial supervision for the technical cooperation programs of IDB Lab and the Social Entrepreneurship Program.
- 6.2 The risk level determined by the diagnostic needs assessment of the executing agency (DNA) was low, since ANII has a financial management system acceptable to IDB Lab and a monitoring and reporting structure for submitting its institutional financial statements to the Bank.
- 6.3 Project **disbursements** will be subject to verification of fulfillment of milestones, using means of verification agreed on by the executing agency and IDB Lab. Fulfillment of the milestones does not exempt the executing agency from responsibility to comply with the agreed outcomes.
- 6.4 Unless the Bank determines otherwise during execution, the executing agency's **procurement policies** will be used. An annual procurement plan for project execution and information on fulfillment of milestones will be submitted together with the annual work plan. IDB Lab will perform an ex ante review of the technical aspects of procurement when warranted in its opinion, particularly for procurement considered critical.

¹¹ www.transformauruguay.gub.uy.

- 6.5 The executing agency will prepare its **annual financial statements** and make them available to the Bank. Funds from the Bank's contribution may be used to review the project's financial statements and use of funds, verifying financial and procurement practices.

VII. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 7.1 **Access to information.** The information contained in this document is classified as public upon approval under the Bank's Access to Information Policy.¹²
- 7.2 **Intellectual property.** The Bank will grant ANII the right to use the outputs and studies developed under this project nonexclusively, free of charge, and for noncommercial purposes. The intent is to ensure maximum dissemination of the lessons learned from the project in Uruguay and the region, where ANII is a relevant actor among innovation agencies. Open use can be made of these lessons learned and they may be freely adapted, reused, and implemented by other programs.
- 7.3 IDB Lab will reserve the right to scale up innovations of interest for its current strategy under other financing conditions.

¹² Link to the Bank's [Access to Information Policy](#).