

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

URUGUAY

INNOVATION FOR THE REACTIVATION AND RESILIENCE OF SMEs

(UR-T1245)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Ana Castillo (DIS/CUR) and Natalia Laguyás (LAB/IEN), Project Team Co-leaders; Pablo Angelelli (CTI/CUR); Sofía Harguindeguy Gerona (COF/CUR); Pablo Valenti (CSC/CSC); Lucas Figal Garone (DSP/DVF); Juan Pedeflous (FML/FOM); and Alexandra Hambrook (FML/FOM).

This document contains confidential information relating to one or more of the ten exceptions of the Access to Information Policy and will be initially treated as confidential and made available only to Bank employees. The document will be disclosed and made available to the public upon approval.

CONTENTS

PROJECT SUMMARY EXECUTIVE SUMMARY

I.	THE PROBLEM AND THE OPPORTUNITIES.....	1
A.	Diagnostic assessment of the problem to be addressed by the project.....	1
II.	THE SOLUTION	3
A.	Project description	3
B.	Project beneficiaries	5
C.	Components	5
D.	Project impact, monitoring, and evaluation	7
III.	ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND PROJECT RISKS.....	8
A.	Alignment with the IDB Group.....	8
B.	Scalability	9
C.	Project 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
C.	Fulfillment of milestones and special fiduciary arrangements	11
VI.	ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY	12

PROJECT SUMMARY

INNOVATION FOR THE REACTIVATION AND RESILIENCE OF SMES (UR-T1245)

To rein in the coronavirus, the spread of new infections needs to be cut off, and social distancing and mandatory quarantine measures can be effective ways of achieving this. Yet these measures are economically unsustainable for the productive sector in the medium and long run, due to declining demand and, by extension, lost income, difficulty obtaining inputs, restrictions on or a shortage of workers, obstacles to accessing finance, and productive processes that are poorly adapted to automation or remote operation.

Small and medium-sized enterprises (SMEs) are among the sectors that have been hit hardest by the measures taken to prevent the spread of the virus. Surveys of multiple SMEs in the Southern Cone reveal how COVID-19 has adversely affected SMEs in terms of sales (losses ranging from 58% to 79%), lower levels of production (between 39% and 81%), purchasing (from 26% to 29%), and operational continuity (around 50% were able to institute telework).

The first few months of the pandemic have made it clear that the initial response has been to safeguard people and companies as much as possible by ensuring access to financing and increasing the flexibility of tax and labor arrangements. Now, it has become increasingly clear that companies should resume operations, adapt to the “new normal,” and strategically build resilience. With the rapidly evolving landscape and in a context of crisis and uncertainty, there is an opportunity to promote the development of innovative solutions aimed at ensuring business continuity to weather the current shock from COVID-19 and building the resilience of key economic actors to future shocks.

In view of this, the proposed operation would promote innovation to reactivate SMEs and build resilience by mobilizing the local innovation ecosystem. To achieve this, the proposed intervention model entails: (i) identifying the problems related to economic reactivation and resilience that the business sector (production-oriented and services sectors) has to contend with, which would then become calls for solutions from the innovation ecosystem; (ii) developing specifications for challenges and implementing open innovation processes; (iii) financing innovative solutions; and (iv) linking solutions with the local and regional business and innovation sectors to promote the scaling up of solutions. Some examples of solutions could include: solutions that incorporate methods from behavioral economics or principles of the sharing economy *to overcome challenges related to mobility or use of public spaces*, solutions that develop new technological products for disinfection or construction materials that are easier to clean, safety and cybersecurity protocols, innovative fintech solutions to meet the demands of the business sector, and industry 4.0 solutions (automation of processes, 3D printing of intermediate inputs for production-related processes, new models that use artificial intelligence to predict demand or analyze supplier risk, etc.).

The expected contributions of this first pilot are as follows: (i) at least 50% of the beneficiary companies will have increased their resilience to future shocks; (ii) 15,000 companies will have adopted the solutions developed; (iii) 70% of the companies will have increased their spending on innovation; and (iv) 100 organizations will have participated in open innovation events as solutions providers.

The executing agency of this project will be the National Research and Innovation Agency (ANII), a key actor in the implementation of science, technology, and innovation programs and policies.

ANNEXES

Annex I	Results Matrix
Annex II	Summary Budget
Annex III	iDelta

APPENDICES

Draft resolution

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

Annex IV	Itemized Budget
Annex V	Diagnostic Assessment of Integrity and Institutional Capacity
Annex VI	Procurement Plan
Annex VII	Preliminary Table of Milestones

ABBREVIATIONS

ANII	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency]
CCLIP	Conditional credit line for investment projects
CTI	Competitiveness, Technology, and Innovation Division
SDG	Sustainable Development Goal
SMEs	Small and medium-sized enterprises

URUGUAY
INNOVATION FOR THE REACTIVATION AND RESILIENCE OF SMEs
(UR-T1245)

EXECUTIVE SUMMARY

Country and geographic location:	Uruguay		
Executing agency:	National Research and Innovation Agency (ANII)		
Focus area:	Knowledge Economy		
Coordination with other donors/Bank operations:	The project complements the work of the Competitiveness, Technology, and Innovation Division (CTI) and the Connectivity, Markets, and Finance Division (CMF), particularly operation UR-L1142, "Conditional Credit Line for Investment Projects (CCLIP) to Promote Innovation, Entrepreneurship, Human Capital, and Research;" operation UR-T1212, "Open Data Portal of the Uruguayan National Innovation System;" operation RG-T3310, "Creation of the Latin American Network of Innovation Agencies;" operation UR-L1115, "Financial Program for Productive Development II" (in process of being signed); and operation UR-L1171, "Global Credit Program for Safeguarding the Productive Fabric and Employment" (in preparation).		
Direct and indirect beneficiaries:	The beneficiaries of this project will be 100 organizations from the innovation ecosystem (companies, startups, and organizations from the research, development, and innovation sector) that develop solutions for economic reactivation and business sector resilience. The project will also benefit at least 15,000 small and medium-sized enterprises (SMEs) that potentially adopt the innovative solutions developed for their reactivation or for enhancing their resilience.		
Financing:	Non-reimbursable technical cooperation funding:	US\$850,000	50%
	Counterpart contribution:	US\$850,000	50%
	Total budget:	US\$1,700,000	100%
Execution and disbursement period:	36 months for execution and disbursement		
Special contractual conditions:	The conditions precedent to the first disbursement will be: (i) submission of the annual work plan and the milestone plan; and (ii) selection of the ANII coordinator who will be responsible for this line of work within the ANII.		
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 12 May 2020. Since the impacts and risks are limited, the proposed classification for the project is Category "C."		

I. THE PROBLEM AND THE OPPORTUNITIES

A. Diagnostic assessment of the problem to be addressed by the project

- 1.1 To rein in the coronavirus, the spread of new infections needs to be cut off, and social distancing and mandatory quarantine measures can be effective ways of achieving this. Yet these measures are economically unsustainable for the productive sector in the medium and long run, due to declining demand and, by extension, lost income, difficulty obtaining inputs, restrictions on or a shortage of workers, obstacles to accessing finance, and productive processes that are poorly adapted to automation or remote operation.
- 1.2 Small and medium-sized enterprises (SMEs) are among the sectors that have been hit hardest by the measures taken to prevent the spread of the virus. In the case of Uruguay in particular, recent surveys conducted by the Chamber of Industry (April 2020)¹ and the Chamber of Information Technologies (April 2020) found that over 85% of companies in the manufacturing and information technology sectors expect sales losses in the short term. Meanwhile, 30% of manufacturing companies are struggling to access inputs. With regard to human resources, approximately 50% of businesses have employees who have been affected by the public health crisis, though the share of employees who have been affected is low (less than 10%). Unsurprisingly, the number of employees who telework has increased considerably, reaching levels in excess of 90% in the information technology sector and 60% in manufacturing, despite the many challenges to telework in the latter (availability of equipment, connectivity, software, etc.). Many companies also have major liquidity problems, though this is less common among those that offer basic products that are in steadier demand (for example, food and beverages, medications, etc.).
- 1.3 After the declaration of the public health emergency in March, the Uruguayan government implemented a series of economic measures: it has increased the flexibility of tax and labor arrangements and facilitated access to financing to alleviate the financial situation of SMEs in the short and medium term, thereby lessening the shock.
- 1.4 For many organizations, especially those in industries where telework is not possible, the physical return to the workplace is a priority. If social distancing and full economic shutdown measures are lifted, the challenge will be finding ways to reassure workers about returning to the workplace and ensure that the physical return does not produce new epicenters of contagion. On that front, there is a need to implement suitable health monitoring and safety protocols, and new capacities for regularly evaluating employee health, changes to workplace layouts to limit group interactions, and cleaning and disinfection protocols are also required. There is also a need for new technologies and partners for testing, storing data, and identifying successful interventions that could then be used to train and communicate with the workforce more effectively.
- 1.5 All supply chains have been disrupted. The task at hand is to address these challenges while developing more resilient supply chains, carrying out stress tests

¹ Available at <http://www.ciu.com.uy/innovaportal/file/89871/1/encuesta-covid-19-industria---2020.03.%2030.pdf>.

to anticipate future disruptions to transactions between producers, and restoring the confidence of end consumers. Lastly, the behavior of end consumers has also changed, which has to be a key consideration. A variety of delivery channels, such as e-commerce and home delivery, should be developed. Since that is not possible in all sectors, the design and layout of stores also need to be changed to ensure social distancing in the long run.

- 1.6 Surveys of multiple SMEs in the Southern Cone reveal how COVID-19 has adversely affected SMEs in terms of sales (losses ranging from 58% to 79%), lower levels of production (decreases ranging from 39% to 81%), purchasing (from 26% to 29%), and operational continuity (around 50% were able to institute telework), with manufacturing companies hit harder than technology companies.²
- 1.7 The challenge launched by IDB Lab to search for solutions for the fight against COVID-19 confirmed that there is a robust local innovation ecosystem (startups, software and hardware development companies, makers, and scientists) that shows great promise for solving pandemic-related problems. However, most of the proposals submitted focused primarily on the public health emergency, and very few **contemplated opportunities associated with supporting the reactivation and resilience of businesses to help them contend with the various shocks or crises they may face.**
- 1.8 The **drivers** of this problem include the following:
 - a. Information asymmetries exist in terms of the local innovation ecosystem's knowledge of the needs of SMEs and challenges they face, particularly those associated with trying to resume operations while still dealing with COVID-19. In turn, SMEs are not aware of the opportunities that local innovators could offer. This is exacerbated in a context of change, such as the economic shock caused by the pandemic.
 - b. Solutions developed by the innovation ecosystem are normally designed for the government or large companies. The local innovation ecosystem does not consider SMEs to be major buyers of their solutions, despite the fact that SMEs contribute 40% of the gross domestic product (GDP).
 - c. Solutions providers see SMEs as a very heterogeneous market that requires solutions that are too niche and has meager absorption and payment capacity, which substantially increases the transaction costs of working with SMEs.
- 1.9 The problem is compounded by the fact that SMEs do not innovate on their own because they cannot retain the full benefit of that innovation (since knowledge is a public good).³ In other words, the market tends to fail (i.e. market failure) because other companies can obtain benefits from replicating or adopting those innovations. Furthermore, projects that would be appealing from a social standpoint (because of high social returns) might hold little appeal from a private

² G. Casaburi and A. Castillo (2020). *Propuesta operativa para apoyar las cadenas de valor en América Latina y el Caribe en el nuevo normal*. Inter-American Development Bank. Unpublished.

³ Knowledge is considered a public good because, once produced, it is hard to prevent others from using it, and use of knowledge by one person does detract anything from its potential use by others.

standpoint (they will not be pursued if the only consideration is private returns vs. private cost).

- 1.10 With the rapidly evolving landscape and in a context of crisis and uncertainty, there is an opportunity to promote the development of innovative solutions aimed at building the resilience of key economic actors to future shocks.
- 1.11 The first few months of the pandemic have made it clear that the initial response has been to safeguard people and companies as much as possible. Now, it has become increasingly clear that companies should resume operations, adapting their business models and facilities so they can operate and strategically build resilience. Facilitating business continuity to shocks like the one caused by COVID-19 could contribute to greater resilience to future shocks and help this business segment be in a position to better navigate uncertainty and complexity moving forward.

II. THE SOLUTION

A. Project description

- 2.1 The **general objective** of the project is to promote innovation to reactivate SMEs and build resilience by mobilizing the local innovation ecosystem.
- 2.2 To achieve this objective, the project will pursue three lines of action: (i) identifying demand for innovation; (ii) enhancing the supply of solutions; and (iii) making solutions available to the business sector.
- 2.3 Though business resilience is not a new issue, it is just now starting to be seen as a key consideration because of the COVID-19 pandemic. The growing impact of this unanticipated shock to the economy has reminded businesses of the need to prepare for the unexpected and be able to continue producing or providing services when such a disruption occurs. Being resilient entails durability, recovery capacity, and reinvention. Companies are currently focused on having a swift response for reactivation, but resilience also requires prevention, to reduce the likelihood that these disruptions occur or minimize their impact. Resilience may even also require reinvention of products and/or processes, or even of the business itself. In other words, resilience requires thinking about both the during and the after.
- 2.4 One example of this was illustrated in “Las empresas uruguayas post COVID-19. Innovación empresarial en productos y servicios” [“Uruguayan Companies After COVID-19: Business Innovation in Products and Services”], a study prepared by Opción Consultores (2020), which indicates that business resilience has taken off during the coronavirus pandemic, emerging with innovations that have manifested in various ways. Data from Opción Consultores (2020)⁴ indicate that 63% have been developing new products or services or bringing them to market since the public health crisis erupted.

⁴ Available at <https://www.elpais.com.uy/el-empresario/resiliencia-impulso-innovacion-pymes-locales-pandemia-hicieron.html>.

- 2.5 In its report, “Resiliencia empresarial: Respondiendo al COVID-19” [“Business Resilience: Responding to COVID-19”],⁵ EY identifies nine areas businesses can address to build a structured and comprehensive approach to crisis management and business resilience.



- 2.6 **Innovation:** This is the first IDB Lab project that addresses business resilience by engaging the private sector, innovative companies and startups, academic institutions, and other research and development centers, with their capacity for innovation, technology, and scale to generate a virtuous process of creating economic value, mitigating harm, and reducing vulnerability to COVID-19 and other shocks. This groundbreaking intervention proposes an approach that looks at the crisis and the chronic stress experienced by SMEs and sees new business opportunities for innovative companies.
- 2.7 The project will promote solutions that will help demonstrate the hypothesis that innovation is a path to reactivation and, above all, enhancing the resilience of the business fabric, complementing more traditional economic measures such as tax incentives, flexible labor arrangements, and financing facilities.
- 2.8 **Intervention model:** The intervention model entails: (i) identifying the problems related to economic reactivation and resilience that the business sector (production-oriented and services sectors) has to contend with, which would then become calls for solutions from the innovation ecosystem; (ii) developing specifications for challenges and implementing open innovation processes; (iii) financing innovative solutions; and (iv) linking solutions with the local and regional business and innovation sectors to promote the scaling up of solutions

⁵ Available at: https://www.ey.com/es_pe/covid-19/resiliencia-empresaria.

B. Project beneficiaries

- 2.9 The beneficiaries of this project are 100 organizations from the innovation ecosystem (companies, startups, and organizations from the research, development, and innovation sector) that develop solutions for the productive and services sectors (especially SMEs) that need to adapt their products, services, processes, and business models to the post-COVID-19 landscape and make them more resilient, which will find in the business sector a buyer for the product to test it, demonstrate its results, and ultimately scale it up. The selection criteria will follow the executing agency's standard guidelines.
- 2.10 The project will also benefit 15,000 companies in the productive and services sectors that will adopt the solutions developed by the 100 organizations from the innovation ecosystem described in paragraph 2.9 to improve their resilience in their various areas of operation, as well as the key actors in the business ecosystem (financial institutions, training providers, technology providers, innovative companies, technological institutions, etc.).
- 2.11 During the process of identifying demand (Component 1), priority will be given to those sectors that have pull over other economic sectors, be that due to quality employment, productive linkages, or foreign currency generation, as well as to sectors that play a role in green recovery.

C. Components

Component 1: Identifying demand (IDB Lab, US\$88,400; counterpart contribution, US\$9,900)

- 2.12 The **objective** of the component is to identify opportunities for innovation associated with reactivating and building the resilience of companies. To achieve this, the component seeks to work in conjunction with ecosystem actors and innovators to identify and coordinate the demands of the productive and services sectors and identify the most pressing needs.
- 2.13 The **activities** to be carried out include: (i) working meetings with leaders from various productive sectors, workshops, and other activities, in which participants will endeavor to identify opportunities for innovation for reactivation and resilience; (ii) surveys of demands using a nimble methodology that provides a comprehensive, multisector approach to resilience, harnessing existing groups and ecosystem actors (including chambers of commerce or business associations, giving priority to multisector groups), through support for consulting firms; and (iii) prioritization of demands based on such criteria as: alignment with project objectives, potential to impact as many businesses as possible, and solution scalability potential, with priority being given to labor-intensive sectors where the circulation of people is more important (such as trade or construction) and key economic sectors (food and beverages). Activities under this component, from identification to prioritization, will be carried out in conjunction with the private sector, at working meetings where ecosystem actors and innovators will participate.
- 2.14 The expected outputs of these activities are: (i) 100 companies will have participated in the demand identification exercise; and (ii) five areas of innovation for resilience will have been selected as priorities.

Component 2: Generating solutions/enhancing the supply of solutions (IDB Lab, US\$668,500; counterpart contribution, US\$617,500)

- 2.15 The **objective** of this component is to foster the development of innovative solutions for business resilience. The component's outcome will be the reduction of the information asymmetry between SMEs and the innovation ecosystem and the incorporation of SME demands in such a way that innovation capacity can be mobilized to bring new solutions to respond to emerging opportunities that are imperative for reactivation and resilience.
- 2.16 The solutions can be developed through open innovation events and/or presented directly by actors from the innovation ecosystem or the companies themselves.
- 2.17 The **activities** to be carried out include: (i) implementation of open innovation processes to address the five areas of innovation identified as priorities under Component 1. These processes will offer solutions not yet available on the market that, if adopted, will help companies increase their resilience, can be developed within a reasonable amount of time, and entail a co-development or co-creation component (in which one or several users and solution providers participate); (ii) implementation of a "window" for receiving proposals from innovators and companies; (iii) cofinancing for technical or commercial assessments and prototypes. These proposals should be innovative solutions for reactivation and resilience related to the demands identified as priorities. Priority will be given to those solutions that have the potential to be scaled up and expanded internationally. Solutions will be designed on a small scale, thereby providing an opportunity to identify obstacles, measure results, and understand how they can be scaled up; and (iv) activities to increase awareness in the innovation sector to heighten the visibility of existing business opportunities for the development of solutions for business resilience (covering such issues as demand potential and open innovation processes).
- 2.18 The expected outputs of these activities are as follows: (i) five open innovation processes will have been held to search for solutions; (ii) cofinancing will have been provided for 31 innovative solutions, 20 technical or commercial assessments, and 11 prototypes; and (iii) 500 individuals or institutions that can offer innovative solutions for economic reactivation and resilience will have heightened awareness.
- 2.19 Examples of solutions that could be developed include findings from experiments in behavioral economics or the sharing economy that *provide solutions for mobility or the use of public or other spaces*, sector-specific solutions with new technological products for disinfection or the development of construction materials that are easier to clean, safety and cybersecurity protocols, innovative fintech solutions to meet the demands of the business sector, and industry 4.0 solutions (automation of processes, 3D printing of intermediate inputs for production-related processes, new models that use artificial intelligence to predict demand or analyze supplier risk, etc.).

Component 3: Linkages and support for scaling up (IDB Lab, US\$45,400; counterpart contribution, US\$32,500)

- 2.20 The **objective** is to disseminate the developed solutions and link them to the local and regional entrepreneurial sector to support the scaling up of innovations.
- 2.21 The **activities** to be carried out include: (i) traditional dissemination activities with the entrepreneurial sector (workshops, meetings, and other activities); (ii) featuring solutions on ANII's connections platform, trama.uy, to make the supply of solutions available; and (iii) linking innovators with the local and regional innovation ecosystem and with other actors that can support the scaling up of solutions (local and regional venture capital funds, angel investor networks, partnerships with other economic actors or chambers of commerce, etc.).
- 2.22 The expected outputs of these activities are as follows: (i) 10 workshops, meetings, or other dissemination activities with the business sector will have been held; (ii) the developed solutions will have been featured on the trama.uy platform; (iii) 10 visits will have been made to investment forums to link innovators with the local and regional innovation ecosystem; and (iv) at least one partnership will have been established with a business/innovation institution in the region that is supporting innovation associated with business reactivation and resilience.

D. Project impact, monitoring, and evaluation

- 2.23 Promoting innovation as a response to shocks and as a resilience strategy will help improve the goods and services offered by SMEs and the development of private innovation in the country.
- 2.24 The following are the main expected outcomes of the project: (i) at least 50% of beneficiary companies will have increased their resilience to future shocks;⁶ (ii) 15,000 companies (SMEs) will have adopted the developed solutions; (iii) 70% of the companies will have increased their spending on innovation; (iv) 100 beneficiary organizations will have participated in open innovation events as solutions providers; (v) three solutions will have been linked to the local or regional business and innovation ecosystem to be scaled up; (vi) 50 companies will have applied for financing for innovative projects; and (viii) the number of visits to the designated landing page of the trama.uy portal will have surpassed 3,000 per year.
- 2.25 **Project monitoring and evaluation.** ANII's Monitoring and Evaluation Office, working with the project coordinator, will be responsible for carrying out project monitoring and supervision activities, using the agreed indicators from the results matrix as a reference. Where applicable, the indicators will be disaggregated by gender. To that end, a monitoring and evaluation plan will be developed, presented at the launch workshop, and used to gather information on project activities, establishing a point of departure or baseline with indicators. A final report that shows evidence validating the project's initial hypothesis will also be submitted. The monitoring plan will include surveys and data on companies that provide or acquire solutions.

⁶ A specific methodology for measuring business resilience will be developed.

- 2.26 In parallel with the project, IDB Lab and ANII will work to develop a methodology for measuring business resilience.
- 2.27 ANII is expected to develop a knowledge product that describes the phases of the process, lessons learned, and best practices, which will be a key input for scalability. A proposal for a new instrument for ANII is also expected to be prepared. The knowledge product will answer the following questions: *Has the use of nimble technologies efficiently and effectively identified the obstacles to economic reactivation and enhancing business resilience faced by the business sector? Has open innovation been an effective way of linking the demands of businesses—and SMEs in particular—to the innovation ecosystem? Have awareness raising activities and financial incentives helped ensure that the innovation ecosystem perceives SMEs as a market opportunity? Has the participation of ANII, a lead actor in the entrepreneurial ecosystem, built confidence among private innovation actors so they will offer solutions? Has the availability of resources for financing solutions helped reduce companies' innovation risk and attract innovative companies and research, development, and innovation institutions? What were the obstacles previously faced by innovative companies when working to provide solutions to SMEs? Were the instruments used strong enough to link and scale up some of the solutions?*

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

A. Alignment with the IDB Group

- 3.1 This project is aligned with the **Update to the Institutional Strategy** (document [GN-2933-5](#)), which reaffirms the IDB Group's emphasis on promoting productivity through the promotion of technology adoption and innovation, and incorporates the crosscutting issues of climate change and environmental sustainability and gender equality and diversity.
- 3.2 The project is also aligned with the **IDB Country Strategy with Uruguay 2016-2020** (document [GN-2836](#)) through its priority area of "boosting productivity and competitiveness by promoting innovation" and the strategic objective of promoting business innovation. It also complements the public sector operations of the Competitiveness, Technology, and Innovation Division (CTI) and the Connectivity, Markets, and Finance Division (CMF), particularly operation UR-L1142, "Conditional Credit Line for Investment Projects (CCLIP) to Promote Innovation, Entrepreneurship, Human Capital, and Research;" operation UR-T1212, "Open Data Portal of the Uruguayan National Innovation System;" operation RG-T3310, "Creation of the Latin American Network of Innovation Agencies;" operation UR-L1115, "Financial Program for Productive Development II" (in process of being signed); and operation UR-L1171, "Global Credit Program for Safeguarding the Productive Fabric and Employment" (in preparation).
- 3.3 The project is aligned with the **Innovation, Science, and Technology Sector Framework Document** (document [GN-2791-8](#)) inasmuch as it fosters public policies that directly promote business innovation, prioritizes activities that have the most direct effect on productivity and competitiveness, generating externalities,

and engages broader needs and demands through various mechanisms that facilitate social innovation.

- 3.4 It is also aligned with the **Sustainable Development Goals** (SDGs), especially: (i) SDG 9: Industry, Innovation, and Infrastructure; and (ii) SDG 17: Partnerships for the Goals.
- 3.5 The operation fits within the IDB Lab thematic area of **Knowledge Economy** (document MIF/GN-241-1) since it is consistent with the objective of leveraging creativity, know-how, new technologies, and processes to provide market-based solutions that address pressing social and environmental issues.
- 3.6 This project will also afford IDB Lab the opportunity to generate lessons learned on how to promote the innovation ecosystem in smaller economies and developing ecosystems, such as in Uruguay.

B. Scalability

- 3.7 The scaling up of this operation will be brought about by the project's partner, which can adopt this new approach in its standard instruments, as well as by the partnership with CTI and its interest in extracting knowledge and lessons learned to be applied at the regional level.
- 3.8 ANII has a CCLIP with the Bank, which creates a natural space in which this line of work can be incorporated into the next tranches of that operation. The content of the loan that is currently in execution has already been agreed to by the Uruguayan government and the Bank and does not offer any room for experimenting with other instruments. Through this pilot, ANII can extract lessons learned for the second tranche of that loan. Moving forward, more ambitious projects that require larger scale instruments offered by ANII (implementation, the Orestes Fiandra Fund, cofinancing lines, etc.) could be pursued.
- 3.9 CTI has been actively involved in the identification and design of this operation and has expressed interest in piloting this type of innovation aimed at business reactivation and resilience, which can be used as a source of insights for its operations in Uruguay and across the region. It has also agreed to disseminate this experience using the network of innovation agencies (RELAIS) that CTI has been supporting through regional technical cooperation operation RG-T3310, "Creation of the Latin American Network of Innovation Agencies."
- 3.10 Furthermore, the project calls for actions that can help scale up the most promising solutions by implementing a series of actions aimed at linking those solutions with entities in the local and regional business and innovation sectors and presenting them at regional investment forums.

C. Project risks

- 3.11 **Risk:** The process of identifying the needs of the business sector could be very adversely affected by immediate concerns stemming from the COVID-19 crisis, which make it hard to envision solutions that would contribute to greater business resilience. **Mitigating factors:** The awareness raising activities and activities carried out by consulting firms under Component 1 are extremely important and will prompt businesses to plan for "tomorrow" and think about their resilience to future shocks.

- 3.12 **Risk:** Open innovation processes need to be nimble so as to not discourage the participation of the various organizations of the innovation ecosystem (innovative companies, startups, and institutions of the research, development, and innovation system). **Mitigating factors:** The project will use lessons learned from other IDB Lab projects and challenges led by ANII and other lead actors at the regional and global levels to adapt the proposed instrument.
- 3.13 **Risk:** Local providers may have limited response capacity. In Uruguay, as in other countries of the region, there are still low levels of innovation in the business fabric, innovation networks are underdeveloped, and there are no technological centers that can foster the development of highly innovative solutions under a more business-minded approach. **Mitigating factors:** Correcting this situation is beyond the scope of this project. However, since this risk could have ramifications for project results, the project will focus on working with sectors in which the business fabric is more developed, such as the information and communication technologies sector.

IV. COST AND FINANCING

- 4.1 The total cost of the project is US\$1.7 million, with US\$850,000 (50%) to be provided by IDB Lab as a nonreimbursable contribution and US\$850,000 (50%) by the local counterpart (at least 50% of which will be in cash).

Expenditure category	IDB Lab	Counterpart contribution	Total
Component 1 – Identifying demand	88,400	9,900	98,300
Component 2 – Enhancing the supply of solutions	668,500	617,500	1,286,000
Component 3 – Linkages and support for scaling up	45,400	32,500	79,900
Project management ⁷	43,200	190,100	232,300
Contingencies	4,500	-	4,500
Total	850,000	850,000	1,700,000

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, ANII 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.

⁷ The “project management” category includes US\$19,800 for the monitoring and evaluation team and US\$3,000 for analysis of the financial statements.

- 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 this project, for example the need to strengthen the capacity of public enterprises, reduce innovation risk by establishing financing mechanisms, and the need for personnel working full time on this activity.⁸
- 5.4 ANII has executed the following sovereign-guaranteed loan operations: Technology Development Program II (loan 2004/OC-UR); Program to Support Future Entrepreneurs (loan 2775/OC-UR); and the Innovation Program for Productive Development; and is currently executing the CCLIP and loan for the Business Innovation and Entrepreneurship Program. It is also currently executing three IDB Lab technical-cooperation operations in the creative, logistics, and transformation of urban services sectors, in which the expected results are being attained, which have allowed ANII to demonstrate its technical leadership capacity and ongoing quest for innovative solutions to effectively and efficiently reach the productive sector.

B. Implementation structure and mechanism

- 5.5 ANII is responsible for project implementation and execution. The person answerable to the Bank will be ANII's Operations Manager. For project implementation, a project coordinator will be hired with resources from the IDB Lab contribution. The coordinator will be responsible for implementation of the activities planned under the various components and support for monitoring and evaluation activities. ANII will contribute by providing the physical, operational, and logistical structure required to execute the operation efficiently and effectively. It will also be responsible for the counterpart contribution needed to supplement the funds from the contribution so the activities can be executed. ANII will also be responsible for submitting semiannual progress reports on project implementation using IDB Lab's project management platforms.

C. Fulfillment of milestones and special fiduciary arrangements

- 5.6 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), 12 June 2019 version, and the "Guide to management by milestones and financial supervision for the technical cooperation operations of IDB Lab and the Social Entrepreneurship Program."

⁸ <https://www.anii.org.uy/apoyos/innovacion/118/desafios-del-sector-publico/>.

- 5.7 The diagnostic assessment of integrity and institutional capacity found a low level of risk, 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.
- 5.8 The following special conditions will be fulfilled prior to the first disbursement of the proceeds of the IDB Lab contribution: (i) submission of the annual work plan and the milestone plan; and (ii) selection of the project coordinator following the method established in the initial Procurement Plan.
- 5.9 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 milestones does not exempt the executing agency from the responsibility of achieving the agreed results.
- 5.10 Unless the Bank determines otherwise during execution, the executing agency's **procurement policies** will be used. An annual procurement plan indicating the necessary procurements for project execution and fulfillment of milestones will be submitted annually, together with the annual work plan. IDB Lab will perform an ex ante review of the technical aspects of procurement as it deems necessary, especially for those procurements considered critical.
- 5.11 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 project funds, verifying financial and procurement practices.

VI. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 6.1 **Access to information.** The information contained in this document is classified as public upon approval under the Bank's Access to Information Policy.⁹
- 6.2 **Intellectual Property.** The Bank will retain intellectual property of all project studies and results. The Bank will grant ANII, free of charge, a nonexclusive license to publicly use, copy, distribute, reproduce, exhibit, and execute all project studies and results for noncommercial purposes within the country of execution.
- 6.3 The executing agency will be required to include a clause releasing all intellectual property rights to the Bank, including copyrights, in all contracts signed with consulting firms under the project, with the longest term permitted under the laws of the Eastern Republic of Uruguay.
- 6.4 The Bank will be able to release, reproduce, and publish any information associated with the project and include the executing agency's name and logo in that information.
- 6.5 IDB Lab also reserves the right to scale up innovations of interest for its current strategy under other financing conditions.

⁹ Link to the Bank's [Access to Information Policy](#).