

INFORMATION TECHNOLOGY COMPANY STARTUP PROGRAM

(TC-00-12-07-2-UR)

EXECUTIVE SUMMARY

Executing agency:	Laboratorio Tecnológico del Uruguay [Technology Laboratory of Uruguay] (LATU)	
Beneficiaries:	The primary beneficiaries of the program will be young entrepreneurs and other interested professionals with a technical background in information and communication technology (ICT), and startup businesses in the ICT sector. The program will also benefit universities, technology institutes, and the business community by strengthening their mutual ties.	
Financing:	Modality:	Grant (Facility III-A)
	MIF	US\$ 946,000 (51.7%)
	Local counterpart:	<u>US\$ 882,500 (48.3%)</u>
	Total:	US\$1,828,500
Objectives:	The general objective of the program is to boost growth in the information and communication technology (ICT) sector in Uruguay, by promoting the establishment of business startups in the sector through a business incubation system that reduces the risk inherent in early operation of business startups. The specific objectives of the program are to: (i) identify ICT startups with potential; and (ii) improve decentralized entrepreneurship through a virtual business incubation system and the establishment of a center for services to support ICT startups. The program will also help enhance the country's image as a technology producer.	
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Conditions precedent:	The following activities must be carried out as conditions precedent to the first disbursement: (i) establishment and startup of the technical committee; (ii) hiring of the incubator director; and (iii) implementation of the Operating Regulations (see paragraph 8.1).	

**Exceptions to
Bank policy:** None

**Social and
environmental
impact:** The Committee on Environment and Social Impact reviewed the
project abstract on 2 March 2001 and had no comments.

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 On 6 October 1993, the Donors Committee declared Uruguay eligible for all forms of financing from the Multilateral Investment Fund (MIF). The proposed program is eligible for financing under the Small Enterprise Development Facility (Facility III-A), since it will contribute to the development of new businesses in an innovative sector, information and communication technology, which will have a positive impact on economic growth in Uruguay.

II. FRAME OF REFERENCE

A. Socioeconomic frame of reference

- 2.1 The Uruguayan economy stabilized during the period from 1995 to 1999, thanks to an exchange-rate anchor, a reduction in the fiscal deficit, and central government restructuring. Gross domestic product (GDP) rose at an average annual rate of 3%, while inflation declined to 4% by year-end 1999. Despite these achievements, the international competitiveness of Uruguay has been adversely affected in recent years by a number of factors: the devaluation of the Brazilian currency in January 1999 and falling commodity prices, given that 80% of Uruguayan exports of goods are agricultural products, increased the competitiveness of products from other countries, affecting Uruguay's balance of trade.

B. The information and communication technology sector

- 2.2 In this context, it has become urgent that the competitiveness and export capacity of Uruguayan enterprises be improved, especially in new sectors such as high-technology industries. Development of the information and communication technology (ICT) industry has been identified as a linch pin for economic development in Uruguay, as evidenced by the rapid growth of the software industry in recent years. According to figures from the Uruguayan Software Association (CUS), the software industry now totals US\$200 million, some US\$75 million of which are from exports, reflecting a 1,330% increase in the past five years. It should also be recalled that Uruguay exports proportionately more software than Brazil and Argentina. Its relative success in the industry can be attributed to several factors, particularly: (i) a good educational and technical level; (ii) a good telecommunications infrastructure; and (iii) its potential to develop niche-oriented products.
- 2.3 A group of enterprises has recently been able to exploit these advantages and now leads growth in the software industry, exporting to such demanding markets as the United States, Canada, and Europe, although still mainly to other Latin American countries. The enterprises have achieved these results practically on their own, thus demonstrating the country's potential for ICT development. The sector is important because, as in industrialized countries, it has the capacity to stimulate increased

productivity in the rest of the economy, especially in the services sector, a key area of the Uruguayan economy. There is accordingly no doubt that policies are needed to further improve the competitiveness of this major sector on an ongoing basis.

- 2.4 Experience with the ICT industry and lessons learned about its behavior have shown a growing trend to support both business startups and existing businesses. In the case of technology-based firms, startup and development of innovative enterprises stems from extensive interaction among various public- and private-sector institutions.
- 2.5 Joint action by the State, academic institutions, and the private sector is necessary, along with the support the Bank can provide, for Uruguay to keep pace with this international trend. It should be noted that the first step has been taken,¹ with the establishment of the National Committee for an Information-based Society (Uruguay Online). The ICT industry participates in the committee, whose purpose is to formulate policies and identify the initiatives necessary. Through the committee, the country plans to formulate a strategy that will help it become a player in the information-based society by supporting the ICT industry and at the same time addressing a series of other strategies for mass use of computer applications and telecommunications, government services, and development of an efficient telecommunications and Internet market. The government, which chairs the committee, is spearheading the process, in association with universities, enterprises, and the Uruguayan telecommunications firm, Administración Nacional de las Telecomunicaciones (ANTEL).

C. Software startup potential as a model for ongoing innovation

- 2.6 In order to ensure ongoing innovation and generate genuine development areas for the ICT industry, entrepreneurship needs to be strengthened through systematic institutional mechanisms that will help students, young professionals, and other interested professionals transform their ideas into enterprises. Studies conducted over the past 10 years on developing production, growth, and employment have emphasized the importance of entrepreneurship for job creation and technological change. Specifically, a central feature of the rapid growth of ICT enterprises has been innovation by business startups that grow extremely rapidly in their first few years of existence. Because the innovation by startups takes place outside of the research and development (R&D) laboratories of large firms, it is more likely to create new markets for goods and services that overcome inertia and established interests. Startups have thus contributed to increased productivity and employment, as has been the case in the United States since the mid-1990s.

¹ The State has also provided support by issuing the recent Executive Decree (of 28 December 2000) exempting software companies from value-added tax on the sale of their services and from the industry and trade tax for a period of four years.

- 2.7 As a result of this new situation, numerous public and private systems have been developed to promote IT startups, mainly in the form of “business incubators” designed to protect startups from major risks during their first few years of existence. This worldwide trend is barely embryonic in Uruguay, where it would be particularly helpful given the country’s low business startup rate, which is due to a range of factors, some of which are shared by other countries in the region. These include a cultural tradition that does not reward entrepreneurial attitudes, an education system that does not stress individual initiative, and certain regulatory obstacles that make it difficult to formally incorporate startups. In Uruguay, the proportion of civil servants (both active and retired) to total population is amongst the highest in the hemisphere, a factor that helps to account for the limited culture of entrepreneurship.
- 2.8 The ICT sector favors a large number of new businesses founded by young professionals with ICT degrees. However, this recent surge could be greater still: recent ICT graduates have reported that they have difficulty implementing the startup plans they formulate.

D. Incubation system

- 2.9 The business incubation system to be established in Uruguay will link universities, technology institutes, businesses, and the local community. The system is new for Uruguay, but has been successfully disseminated in some developed countries such as the United States and Canada, as well as in Europe, Japan, and emerging countries in Asia.² A noteworthy example in Latin America can be found in Brazil, where the number of business incubators in operation has grown from 38 in 1996 to 135 in 2000. Close to 450 enterprises have graduated from the incubators there and another 1,100 are in incubation. Incubators can operate in a number of different ways. They can provide physical facilities to the enterprises, such as office space, and technical and administrative support. Another form of incubation that is on the rise is “virtual” incubation, which provides geographically dispersed enterprises with technical assistance and networking opportunities.³
- 2.10 The fact that in recent years startups in the same sector have been located in certain physical incubators has led to great synergy among them. This situation sets these incubators apart from any other technical-assistance initiative. In a recent compilation of incubation experiences,⁴ the OECD mentions that member governments support incubators as a means of overcoming the problems of high

² For further information, see Lalkaka & Lalkaka, *Creating Entrepreneurial Ventures Through Business Incubators and Technology Parks*, a paper delivered at an international conference entitled “Business Incubators and Research Parks”, Panama, 2000; and Lalkaka et al., *Nurturing Entrepreneurs, Creating Enterprises: Technology Business in Brazil*, UNDP, New York, 1999.

³ De Leon, Aracelis, *Experience in Business Incubators*, IFC, 1999.

⁴ OECD, *Building Business and Technology Incubators*, 1997.

startup costs, high fixed costs, lack of access to equity capital, insufficient technical and market information, and weak management skills. The purpose of all the incubators is economic development, technology commercialization, and entrepreneurship. Their underlying purpose is job creation and an outreach role, fostering entrepreneurship in the local community and training for other local firms.⁵

- 2.11 Although incubation is still a very new activity, best practices have already been identified. These include an effort to achieve self-sustainability by diversifying financing and developing strong ties with academic institutions and the local business community, especially investors. It has also been demonstrated that it is crucial that the most highly qualified managers be hired to run the incubators, that the services offered be tailored to the profile of the incubated firms, and that the incubators be properly monitored and evaluated on an ongoing basis.⁶ Technology incubators specialize in assistance for companies that develop new technology, such as data processing, telecommunications, and biotechnology. They require highly specialized resources and rapid commercialization. Their success and the number of startups they help launch, also depends on whether knowledge-based infrastructure (universities and research centers) is available for technology innovation and high-speed commercialization.⁷ Technology incubators specialize in providing assistance to companies engaged in developing new technologies such as data processing, telecommunications, or biotechnology.
- 2.12 The proposed program will provide support precisely for ICT-based startups through business incubation. It will include additional specific infrastructure to carry out activities for dissemination, training, technical assistance, evaluation, and improved quality in ICT firms. At present, Uruguay does not have a mechanism for fostering the development of new companies of the kind proposed. The program will generate a climate conducive to innovation and creativity. Every effort will be made to form "clusters" of companies along multiple chains of value that arise from the new intersector and intrasector convergence integrating the new company into its base areas. The program will take into account international experiences and will provide all possible support for young entrepreneurs with ICT technical training to launch or expand their startups, thereby mitigating the risk involved. Studies on

⁵ OECD, 1997.

⁶ OECD, *Business Incubation, International Case Studies*, 1999.

⁷ In the United States, one third of the incubators that belong to the National Business Incubator Association (NBIA) have a technology focus and incubators in Brazil have a higher percentage of technology firms. The average annual operating costs of technology incubators in the United States is US\$300,000, while they are substantially lower in Brazil (US\$150,000 or less). It is difficult to calculate exact costs, since some of the personnel costs are subsidized by the member institutions and government agencies provide grants to cover incubator startup costs.

business incubation show that firms that use incubation services often have higher survival rates and that incubators can be a cost-effective tool for job creation.⁸

E. Role of the MIF

- 2.13 The Government of Uruguay has expressed interest in stimulating greater development of the information technology (IT) sector in the country, given the advantages the Uruguayan economy offers in this connection and its potential to stimulate other productive sectors and to generate high-quality jobs. However, due to current budgetary constraints, in the context of a protracted recession and the fiscal deficit, the government has only limited resources to allocate for promotion of the sector at a critical time for takeoff of its activities. The MIF has identified the IT sector as a priority area for support. MIF support for ICT startups will have a high likelihood of success, because of the number of qualified human resources in Uruguay. The role of the MIF is to bridge the gap in funding so that synergies among the current efforts by the private sector and supporting institutions can be channeled to develop new technology.
- 2.14 The program mission interviewed a group of young entrepreneurs who had launched startups and others who were preparing business plans for startups. They confirmed that they needed a supporting infrastructure for their enterprises. The details of the proposed program were discussed with the entrepreneurs and adjustments were made in the general sector needs.
- 2.15 The MIF portfolio currently has two operations in Brazil that are similar to business incubators: Biominas in Belo Horizonte (ATN/ME-6100-BR) and Instituto Euvaldo Lodi Santa Catarina (IELCS) (ATN/ME-6001-BR). Both programs have enterprises in incubation (five and 10, respectively), which have had a positive impact and performed well in their respective localities and regional economies. The incubators are promoting technology development, in addition to having such social benefits as strengthening entrepreneurship and cooperation between universities and research centers and the private sector.

⁸ In the United States, the National Business Incubator Association (NBIA) study showed that the estimated cost of creating a job has been approximately US\$1,100 over the past seven years. Incubation activity is relatively recent. Although it started up in the last 20 years in the United States, there are now more than 900 programs in the country compared with just 12 in 1980. Programs in the United States graduate approximately 30% of incubated companies each year. According to a 1997 study on the impact of these programs, 87% of the graduating companies are still operating. All the statistics demonstrate the bottleneck effect, since survival rates depend on how rigorously applicant firms were screened for admission to the incubators. As a vehicle for business promotion, incubators in other countries still need to show definitive data on their impact. So far, the evidence is not conclusive although given its nature it may only be possible to gauge the true impact of this vehicle in the long term.

III. THE PROGRAM

A. Objectives

- 3.1 The general objective of the program is to boost growth in the information and communication technology (ICT) sector in Uruguay by promoting the establishment of business startups in the sector through a business incubation system that reduces the risk inherent in early operation of business startups. To this end, the program will help: (i) identify ICT startups with potential; and (ii) improve decentralized business initiatives through a virtual business incubation system and the establishment of a center for services to support ICT startups. The program will also help enhance the country's image as a technology producer.

B. Components

- 3.2 The program consists of four components: (i) a national competition for business startups; (ii) training in the preparation of business plans for ICT firms; (iii) implementation of the business incubator system and technical support for incubator activities; and (iv) publicity and dissemination.

Component 1: national startup competition (MIF: US\$30,000; counterpart: US\$2,500)

- 3.3 During the first year of program implementation, two calls for proposals will be issued for a national competition mainly targeting young entrepreneurs with ICT training to identify promising ideas for startups, improve their quality, and bring a total of approximately 50 businesses or startups into the incubation system. The 50 enterprises will be divided into a group of 20 that will be physically located in the incubator and 30 in "virtual" incubation. Under this component, financing will be provided for announcements about the national competition in the print and electronic media. The first call for proposals will be issued in the first month of project execution, and the second in the fourth month after program initiation, so as to fill all 50 slots for physical and virtual incubation.
- 3.4 The proposals will be reviewed by a selection committee that will also be responsible for evaluating the business plans in the next phase. To ensure a fair, effective selection process, before the proposals submitted by potential entrepreneurs are forwarded to the committee, support will be provided for the selection process by hiring short-term consultants to conduct a preliminary review of the projects. Among other factors, the selection criteria will take into account the technological and commercial merit of the proposals, their basic nature and priority, the nature of the potential market targeted by the proposed innovation, their relationship with other ICT activities in the country and the region, and the profile of the applicants.

- 3.5 The selection committee will be responsible for and have full authority to ensure proper implementation of the selection process. It will consist of members of the following organizations, who will each appoint a representative and an alternate: the Uruguayan Software Association (CUS); the National Committee for an Information Society; Laboratorio Tecnológico del Uruguay (LATU); Universidad ORT; other firms associated with the program; and financial institutions. LATU has already contacted several industry firms to support the project selection process. The committee members will sign an agreement on confidentiality and conflicts of interest with applicants for incubation, in which the members will agree to remove themselves from the selection process when appropriate. The selection committee has now been formed and its prospective members identified.

Component 2: training in business plan preparation (MIF: US\$75,000; counterpart: US\$10,000)

- 3.6 Under the program, training will be provided through courses to be offered while a business plan is being prepared and assessed, a plan covering all aspects of the business, including quality and business management. The beneficiaries of the training will be mainly entrepreneurs chosen to take part in actual and virtual incubation activities. Two training sessions will be carried out in the first year of the program. A total of 180 potential entrepreneurs, (60 companies with an average of three persons each) individually or in groups, are expected to participate in the courses for four months. The program will cover the cost of the instructors, materials, and logistics for this component.
- 3.7 The trainees will be incubation applicants recommended by the selection committee. In principle, all the potential entrepreneurs will receive training to help them revise a complete business plan for implementation of the program. During the courses, implementation of the plans will be supervised by professionals involved in program execution or local consultants or university teachers referred by the program executing agency.
- 3.8 The business plans prepared will be assessed by the selection committee and the manager of the incubator to be established under the program, who will approve or reject them based on merit. Rejected plans may be reformulated and resubmitted. In addition to the costs of the general courses, the component will cover more specific training needs or mentoring. Sixty enterprises will receive specially tailored training in the form of mentoring for a three-month period. From this group an estimated 50 companies (20 in LATU facilities and 30 in virtual incubation) will be selected for incubation.

Component 3: incubator implementation and support (MIF: US\$857,000; counterpart: US\$396,000)

- 3.9 Concurrently with Components 1 and 2, preparations will be made for implementation of the incubator, which will initiate its activities in month 7 of execution. This component will finance recruitment of the management team, outfitting of the physical space, installation of the necessary equipment, operations management, and linkage with leading organizations in the development of ICT-specific models of quality and excellence. The incubator manager will be hired upon program startup as a condition precedent to the first disbursement. Although support for office infrastructure (in the case of physical incubation, equipment and telecommunications) and shared administrative staff are essential elements for the incubator, the program will assign priority to financing technical assistance to firms during the implementation phase.⁹
- 3.10 The incubator will be established in an already existing building in LATU. The building has a surface area of 700 square meters, with administrative offices, meeting rooms, air conditioning, and additional facilities. An area of 520 square meters will be adapted to house 20 incubated firms.¹⁰ The program management team will be set up with a manager, an assistant technician, a computer technician, and a secretary. Computer and telecommunications equipment and furnishings will also be procured and installed in the space.
- 3.11 The incubator will provide services mainly to startup companies. The companies may be physically located in the incubator or may operate in their own facilities, even in the interior of the country (virtual incubation), meeting regularly and maintaining contact through electronic media. In addition to secretarial and communications services, the following will also be provided: (i) legal counsel, accounting, and tax advisory services for establishment of the firm; (ii) general technical and academic support; (iii) specific consulting services tailored to each enterprise; (iv) contacts with potential investors; and (iv) business plan monitoring.
- 3.12 Once their business plans are approved, the firms will sign a contract stipulating their rights and obligations under the program. At the same time, they will begin practical implementation of their plans, with support from the services provided. The incubator will provide direct, customized assistance to the incubated firms or preparation of each business plan. Ten months after startup of the incubator, specialized consultants will be hired to review management of each business plan. In addition, the incubator manager will hire consulting services tailored to the needs of each enterprise, in such areas as patent issues, special quality control, e-business, etc.

⁹ Experiences can be shared with incubator companies in the region as the program advances.

¹⁰ The adaptation or adjustment of physical spaces is being done to allow companies with infrastructure for their operations such electricity, air conditioning, telephone, Internet, etc.

- 3.13 In addition, since international recommendations stress linkage of technology-based incubators with academic institutions, the incubator will help the enterprises gain access to the academic and technology departments of Universidad ORT in Uruguay, for use of equipment, consultations with teaching staff, and technical exchanges. Consultant-professors will be available for consultation.
- 3.14 The contract will stipulate that the selected enterprises may remain in incubation for no longer than 30 months. The goal of the program manager will be to achieve incubation periods of 18 to 24 months or less. During the incubation period, the enterprises are expected to be able to commercialize their respective products or services, make sales, and fine-tune or adjust them based on the market.
- 3.15 Although the incubator will require the incubated firms to pay rent for the physical space during the execution period for the proposed MIF program, the rent will be priced at below-market rates in order to generate demand during program initiation. Moreover, many of the young entrepreneurs cannot generate a large enough cash flow during the business startup phase. However, the enterprises will be charged for 10% of direct costs (administrative, Internet, telephone, power, etc.) during their first year of incubation and 15% beginning in the second year.¹¹
- 3.16 In addition to providing services, the incubator may decide that the incubated enterprises should contribute a proportion of their financial returns to the program for a certain period of time after incubation. Program sustainability will also be ensured through the sale of services, including support for business plan preparation, technical assistance for accounting, legal counsel, technical expertise, research, and negotiations for business startups.
- 3.17 The incubator will not provide any financial assistance or guarantees for either enterprises in incubation or graduate enterprises. However, the program manager's duties will include establishing contacts with organizations providing support for small business and with financial institutions, for referral of incubated enterprises to lines of credit and other available sources of financing. Specifically, the incubator will sponsor a number of meetings for incubated businesses with potential investors as an alternative source of financing (venture capital/business angels).

Component 4: publicity and dissemination (MIF: US\$40,000; counterpart: US\$0)

- 3.18 It is important that activities be carried out to publicize and disseminate the calls for proposals and business startups and the program results and experience. Under this component, annual publicity and dissemination events will be held, which may

¹¹ The subsidies provided on a declining basis end with the MIF program, and subsequently LATU will charge for direct costs at market prices.

serve indirectly as a forum for potential investors to attract financing for program initiation or to forge strategic partnerships with incubator graduates.

- 3.19 Potential local and international investors may be interested in formalizing this type of forum for the introduction of startups. The incubator will serve as a clearinghouse for investment opportunities, by establishing links with sources of private-sector financing.
- 3.20 Financing may also be provided under this component for the incubator management team to visit incubators abroad (in the United States, Canada, and in other MERCOSUR countries), especially incubators specializing in IT firms.¹² LATU and ORT may take advantage of the ties they already have with such other institutions as the University of North Carolina in the United States and Acceso Chile.

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 The program will be executed by Laboratorio Tecnológico de Uruguay (LATU), which will commit to providing the entire amount of the local counterpart funding. However, to ensure the demand that LATU will have to meet and to enhance program implementation, LATU entered into an agreement for cooperation with Universidad ORT Uruguay on 20 February 2001. It will also seek support from a group of recognized ICT-related institutions and firms. Both LATU and Universidad ORT have a solid track record supporting ICT enterprises. Universidad ORT may provide contacts with ICT professionals in Uruguay. It will be a key generator of demand for the incubator insofar as its IT graduates have a tradition of entrepreneurship and have established successful enterprises stemming from projects they carried out as part of their university coursework.
- 4.2 LATU is an organization whose purpose is to increase the value added to the products and services of the Uruguayan production structure and to guarantee the quality of exports of goods and services. It is a nongovernmental organization incorporated under public law and administered by a board chaired by a representative of the executive branch (Ministry of Industry, Energy, Mines), a delegate of the Uruguayan Chamber of Industry, and a delegate of Banco de la República Oriental). LATU Systems, the division responsible for quality and management systems training and certification, has been accredited as a certifier according to ISO/IEC Guide 62 by the accreditation agencies of Germany, Brazil,

¹² The ORT will not use program resources to cover visits to other incubators but may identify institutions having academic connections so that the incubator director can visit them if necessary. This is not an exception.

and Uruguay (respectively TGA, INMETRO, and OUA). LATU Systems is responsible for issuing 70% of ISO 9000 certificates in Uruguay, having certified over 130 enterprises, 50 of them foreign (Mexico and Argentina). It has also trained quality management experts in those countries, as well as in Chile, Paraguay, Ecuador, Bolivia, and El Salvador, and has helped develop a number of ICT firms and boost their growth, through quality certification and training specifically tailored to the software industry.

- 4.3 Universidad ORT is an institution of higher learning renowned in the country for graduating professionals in computer science and telecommunications. Its curricula include the promotion of startups through projects carried out by senior undergraduates. In 1998 and 1999, students completed 231 final projects with enterprises or in a business environment. Of those, approximately one fifth later led to the establishment of enterprises by groups of students. Universidad ORT offers university diplomas in electronics, telecommunications, and systems, and a degree in systems. It also offers shorter certification courses for such fields as computer electronics technician, analog electronics technician, and programmer-analyst, as well as various graduate programs in those areas. Student projects from previous years, with more time to mature, have led to the establishment of successful enterprises producing traditional software, but also multimedia products, geographic information systems, systems programming, and Internet site programming and administration.

B. Program execution

- 4.4 LATU will be responsible for program execution, through an executing unit supervised by a technical committee. The technical committee will consist of two LATU representatives, one of whom will be the manager of its information technology department, and an Universidad ORT representative. Once the incubator manager has been hired through a competition supervised by the technical committee, the manager will be in charge of routine program management. The technical committee will be responsible for general supervision of program execution, while the selection committee will be exclusively in charge of selecting the firms to be incubated (see paragraph 3.5).
- 4.5 Under the program a trust fund will be set up with funds from the IDB/MIF financing, and administered by LATU through the executing unit. To this end, LATU will keep the program assets apart as a separate accounting entry. The program resources will be used to develop information technology transfer projects.

C. Execution period and disbursement schedule

- 4.6 The program execution period will be 36 months, and the MIF resources will be disbursed within a period of 42 months. Disbursements will be made through a revolving fund for advances, equivalent to 10% of the contribution.

D. Accounting and auditing

- 4.7 LATU, through the executing unit, will be responsible for establishing and maintaining proper systems for accounting, finance, internal oversight, and records that will provide a detailed breakdown of the source and application of program funds. The program records must be kept in such a way that they (i) identify the amounts received from different sources; (ii) include information on program expenditures, distinguishing those covered by the MIF contribution and those covered by other sources of funding; (iii) detail the goods procured and the services hired; (iv) have separate, specific bank accounts for administration of the MIF contribution and the local counterpart funding; (v) allow Bank disbursement requests to be processed; and (vi) provide for preparation and submittal of the semiannual reports on the revolving fund and annual financial statements of the program, duly audited by independent auditors acceptable to the Bank throughout the program execution period.

E. Monitoring

- 4.8 LATU will submit semiannual progress reports (on both technical and financial execution of the program) within 60 days after the end of each six-month period. The Country Office of the Bank will monitor program execution, based on the progress reports, consultants' reports, disbursements, the financial statements LATU must submit to the Bank, and the findings of the evaluations to be conducted under the program. The Country Office will use these reports to monitor program execution and to prepare a project completion report within three months after the last disbursement.

F. Status of program preparation

- 4.9 The program is at an advanced stage of preparation in terms of the physical facilities. The Operating Regulations, beneficiary selection criteria, and terms of reference for the incubator manager have been prepared with the LATU and Universidad ORT experts. The members of the selection and technical committees have now been selected and the committees will be formally established shortly. LATU has indicated its concurrence with all aspects of the program.

V. COST AND FINANCING

- 5.1 The total cost of the program will be US\$1,828,500, to be financed as follows: US\$946,000 from the IDB/MIF on a nonreimbursable basis and US\$882,500 from LATU, at least half of which will be in cash. The estimated equipment costs financed by the MIF will not exceed 30% of the total MIF contribution. The incubated enterprises will pay a gradually increasing monthly fee during their stay in the incubator, to be collected by the executing agency. However, the fees

collected will not be considered part of the counterpart funding. A summary budget is presented in the table below (see the program technical files for more information).

US\$	MIF	LATU	TOTAL	%
Administration	79,000	273,000	352,000	19.3
Technology support				
1. Competition for ICT startup selection	30,000	2,500	32,500	1.8
2. Training for business plan preparation	75,000	10,000	85,000	4.6
3. Incubation activities	662,000	591,000	1,253,000	68.5
4. Publicity and dissemination	40,000		40,000	2.2
Evaluation and auditing	40,000	6,000	46,000	2.5
Contingencies	20,000		20,000	1.1
Total	946,000	882,500	1,828,500	100%
As a percentage	51.7	48.3	100%	

- 5.2 **Sustainability.** The incubator will continue to provide services once the MIF funds are exhausted. Since a large part of the incubator initiation costs will be covered by the program, beginning in its fourth year of operation, its operating costs will be covered mainly by the incubated enterprises, and to a lesser extent by contributions from LATU and other sources of funding that may be obtained. According to current calculations, once the MIF contribution is no longer available, an enterprise that is being physically incubated will have to pay US\$680 a month and a virtually incubated enterprise, US\$300. Given the prestige that would be associated with the incubator, once it is established, these figures are considered affordable for startups. To ensure program sustainability, LATU has committed to providing less than US\$100,000 a year by charging the incubated firms, a figure that can perfectly well be financed under the regular LATU budget. Mature, well-managed incubation programs could be self-sustainable without government subsidies.

VI. EVALUATION

- 6.1 The Bank will fund with MIF resources two external evaluations of the program. It will hire independent consultants 18 months after the date of the first disbursement. The mid-term evaluation will cover: (i) the extent to which the program objectives have been achieved, based on the performance and impact indicators; and (ii) the progress achieved. Within 90 days after program completion, a final evaluation will be conducted, covering, among other things: (i) the extent to which the specific program objectives have been achieved; (ii) the quality of the services provided; (iii) program sustainability; and (iv) program impact. Annex I sets out the logical framework, listing the indicators to be used for program execution, monitoring, and

evaluation. LATU will be required to prepare and submit a plan of operations for year one. It will also be required to submit an annual plan of operations for each of the next two years at least 15 days before program activities for the year in question commence.

- 6.2 The main outputs expected are: (i) 180 entrepreneurs who have received training in the business plans; (ii) 20 startups in physical incubation; (iii) 30 startups in virtual incubation; (iv) a practical model for ICT startups that can be used to continue the incubation activities on a sustainable basis, and strengthened linkages with universities and private-sector institutions, particularly with businesses already successfully operating on the market; and (v) lessons learned from the exchange of experiences that will help improve the performance and replicability of the incubation system throughout the region.

VII. JUSTIFICATION AND RISKS

A. Program benefits and development impact

- 7.1 The program is a completely new initiative for Uruguay and is fully consistent with the objectives of the Bank's country strategy. A successful incubator can improve the survival rate for small enterprises, create jobs, support local economic development, and commercialize research and technology. It can also generate value added beyond its actual assets, as a positive externality, by changing behavior and attitudes towards active entrepreneurship, building partnerships with local leaders to develop coherent policies for economic growth, thereby promoting an environment conducive to the development of small business. This instrument has proven fairly successful in Europe, Asia, and the United States where it is considered useful because market forces are such that these undertakings are unable to survive on their own.
- 7.2 The program will supplement ongoing MIF projects in the country, such as the quality management project (ISO 9000) and the business association project. It will also be compatible with the program to provide support for the Uruguayan Software Association currently being prepared, and the technology development program to promote science and technology in general that was recently approved by the Bank. The technology development program may finance small incubators in universities that will operate more like laboratories, but only very limited resources have been allocated to them.

B. Beneficiaries

- 7.3 The primary beneficiaries of the program will be young entrepreneurs and other interested professionals with a technical background in ICT, and startup businesses

in the ICT sector. The program will also benefit universities, technology institutes, and the business community by strengthening their mutual ties.

C. Risks

- 7.4 There is a risk that demand on the part of young entrepreneurs for the services provided by the incubator may not be sufficient. The program is based on a feasibility study that LATU and Universidad ORT conducted to gauge demand for the services to be provided under the program. The activities to promote, publicize, and disseminate the program are expected to have a positive impact on demand.
- 7.5 The concerns that exist with respect to this instrument are the problems experienced by incubators worldwide in becoming totally independent of the explicit or implicit subsidy of some institution. Even in the case of incubator companies that become fully sustainable and commercially viable undertakings, risk still exist since the search for commercial balance sometimes turns them away from their original objectives to an established traditional operation. The midterm evaluation will examine these aspects in detail so that changes may be made if necessary.
- 7.6 There is also the possibility that the program manager may not be able to ensure total or partial repayment of the program costs by the incubator graduates or third party companies that may acquire or partner with the incubated enterprises upon their graduation. LATU and Universidad ORT are sharing this risk by providing seed financing for the physical facilities. Above all, LATU's experience managing several international technical-cooperation programs and Universidad ORT's track record as a provider of business advisory services will ensure a high likelihood of success. In designing the operation for the delivery of services, the incubator manager may adjust the charge-back policy for the services delivered so that it leads to the desired results, mainly by establishing an operating model measured by the degree of financial self-sufficiency achieved from the rent charged. Other program goals will be to devise criteria for the development of transferable methods and models. The program will thus have an evaluation and validation system to ensure its replicability.

D. Committee on Environment and Social Impact (CESI)

- 7.7 The project abstract was reviewed by CESI at its 2 March 2001 meeting, and no comments on the document were made.

VIII. CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

- 8.1 The following activities must be carried out as conditions precedent to the first disbursement: (i) establishment and startup of the technical committee; (ii) hiring of the incubator director; and (iii) implementation of the Operating Regulations.

IX. EXCEPTIONS TO BANK POLICY AND PROCEDURES

- 9.1 No exceptions to Bank policy and procedures are called for under the proposed program. Standard Bank procedures will be followed for the hiring of consulting and training services.

LOGICAL FRAMEWORK (SUMMARY)
INFORMATION TECHNOLOGY STARTUP PROGRAM (TC-00-12-07-2-UR)

Formative Summary	Verifiable Indicators	Means of verification	Assumptions
in the information and on technology (ICT) sector in promoting the establishment startups in the sector through a ation system that reduces ent in early operation of ups	<ul style="list-style-type: none"> • Growth rate of ICT sector in terms of sales, exports, and jobs 	<ul style="list-style-type: none"> • National statistics • Uruguayan Software Association reports 	
startups	<ul style="list-style-type: none"> • Number of ICT startups operating in the market 	<ul style="list-style-type: none"> • Progress reports • Mid-term and final evaluations 	<ul style="list-style-type: none"> • The macroeconomic situation is stable • The government maintains its commitment in promoting ICT industry
s: (1) s startups for incubation petition	<ul style="list-style-type: none"> • Technical committee established in month 0 • First call for proposals in month 0 • Second call for proposals in month 4 • Selection committee established in month 1 	<ul style="list-style-type: none"> • Agreement • Employment contracts • Progress reports • Inspection visits • Evaluation survey • Mid-term evaluation 	<ul style="list-style-type: none"> • There is a critical mass of resources qualified to become entrepreneurs • Potential entrepreneurs see the program as a means to launch startups • There is sufficient, timely financial support • There is demand for the services • The training services are effective and respond to participants' needs • The publicity and dissemination activities are effective • Potential entrepreneurs see the program as having considerable resources and accept its intervention in the incubation process • Entrepreneurs remain motivated

ative Summary	Verifiable Indicators	Means of verification	Assumptions
2) ected candidates	<ul style="list-style-type: none"> • In month 3, 40 incubation candidates (with an average of 3 members each) trained in business plan preparation • In month 8, 20 incubation candidates (with an average of 3 members each) trained in business plan preparation • 60 candidates trained in specific areas through mentoring to complete their business plans 	<ul style="list-style-type: none"> • Registration of participants and enterprises involved • Roster of eligible consultants • Reports by specialized consultants 	
3) and operation of business uation of startups	<ul style="list-style-type: none"> • Incubator management team receives advisory services from consultants specializing in incubation to support 20 incubated companies in LATU and 30 in virtual incubation. • Outfitting and adjustment of physical spaces completed • Startups in incubation advised on business plan implementation through specialized consulting services • Incubated startups gain access to academic and technological support from Universidad ORT facilities and faculty • Incubated startups receive advisory services from consultants specializing in patent issues, computer systems, quality, e-trade, and other areas 		
4) dissemination, including international institutions	<ul style="list-style-type: none"> • 5 trips by incubator management team (twice in years 1 and 2; and once in year 3) to U.S., Canada, and 3 expanded MERCOSUR countries • 2 events (investor forums) held in year 2 and 3 to attract potential investors for startups on the verge of graduating from incubation 		

PROPOSED RESOLUTION

URUGUAY. NONREIMBURSABLE TECHNICAL COOPERATION PROGRAM TO CREATE NEW INFORMATION – TECHNOLOGY COMPANIES

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Laboratorio Tecnológico del Uruguay (LATU) and to adopt such other measures as may be pertinent for the execution of the plan of operations incorporated in the donors memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation Program to Create New Information – Technology Companies.

2. That up to the amount of nine hundred forty six thousand dollars of the United States of America US\$946.000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.