

## EXECUTIVE SUMMARY

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|--|--|------------------|----------------|
| <b>Executing agency:</b>                 | City of Knowledge Foundation   |                  |                |
| <b>Beneficiaries</b>                     | Start-up and early-stage ventures with knowledge base and high growth potential  |                  |                |
| <b>Amount and source:</b>                | Modality:  | Non-reimbursable | Facility III-A |
|  | MIF:   | US\$             | 1,200,000      |
|  | Local:   | US\$             | 700,000        |
|  | Total:   | US\$             | 1,900,000      |
| <b>Terms:</b>                            | Execution Period:  | 48               | months         |
|  | Disbursement Period:   | 54               | months         |
| <b>Objectives:</b>                       | <p>The general objective of this project is to promote technology based entrepreneurship by supporting the formation and accelerated growth of new business ventures particularly in the information and communications technology (ICT) enabled field through a sustainable mechanism, adapted to the rapid changes of the New Economy. The specific objective is to assist in the transformation of the current Panama Business Incubator (IDEP) to the Panama Technology Business Accelerator (PTBA) and support its development to become a center of excellence for technological entrepreneurship and creation of world-class, knowledge-based ventures.</p>   |                  |                |
| <b>Description:</b>                      | <p>The proposed project will adapt the so-called accelerator model to Panama's market conditions. A <b>Business Accelerator</b> is commonly defined as an early stage venture capital company, investing in Internet infrastructure, software, telecommunications and other technology-related ventures. It provides tenants with strategy consulting, technology consulting, investment banking, and often venture capital through internal resources and global partner networks. This project will support the following activities to transform IDEP to a modified accelerator model: (i) develop a new incubation mechanism with the high-tech workspace needed to service businesses in the New Economy; (ii) develop managerial, counseling and training services for client companies within the accelerator; (iii) support the process of development of innovative ideas through a pre-incubation facility; and (iv) assist in the design of mechanisms for private sector financing for client companies and the accelerator.</p> |                  |                |
| <b>Environmental/<br/>social review:</b> | <p>The Project Proposal was analyzed by the Committee on Environment and Social Impact in its meeting held on November 10, 2000. The Committee approved the profile, with the recommendation that the</p>  |                  |                |

City of Knowledge Foundation (CK) should take into account gender issues and promote women entrepreneurs. These considerations will be included in the Terms of Reference (TOR) for the Operations Design consulting firm. . It is not expected that this operation will have any environmental impacts, and its social impact will be positive through the effect of new technology and knowledge based business development in the creation of new jobs, which in this case require skilled workers.

**Special  
contractual  
conditions:**

As condition prior to first disbursement, the CK will have presented to the Bank/MIF evidence that: (i) the Executing Unit (EU) has been established, (ii) the Director of the Technology Park (TIP) assigned to head it, and (iii) the Accountant for this project has been selected.

**Exceptions to  
Bank policy:**

There are no exceptions to Bank policy.

## **I. PROJECT ELIGIBILITY**

- 1.1 On February 9, 1995 the Donors Committee declared Panama eligible for all forms of financing from the Multilateral Investment Fund (MIF). The proposed project is eligible for MIF financing within the framework of its facility for the Development of Small Enterprises (Facility III-A), given that it will contribute to promote emerging businesses in technology sectors in Panama, through a process of incubation and future capital investment in them. This project will help serve the special needs of Panamanian entrepreneurs from various backgrounds, who have identified a market opportunity together with a technological innovation but need a dynamic business environment, management and marketing advice, information sources and access to seed capital, in a well designed and connected facility, in order to grow their business rapidly.

## **II. FRAME OF REFERENCE**

### **A. The City of Knowledge and Technopark**

- 2.1 The **City of Knowledge Foundation (CK)**, a private non-profit entity, was set up to establish and promote centers of investigation and innovation in the scientific, technological, humanist and cultural fields, for the transfer of knowledge applied to productive activities and programs, aiming at the achievement of excellence in each field of activity. Through Law Decree No. 6 of 1998, the Government of Panama has allocated land/buildings/facilities at the reverted Clayton base near Panama City for the City of Knowledge, and granted it important tax reductions and other privileges to companies affiliated to CK. The main areas of activities of the CK are interdisciplinary education, research on global issues, discussion fora, and technology promotion through the **Panama International Technopark (TIP)**.
- 2.2 The TIP, covering 20 hectares within Clayton, promotes relationships between innovation, research and development organizations and opportunities to increase the competitiveness of the programs and companies involved in key fields such as information and communications technologies (ICT), biotechnology, and transport systems. Companies starting operations include Xerox, Citigroup, Cable & Wireless, and Berkshire Financial Services (small venture capital firm), as well as organizations like the National Secretariat for Science and Technology (SENACYT). Among the strengths of the CK-TIP complex are its linkages to universities (e.g. Technological University of Panama) and research facilities (e.g. the Smithsonian Tropical Research Institute) and strong private sector support.

### **B. Incubators and the Panama Business Incubator (IDEP)**

- 2.3 Business incubators have evolved in the last 20 years from industrial estates and small enterprise service centers, and now number more than 3,000 worldwide. Basically, the traditional business incubator provides space; shared office facilities; services; speed in business registration, taxes, and other regulations; seed money access through the

incubator's reputation and better business plans;, and the synergy of sharing and networking, among members and with the local community.

- 2.4 Depending on sponsor objectives and local conditions, business incubators can be developed in many types and configurations; including mixed tenant or special purpose facilities, regional revitalization, research commercialization or technology focus (e.g. biotechnology or software development). The *first generation* of business incubators in the 1980s was focused primarily on providing affordable workspace to startup companies. In the 1990s, *second generation* incubators placed greater emphasis on counseling, skills enhancement and networking services.
- 2.5 **The Panama Business Incubator (IDEP)**, a part of the CK was inaugurated in May 2000. It has about 3,000 sq.m. of space in building 214, an Advisory Board with private sector representation, and a small staff. The IDEP, designed as a traditional *first generation* incubator has been successful in nurturing 15 new groups, through the support of a strong business-oriented management that is rapidly acquiring know-how on incubator administration. Of the 15 new companies, 4 are promising enough to make a successful launch into the market, and the rest is expected to generate positive cash flows within a year.
- 2.6 Nevertheless, IDEP lacks the design needed to breed New Economy companies, focused on fostering links and relationships (networking) to promote and sustain innovative technology and knowledge-based ventures. IDEP's business model presents several drawbacks: insufficient rental space and fees, limited resources that do not permit the delivery of a range of support services needed to serve tenants, no clear strategies to develop additional income sources, and no marketing strategy focused on targeting potential clients.

### C. Emergence of New Incubation modes for the New Economy

- 2.7 Responding to the exponential growth in ICT and the challenge of a globalizing economy, a new breed of incubators has emerged in the last two years that seek to accelerate the start and growth of Internet and other high-tech related ventures. These high-tech network *third generation* incubators or **Business Accelerators**<sup>1</sup> are, in effect, a for-profit company investing in Internet infrastructure, software, telecommunications and other technology-related ventures, providing a composite of high-tech workspace, *hands-on* management, information and consulting services, and often rapid access to seed and venture capital, usually in exchange for equity. Accelerators have the over-all purpose of compressing the time in which the incubated company enters the market, is able to attract a considerable market share, and has a steady rate of income growth and profits. The proposed project will in fact adapt this model to a viable structure given Panama's capital, business and ICT environments.

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<sup>1</sup> In Latin America, Internet hosts have grown rapidly, now surpassing 10 million users, representing 4 % of the world total. Nevertheless, high costs and low availability of telecom services have prevented an even faster growth of the sector. This situation is improving rapidly, as foreign investment rises in Latin American Internet Service Providers (ISP), portals and Business-to-Business (B2B) usage. There are now 10 Business Accelerators in Brazil and 2 in Argentina.

- 2.8 There has been a growing awareness of the potential contradiction inherent in using incubators insulated from market forces to nurture start-ups predicated on market forces. Because the New Economy or Business Accelerator typically becomes part owner of some of the incubated firms, the conventional barriers that existed in traditional incubators between it and its clients break down. The accelerator's specialized consulting teams and the personnel of the strategic partnerships that it establishes, work side by side with the client's team to build a business in the success of which both accelerator and client have a common interest. This concept of "co-venturing" is one of the differentiating characteristics of *third generation* incubators<sup>2</sup>.

#### **D. Telecommunications and the Internet in Panama**

- 2.9 Panama does have a significant advantage in the emergence of New Economy tech-based ventures because of its telecommunications infrastructure. With the aim of providing fast, secure connections for banking and computer activities, and in order to carry out important adjustments in the costs of traffic leasing (electronic data, voicemail, etc.), Panama joined the ARCOS 1 and MAYA1 networks which supply underwater fiber optic cables joining mainland America with the Caribbean Basin. This infrastructure is attractive for new ICT ventures.
- 2.10 Nevertheless, and despite the on-going excellent efforts, start-up and early-stage technology and knowledge-based enterprises in Panama, as in many developing countries, suffer from severe constraints such as the difficulties accessing seed capital, shortages of skilled personnel, lack of trade and technology information, and importantly, poor access to markets. Also, the strategies for promoting technological entrepreneurship and innovation are still emerging in Panama, venture capital sources are scarce and an Initial Public Offering (IPO) market has yet to develop.

#### **E. The Bank's strategy in Panama**

- 2.11 The Bank's strategy for Panama (see Country Paper, GN-2136-1) seeks to provide support for activities that create incentives for private sector participation. This project seeks to address opportunities offered by the New Economy and to build upon the existing facilities at TIP, by proposing to develop an innovative new structure to help accelerate the start of high-tech based ventures and their entry to the market.
- 2.12 The Bank has approved, and began the execution of, a loan for the Development of a Science and Technology Park in Panama (1273/OC-PN), with the objective of aiding the CK in strengthening its institutional structure, in the marketing and promotion of the TIP and in improving its infrastructure to meet the demands of technology ventures. This loan is meant to apply the findings of a technical cooperation financed by the Bank (ATN/JC-6295-PN), which identified objectives that frame the CK's long-term business plan. The MIF has also approved a project to Promote the Development of Micro, Small, and Medium Enterprises (ATN/MT-7307-PN), through the support of the activities of the

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<sup>2</sup> A Harvard Business School survey completed in May 2000 identified 348 such incubators around the world.

Authority for Micro, Small and Medium Enterprises (AMPYME). The operations focuses on strengthening the regulatory framework for business initiatives.

- 2.13 The proposed project complements these activities by promoting the development of new enterprises in the ICT field, through an innovative mechanism of support, helping increase the impact of MIF/Bank activities in Panama. IDEP's management examined the lessons learned from incubators in Latin America and other regions, and reviewed its mid-term strategy and opportunities in the ICT field. Based on several strategic reviews, the Board of Trustees of CK has agreed to the proposal made by IDEP of changing its operational modality to an adapted accelerator model, modified according to the market characteristics of Panama, and with a clear strategy for cost recovery and financial sustainability. The Government of Panama, in a letter to the Bank in March 2000, reiterated its support for the development of this project as a non-reimbursable technical cooperation.
- 2.14 This new model would serve the special needs of Panamanian-based entrepreneurs who have identified a market opportunity together with a technological innovation, but need a dynamic business environment, a facility with connectivity, the management and marketing advice, information sources, and access to seed capital, in order to start and grow their businesses rapidly. The clients for this initiative would come from a variety of local and regional sources, including: (i) spin-offs from large companies; (ii) businesses currently in the IDEP and TIP; (iii) researchers at institutes wanting to commercialize research results; and (iv) graduate students and faculties at local universities. These needs are currently not being met by IDEP, which is unable to provide services other than cheap rental space and legal advice, and is not equipped technically or organizationally to provide enough services to be self-sustainable.

### **III. THE PROGRAM**

#### **A. Objective**

- 3.1 The general objective of this project is to promote technology-based entrepreneurship by supporting the formation and accelerated growth of new business ventures, particularly in the ICT enabled field, through a sustainable mechanism, adapted to the rapid changes of the New Economy and to the characteristics of Panama's business environment.
- 3.2 The specific objective of this project is to assist the transition of IDEP to the Panama Technology Business Accelerator (PTBA) and support its first phase of operations to become a center for technological entrepreneurship and creation of knowledge-based ventures in Panama. To achieve this objective, the project would: (i) develop a new incubation model with the high-tech workspace needed to service businesses in the New Economy; (ii) develop managerial, counseling and training services for client companies within the accelerator; (iii) support the process of development of innovative ideas through a "pre-incubation" facility; and (iv) assist in the design of mechanisms for private sector financing for client companies and the accelerator.

- 3.3 Furthermore, the proposed project will contribute to: (i) the creation of a culture of risk-taking and new entrepreneurial ventures; (ii) development of stronger interactions between research, education, business, banking and government; (iii) nurturing 8 to 10 successful new ICT businesses each year; and (iv) creating jobs among the successful graduates, and additional indirect jobs in the supply chain.

**B. Components**

**1. Structuring of PTBA and Staff Development (US\$319,750 MIF; US\$267,500 CK).**

- 3.4 This component will finance the development of the new model for the PTBA to effectively provide for a transition from the current IDEP to the accelerator concept. The current key staff of IDEP will be actively involved in this process to facilitate the transition and prepare them to better understand a new model of incubator. It will not only finance transfer of knowledge, but also the development of an area with 'plug-and-play' connectivity, shared office facilities and common areas. The design of the space in building 214 would need to be modified and properly renovated to meet the needs of targeted clients. Market rates for rent would be charged to tenants. This component is divided into two sub-components:
- 3.5 *Operations Design.* An international firm of experts in Business Accelerators will be hired to undertake the design of effective operating procedures (including selection criteria for tenants and exit-graduation policy) and governance structure for the PTBA, design and provide a staff development program for current IDEP staff and assist in the selection and facilitate the process of integrating new experts financed through this project, identify networking services, develop the job descriptions of all experts to be hired for consultancies (see technical archives for TOR). This firm will be contracted no later than six months after this project is eligible for disbursements.. This firm will be contracted with resources from MIFs contribution.
- 3.6 *Development of High Tech work space.* The purpose of this sub-component is to support the design of a workspace managed specifically with the requirements of startup technology companies in mind. This sub-component will consist of two activities: (i) the renovation of the existing IDEP building, and (ii) enhanced access to information with high-speed connectivity.
- 3.7 The renovation of the facilities will provide and enhanced area for new venture acceleration as indicated by a survey of entrepreneur needs undertaken for the preparation of this project (for detail see Preliminary Business Plan in Technical Files). The design of the renovation must take into account certain criteria, such as: (i) an eco-friendly facility, that is fully suited to Panamanian culture, market needs and climate,; (ii) that it be attractive, functional, user friendly, and businesslike; (iii) versatile and flexible, allowing for reconfiguration and rapid expansion ; (iv) marketable, to make space leasing and fund-raising much easier; ; (v) effective building security, to provide entrepreneurs maximum security for their innovations; (vi) tenant inter-action, helped by an ambiance that facilitates entrepreneurs meeting each other, professionally and socially,; and (vii)

innovations in design, that allow for easy access to a variety of information sources on trade and technology information. MIF resources will only finance the consultant needed for the strategic design of the facility, while the renovation costs will be financed by the counterpart.

- 3.8 The enhanced information access activity will finance the equipment needed for broadband Internet access, that is scalable and can adapt well to emerging new technologies, allowing clients to set up their IT networks and connect to the building's network services as soon as they move in. An accelerator-wide Local Area Network (LAN) should serve as the basis of a management information system allowing the incubator management to communicate with and keep track of the progress of client firms. It also creates additional opportunities to provide value added services to clients. This activity would be financed with the MIF's contribution.
- 3.9 Finally, a *Business Center* would be created to provide services for a fee to established entrepreneurs and companies who are not within the PTBA but require specialized business consulting and wish to benefit from the synergies present at the PTBA. The Business Center will offer equipped space with computers and Internet access, and office services on a day/week basis to companies doing business in the CK, Technopark or elsewhere. The MIF's contribution will finance the computer equipment for the Business Center.

## **2. Business Management/Marketing Counseling & Training Services (US\$648,000 MIF; US\$152,000 CK).**

- 3.10 This component will finance a small core group of long-term consultants to strengthen the management of the PTBA, who are experts in high-tech business development; and specialized consultants to develop a full range of services including counseling and training on business practices, marketing and financial management, technology commercialization, website development, legal support, intellectual property protection, recruitment and public relations.
- 3.11 *Management Strengthening.* This sub-component will finance long-term consultants to integrate the core Management Team of the PTBA, skilled in inter-personal relations, business strategy, tactics and operations. They will be responsible for developing productive relationships with suppliers of services, customers, funding sources, and members of the business, academic, banking and government communities.
- 3.12 The PTBA will be headed by a General Manager (GM), who will dedicate a substantial part of his/her time to the project and will be an in-kind contribution by the counterpart. The GM has overall responsibility for the operations and success of PTBA including coordination of day-to-day matters, preparation and implementation of the business plan, staff and client appraisals, resource mobilization, and public relations with the board, the state and internationally.
- 3.13 A long term consultant will be hired as Finance Manager to oversee the administration and financial management of the accelerator, of the physical facilities, and of the



specialized consultants hired to provide business planning and financial management services for the accelerator and its clients. The Financial Manager will also train and advise members on financing and valuation of client business opportunities. The Financial Manager will be selected according to the Bank's procedures and financed with the MIFs contribution for a period of 40 months, and by counterpart resources for a period of 2 months.

- 3.14 The other long-term consultant will be hired as Services Manager, and will be responsible for the design, development and execution of entrepreneurial, marketing, and management training, counseling and mentoring programs for which specialized consultants will be contracted through this project. This professional will be responsible for mobilizing networks of experts and mentors from universities, research, business, NGOs, and associations that will have been identified as resources that can assist tenants on all their service and training needs. He/she is also responsible for overseeing the *Information Unit* (see paragraphs 3.21) and the *Business Center* that will be established through this project. The Services Manager will be selected according to the Bank's procedures and will be financed with the MIFs contribution for a period of 40 months, and by the counterpart for a period of 2 months.
- 3.15 Counterpart resources will be used to finance study tours , training abroad and participation in meetings of incubator networks (such as the National Business Incubator Association meetings) for the Management Team.
- 3.16 *Specialized Consulting Services.* Experts in specific areas will be hired as needed on a short-term basis to advise, train, develop services and provide other support to the management as well as clients of the accelerator. This outsourcing of expertise must respond to emerging needs identified by the accelerator's clients and Management Team. MIF and counterpart resources will be made available to hire these experts.
- 3.17 The following are some areas where consulting services have been identified as necessary: (i) design training modules in business plans, idea assessment, market surveys, and financial plans, among others; (ii) new economy strategies, process and negotiation of strategic partnerships; (iii) marketing, to design and implement a public relations campaign; (iv) information management, to train members in information transfer and the use of advanced techniques; (v) results oriented networking for services delivery, partnerships, and supply chain participation; (vi) management team training in client management and public relations; (vii) assistance to clients to develop systems for quality assurance, costing, communications channels, and staff development based on the experience of successful ICT companies; and (viii) personnel recruitment practices. (For details see Business Plan in Technical Files).

### **3. Innovation Development (US\$24,300 MIF; US\$9,300 CK).**

- 3.18 The purpose of this component is to support the process of developing innovative ideas, and assist the accelerator in the identification of interesting business concepts that require further nurturing to develop. This component would finance the initial services required for "pre-incubation" entrepreneurs to explore their business concept and collect market

information through intense interaction with accelerator clients and management, and access to mentoring.

- 3.19 A small part of the PTBA building remodeled through component 1 would be named the *Innovation Center*, to be rented on a weekly/monthly basis, until the entrepreneur is ready to enter the accelerator. In preparation for this project, a survey of potential clients was undertaken, and the demand for such a facility and a willingness to pay for it were identified. The MIF's contribution would finance the computer equipment for the Center, and the Finance Manager and Services Manager and specialized consultants financed through component 2 will provide technical assistance as needed by the "pre-incubation" entrepreneurs.
- 3.20 A *Business Plan Competition* would be organized as an activity of the *Innovation Center* in cooperation with selected university and business partners. The annual business plan competition's objective is to identify promising ideas associated with potential entrepreneurs, probably recent graduates of Panamanian universities, and to publicize the PTBA and promote a culture of technology entrepreneurship in Panama. Business plans from aspiring or actual entrepreneurs would be evaluated by a panel of distinguished persons, and the winners would receive admission to the incubator on preferential terms, including a one year subsidized rent and fee structure. The project, through the MIF's contribution, will finance the costs of having international experts participate in the evaluation of the business plans presented for the competition.
- 3.21 An *Information Unit* would be created and equipped to provide trade and technology information; Information Technology (IT) trade publications; linkage to the national library; and access to existing websites of the Global IT Forum, European Union, Latin American and North American businesses to incubates and outside clients. The project, with counterpart resources, will finance the equipment needs of the Information Unit. The Services Manager hired by the project (see paragraph 3.13) will supervise the Unit.

#### **4. Private Sector Outreach (US\$25,000 MIF; US\$55,000 CK).**

- 3.22 As loans from commercial banks are not readily available or appropriate for the start-up businesses, one of the crucial issues for incubated companies is how to obtain first-stage financing, or risk capital, to implement their full-fledged operational plans in the market after they are graduated from the Accelerator. The integration of seed and/or venture capital funding capability within business incubators has been a growing trend over the last five years, and this is a defining characteristic of business accelerators or so-called internet incubators. However, this feature needs to be adapted to local conditions, to insure the feasibility of a certain structure given the prevailing market forces. For this reason, this component will finance the design and establishment of a strategy for private sector outreach to facilitate those graduated companies with a high degree of potential success to secure alternative financing sources.
- 3.23 For this purpose, this component will finance the organization of three "venture forums" where potential financiers for start-ups including business angels, strategic investors and venture capitalists are invited to the presentation by the graduated incubatees on their

start-up businesses. Each Venture Forum will be typically arranged in the semi-informal setting inviting prominent speakers and offering networking opportunities. The PTBA will make full use of the existing business contacts and leverage its networking ability. Counterpart resources will finance this activity.

- 3.24 In addition, under this component, an international expert on venture capital and private equity fund management will be hired to design mechanisms to attract private sector financing to insure the financial sustainability of the Accelerator and promote private sector participation in it. This consulting would include the planning and structuring of a seed capital fund within the Accelerator, as a means to provide services in return for equity, co-sharing both risks and rewards. Once proven successful, the seed capital fund would serve to further attract risk capital. However, given that the venture capital industry is not yet developed in Panama, it is necessary to have a well-defined strategy of private sector participation.

#### **IV. EXECUTION**

##### **A. Executing Agency**

- 4.1 The City of Knowledge Foundation will be the Executing Agency for this project. The CK is headed by a Board of Trustees, which is responsible for overseeing its programs. The CK will be responsible to the Bank/MIF for the proper use of the project funds, for providing the needed counterpart funds in kind and cash, and for the monitoring of the progress of activities. The CK and its Board of Trustees<sup>3</sup> will approve the annual action plan for the and budget for the project, and the yearly financial audits. The CK, through the Executing Unit, will be responsible for: (i) establishing and maintaining separate and specific project accounting and financial records; internal control structure; and filing system, that allows for detailed identification of sources and uses of the project funds; (ii) open separate and specific bank accounts for the administration of the MIF's contribution and for local counterpart funds; (iii) prepare and submit to the Bank disbursement requests with their respective justification of expenditures, revolving fund reports and other financial reports requested by the Bank. Direct monitoring of project activities will be undertaken by a Managing Board (see paragraph 4.3)

##### **B. Executing Unit and Mechanism**

- 4.2 The execution of the project will be undertaken in two phases. For the first phase, an Executing Unit (EU) will be created within the CK to oversee the administration of the 12-month transition period during which IDEP will be converted to the PTBA. The Director of the TIP will be named chief of the EU for this period. The Director will be assisted by an accountant, financed by the MIF, and an administrative assistant provided as an in-kind contribution by the counterpart. The EU will report to a Managing Board. Once the PTBA is fully operational, it will assume the responsibilities of the Executing

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<sup>3</sup> The Board of Trustees of the CK is composed of 23 representatives of the public and private sectors, universities and research centers, and NGOs.

Unit (EU) for the second phase of this project, which is the consolidation of its operations, reporting to the MB.

- 4.3 The Managing Board (MB) would be comprised of about 12 representatives from the private sector, NGOs, universities and research centers, the public sector; and representatives of the Board of Trustees of CK. The MB will be responsible for the commission, evaluation and approval of the final Strategic Business Plan for the PTBA, the Policies and Procedures Manual, Operation Plans, and the Operating Budget. Also, the MB will: (i) approve the selection, and oversee the performance of the PTBA Management Team; (ii) approve the monthly reports on operations, and other policy issues, including admission of incubatees into PTBA; (iii) assist management in strengthening relationships with business, scientific and academic communities, banks, local, state and national government, in furtherance of support for potential, current, and past incubatees; (iv) promote the objectives of the PTBA in cooperation with the CK and the TIP; and (v) present to the CK Board of Trustees the annual financial statements for the project, annual budget for the project and action plans for their approval. The MB will meet once a month to review the progress of the project.

#### **C. Degree of Project Readiness**

- 4.4 IDEP, its Advisory Board and the CK Board of Trustees have already agreed to the transformation of its governance and management structure to become a Technology Accelerator. The CK and IDEP have approved a preliminary Business Plan (see technical files), which reflects financial and cost recovery projections for the first seven years of operations of the accelerator, as well as a plan for managing the transformation. Furthermore, all current tenants of the incubator have been informed that their current leases will not be renewed, meaning that all-current tenants will leave the small part of the building they occupy by May of 2002. New entrants will be assessed beginning in month 8 of execution. The Board of Trustees of the CK, in its meeting on May 4, 2001 has approved the transformation of IDEP's Advisory Board to an autonomous Managing Board, and the delegation of policy decision making for the transformation and consolidation phases of the project to it so that it may exercise all the functions described in paragraph 4.4. Furthermore, the Board of Trustees has approved the establishment of an EU within the CK; the designation of the Director of TIP as the chief of this unit to administer the transformation phase of the project; and the transfer of EU responsibilities to the PTBA once it is fully operational.

#### **D. Environmental and Social Impact**

- 4.5 The Project Proposal was reviewed by the Committee on Environment and Social Impact in its meeting held on November 10, 2000. The Committee approved the profile, with the recommendation that the CK should take into account gender issues and promote women entrepreneurs. These considerations will be included in the TORs for the Operations Design consulting firm. It is not expected that this operation will have any environmental impacts, and its social impact will be positive through the effect of new technology and knowledge based business development in the creation of new jobs, which in this case require skilled workers.

## V. COST AND FINANCING

### A. Cost

- 5.1 The total cost for this project is US\$1.9 million. The maximum financing from the MIF will be US\$1.2 million, by means of non-reimbursable funds from the Facility for Development of Small Enterprises (Facility III-A). The counterpart funds, to be contributed by the CK, will be at least US\$700,000, of which no more than 50% can be in-kind contributions. The distribution of costs is detailed in the table below (a detailed budget is available in the technical files for this project).

| Components                                   | Total     | MIF       | CK      |
|--|-----------|-----------|---------|
| 1. Structuring of PTBA and Staff Development | 587,250   | 319,750   | 267,500 |
| 2. Management, Counseling and Training       | 800,000   | 648,000   | 152,000 |
| 3. Innovation Development                    | 33,600    | 24,300    | 9,300   |
| 4. Private Sector Outreach                   | 80,000    | 25,000    | 55,000  |
| 5. Project Administration                    | 292,920   | 96,000    | 196,920 |
| 6. Evaluation, Audits and Contingencies      | 106,230   | 86,950    | 19,280  |
| Total  | 1,900,000 | 1,200,000 | 700,000 |
| Percentage                                   | 100%      | 63%       | 37%     |

### B. Sustainability

- 5.2 The PTBA will continue to provide services once the project execution has concluded. Since the majority of the costs of transforming the now existing IDEP to an accelerator would have been covered by the project, it is expected that by its fourth year of operation the PTBA will be able to cover its operating expenses through the income generated by rents, service charges to its clients inside the accelerator, and through the sale of its services to outside clients. According to the preliminary Business Plan for the PTBA presented to the Bank, it is expected that by the end of the MIF's project, the PTBA would be recovering the cost of services (that is staff and consultant costs) at a rate of 60%, with the difference being made-up through rental income, projected at an occupancy rate of 80%. It is also expected that through the private sector outreach component, the PTBA would be able to generate additional income to expand its operational capacity in the future.

### C. Financial Audits

- 5.3 The CK will submit to the Bank annual financial statements of the Executing Agency (CK) and the Project within ninety (90) days following the closing date of each fiscal year, duly audited by an independent audit firm acceptable to the Bank. To cover the costs of these audits, US\$20,000 of the MIF contribution has been reserved.

### D. Procurement of Goods and Services

- 5.4 The CK will be responsible for procuring the goods and services necessary for the project according to the Bank's procurement rules, procedures and policies and the MIF's eligibility criteria for contracting. The CK and the Bank/MIF will agree on a standard bid document to be used as a model for all procurement of goods and services.

**E. Execution and Disbursement Periods**

- 5.5 The execution period for this project is 48 months from the signing of the financing agreement, with a disbursement period of 54 months from the same date. Once the conditions precedent to the first disbursement have been fulfilled, a maximum of 10 percent of the project's resources may be advanced to establish a revolving fund to facilitate project execution. The resources used in said revolving fund may be replenished upon documented justification of the use of such resources.

**VI. JUSTIFICATION AND RISKS**

**A. Justification**

- 6.1 The proposed project will support the development of ten characteristics which are essential for the success of the PTBA: (i) clear vision and realistic goals; (ii) commitment of the CK, public sector and business community; (iii) clearly defined implementation actions within an estimated budget and work plan; (iv) a hands-on Managing Board and a competent, trained management team; (v) clear and strict guidelines for the selection of tenants for entry, and flexible exit procedures; (vi) effective training/counseling programs with access to networks of service providers; (vii) promotion of entrepreneurship, competition and business ethics; (viii) flexible plan for future expansion of space, services and outreach; (ix) mechanisms for continued mentoring and financial contributions from the private sector; and (x) rigorous monitoring, follow-up, evaluation and corrective actions.
- 6.2 This project will take advantage of the strengths of the good facilities, supportive business environment and fiscal incentives available to the CK, while at the same time creating a new type of incubator for Panama's new technology-based ventures. Utilizing existing IDEP and TIP facilities will help reduce the costs and time that might be required in starting the PTBA from scratch. There is a strong working relationship with the private sector in Panama— often not available in other countries. To complement all this, the project will assist the PTBA in designing mechanisms that insure its self-sustainability and facilitate access to seed financing by its clients.

**B. Risks**

- 6.3 The experiences of incubators' impact on development and sustainability have mixed results so far. Traditional incubators are faced with a variety of inherent problems. These range from the inherent risk associated with start-up companies; the perverse incentives caused by a structure that provides little benefits for quick graduation of companies; and below market prices for rent and services, which jeopardize the financial self-sustainability of the incubator. Business Accelerators, with a clear commercially sustainable goal, and a potential financial interest in the success of post-incubation companies, mitigate these problems.
- 6.4 The project team and a world recognized consultant hired by the Bank to identify and develop this project, have undertaken direct contacts with stakeholders in the public and

private sectors to present the purposes of the proposed Accelerator and mobilize broad business support, as a means to mitigate the risk of creating an accelerator without first insuring support from a broad spectrum of stakeholders. Surveys conducted in preparation for this project among the private sector and potential clients demonstrated strong support for the proposed model, and a demand base and willingness to pay for the services that will be provided by the PTBA. .

- 6.5 While the linkage to the City of Knowledge Foundation is important, an independent operational status for PTBA is necessary for a dynamic operating capacity to be in place. To minimize the risk of excessive oversight, the Board of Trustees of the CK has agreed to provide the Managing Board of the PTBA with special autonomous authority to reduce their oversight to those aspects mentioned in paragraph 4.1.

## **VII. MONITORING AND EVALUATION**

- 7.1 The principal project-monitoring instrument will be the six-month reports sent by the CK to the Bank. The reports must include information on the extent to which the objectives of the project have been attained, including the status of technical assistance, the funds committed and disbursed, with emphasis on the achievement of results (as outlined in the indicators in the logical framework) and impact of the project. The CK and the Country Office in Panama will agree on the content and structure of the progress reports prior to their preparation. Also, the CK through the EU, will prepare work plans and disbursement timetables for the following six-month period. The progress reports must be presented to the Bank within 60 days of the end of the each semester. Within the three months of the conclusion of the project's execution, the Bank will present to the MIF the Project Conclusion Report.
- 7.2 Two independent project evaluations are provided for, one half way into the project and the other at the conclusion of the project. Specialized consultants will be hired by the Bank/MIF to perform these evaluations and US\$50,000 of the contribution has been reserved for that purpose. The midterm evaluation will be made after the first 18 months of execution or after 50% of the project funds are committed. This evaluation will assess the degree of commitment of funds, the progress of the components, the effectiveness of the execution mechanism, and make the pertinent recommendations for the continuing execution of the project. The CK will be responsible for implementing any corrective measures deemed necessary by the evaluation, to the satisfaction of the Bank/MIF. The final evaluation, to be presented within three months of the conclusion of the project's execution, will determine the project's effectiveness in meeting its objectives in terms of the indicators set forth in the logical framework, and achieving sustainability, through meeting cost recovery and operating income projections of the PTBA's Business Plan, upon the conclusion of the MIF's project.

## **VIII. EXCEPTIONS TO BANK POLICIES**

- 8.1 No exceptions to Bank policies are contemplated.

## **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 As condition prior to first disbursement, the CK will have presented to the Bank/MIF evidence that: (i) the EU has been established, (ii) the Director of the TIP assigned to head it, and (iii) the Accountant for this project has been selected.



## Annex I. LOGICAL FRAMEWORK

| OBJECTIVES  | INDICATORS  | MEANS OF VERIFICATION   | ASSUMPTIONS   |
|---|---|---|---|
| <p><b>GOAL:</b></p> <p>Improve Panama's competitiveness in New Economy, its access to world markets and attractiveness to private investment through the promotion of entrepreneurship by pro-actively supporting the formation and accelerated growth of information and communication technology (ICT) -based enterprises businesses.</p>   | <ul style="list-style-type: none"><li>▪ Increase in Panama-based newly created ICT or New Economy Companies.</li></ul>  | <ul style="list-style-type: none"><li>▪ National statistics on business and company registries</li></ul>  | <ul style="list-style-type: none"><li>▪ Stable macroeconomic situation continues</li></ul>  |
| <p><b>PURPOSE:</b></p> <p>Panama Technology Business Accelerator (PTBA) established through the transformation of IDEP and in operation which nurtures ICT-related start-up firms and knowledge based ventures and helps them to grow into successful businesses in the market of New Economy.</p>  | <ul style="list-style-type: none"><li>▪ Fully functioning business accelerator facility with provision of quality services;</li><li>▪ Financially self-sustainable operation; At least 24 companies graduated from accelerator by month 48;</li><li>▪ 80% rate of occupancy in accelerator</li><li>▪ 60% recovery of service costs by month 48</li></ul>  | <ul style="list-style-type: none"><li>▪ Board Records;</li><li>▪ Evaluation reports;</li><li>▪ Financial Accounts;</li><li>▪ Exit reports for companies;</li><li>▪ Rental contracts</li></ul>   | <ul style="list-style-type: none"><li>▪ Private sector maintains high demand for accelerator services continues</li></ul>   |
| <p><b>COMPONENTS</b></p> <p>Component 1.<br/>PTBA structured with high-tech workspace appropriately remodeled and its management team trained.</p> <p>Component 2.<br/>PTBA equipped with business management/marketing counseling, and financial management and business counseling. 48 tenants companies business skills enhanced and their business prospective for success in the market augmented by month 48.</p> <p>Component 3.<br/>Incubation Center) space prepared services made available and functional with virtual library (Information Unit) of technology-related subjects equipped, and business plan competitions implemented.</p> <p>Component 4.<br/>Start-up financing mechanisms explored including studies on seed capital fund and the private sector encouraged to consider investment in or provision of financial support to the start-up companies and/or to the PTBA.</p> | <p>Fully functioning accelerator with trained management and staff capable of providing quality services.</p> <p>Fully functioning services added to the PTBA on financial management and business counseling. 48 tenants companies business skills enhanced and their business prospective for success in the market augmented by month 48.</p> <p>24 young promising to-be-entrepreneurs trained to prepare their business undertakings through the innovation services including empowered virtual library</p> <p>3 business competitions conducted at years 2, 3 and 4 and the winners admitted into the accelerator.</p> <p>Three venture forums held and 150 potential investors informed of the incubated firms business concepts or concrete prospects.</p> <p>Concrete alternative financing mechanisms for start-ups formulated and marketed to the potential sponsors.</p> | <p>Progress report</p> <p>Intermediate/Final evaluation</p> <p>Site visits.</p> <p>Consultant reports.</p> <p>Training workshops</p> <p>Forum minilutes</p> <p>Evaluation reports of Business Plans in competition</p> <p>Financial contributions to new mechanisms</p> <p>Sponsor agreements</p> | <ul style="list-style-type: none"><li>▪ There is a critical mass of resources qualified to become entrepreneurs</li><li>▪ Potential entrepreneurs see project as a means to launch ups</li><li>▪ There is sufficient timely support</li><li>▪ Demand for services continues</li><li>▪ Services provided respond demand</li><li>▪ Publicity and dissemination activities are effective</li><li>▪ Private sector interest in incubated companies continues</li><li>▪ Private sector financial support continues</li><li>▪ Entrepreneurs remain motivated</li><li>▪ Young university graduates accelerator as positive mechanism to enhance their innovativeness</li></ul> |

| OBJECTIVES   | INDICATORS   | MEANS OF VERIFICATION  | ASSUMPTIONS  |
|--|--|--|--|
| <p><b>ACTIVITIES</b></p> <p><u>Component 1.</u></p> <p>Establishment and organization of the executing unit.</p> <p>Hiring of operational design consultants.</p> <p>Remodeling and renovation of high-tech workplace and establishment of business center.</p> <p>Training of the management team of the PTBA.</p> <p><u>Component 2.</u></p> <p>Hiring of consultants as finance manager and services manager</p> <p>Provision of specialized consulting and training services to client companies in the PTBA.</p> <p><u>Component 3.</u></p> <p>Establishment of <i>Innovation Center</i> and provision of services through it.</p> <p>Hiring of consultants for organizing business plan competition and implementation of the competition.</p> <p>Establishment of <i>Information Unit</i></p> <p><u>Component 4.</u></p> <p>Hiring of private sector outreach consultant and performing feasibility studies on start-up financial mechanisms.</p> <p>Organization and implementation of venture forum and other private sector networking activities.</p> | <p>Budget.</p> <p>Consultant contracts.</p> <p>Construction contract.</p> <p>Training seminars agendas</p> <p>Consultant contracts signed</p> <p>Short-terms consultant contracts signed</p> <p>Tenant contracts at Innovation Center signed</p> <p>Consultant contracts signed</p> <p>Equipment purchased</p> <p>Consultant contract signed</p> <p>Forum logistics contracts.</p> | <p>Consultant contracts.</p> <p>Consultant contracts</p> <p>Tenant contracts</p> <p>Procurement contracts</p> <p>Consultant contracts</p> <p>Logistics firm's contract</p> | <ul style="list-style-type: none"> <li>▪ Experienced consultants available</li> <li>▪ Prospective tenants available</li> </ul> |

**PROPOSED RESOLUTION**

**REPUBLICA DE PANAMA. NONREIMBURSABLE TECHNICAL COOPERATION FOR A  
PROGRAM TO SUPPORT THE PANAMA TECHNOLOGY BUSINESS ACCELERATOR**

**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, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the “Fundación Ciudad del Saber”, and to take such additional measures as may be pertinent for the execution of the project proposal contained in Document MIF/AT-\_\_\_\_ with respect to a technical cooperation for a program to support the Panama technology business accelerator.
2. That up to the amount of US\$1,200,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.