

The Knowledge Economy Fund (KEF)

A Multi-donor Thematic Fund at the Inter-American Development Bank, at the service of development in Latin America and the Caribbean



Knowledge as a Foundation of Development

- *“In all the cases of sustained, high growth, the economies have rapidly absorbed knowhow, technology, and, more generally, knowledge from the rest of the world. These economies did not have to originate much of this knowledge, but they did have to assimilate it at a tremendous pace. That we know. ...economies can learn faster than they can invent. Knowledge acquired from the global economy is thus the fundamental basis of economic catch-up and sustained growth.*
- The Commission on Growth and Development, 2008. *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (p.57).

Knowledge transfer

Diminishing knowledge acquisition threshold

Knowledge acquisition

Knowledge adaptation

Knowledge creation

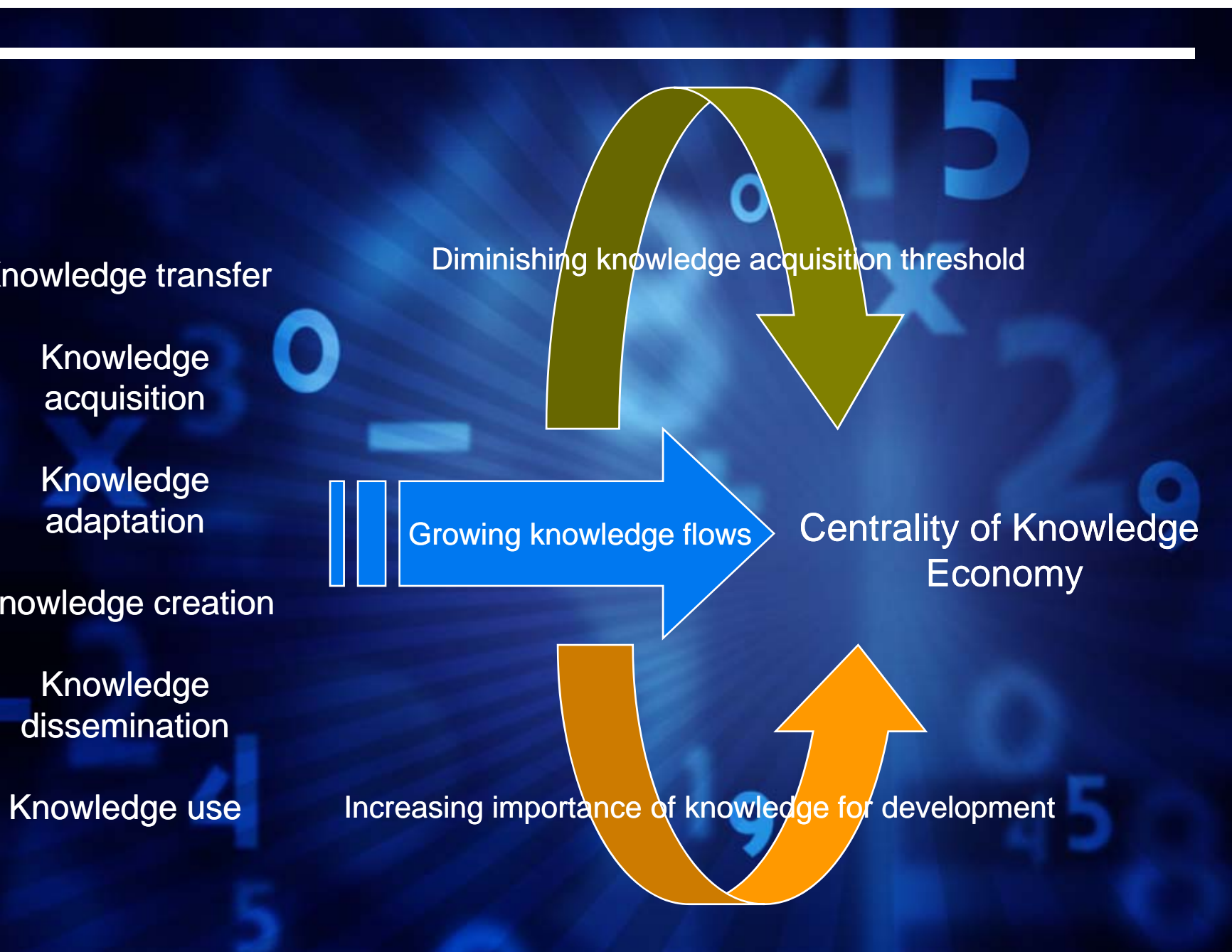
Growing knowledge flows

Centrality of Knowledge Economy

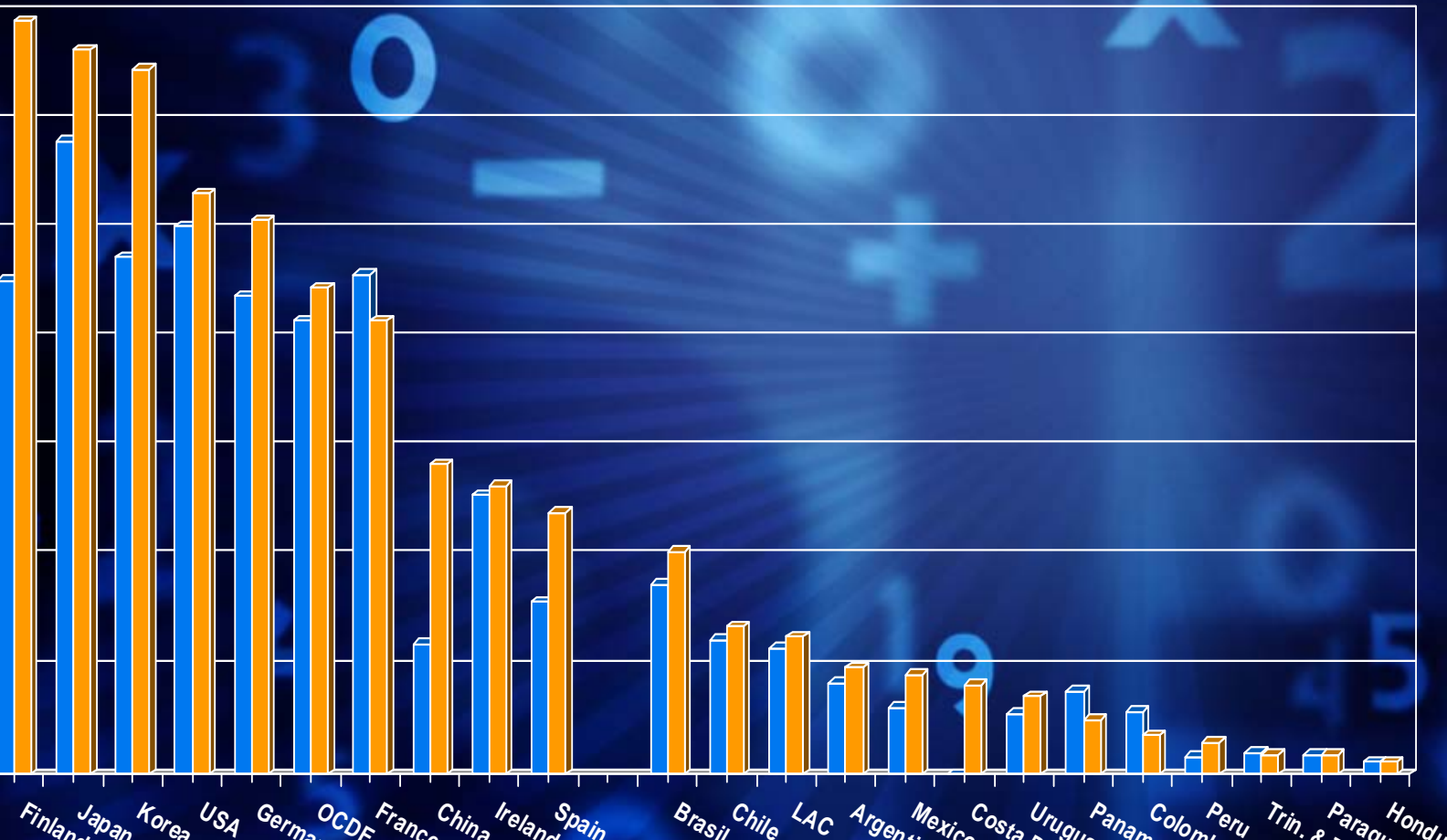
Knowledge dissemination

Knowledge use

Increasing importance of knowledge for development

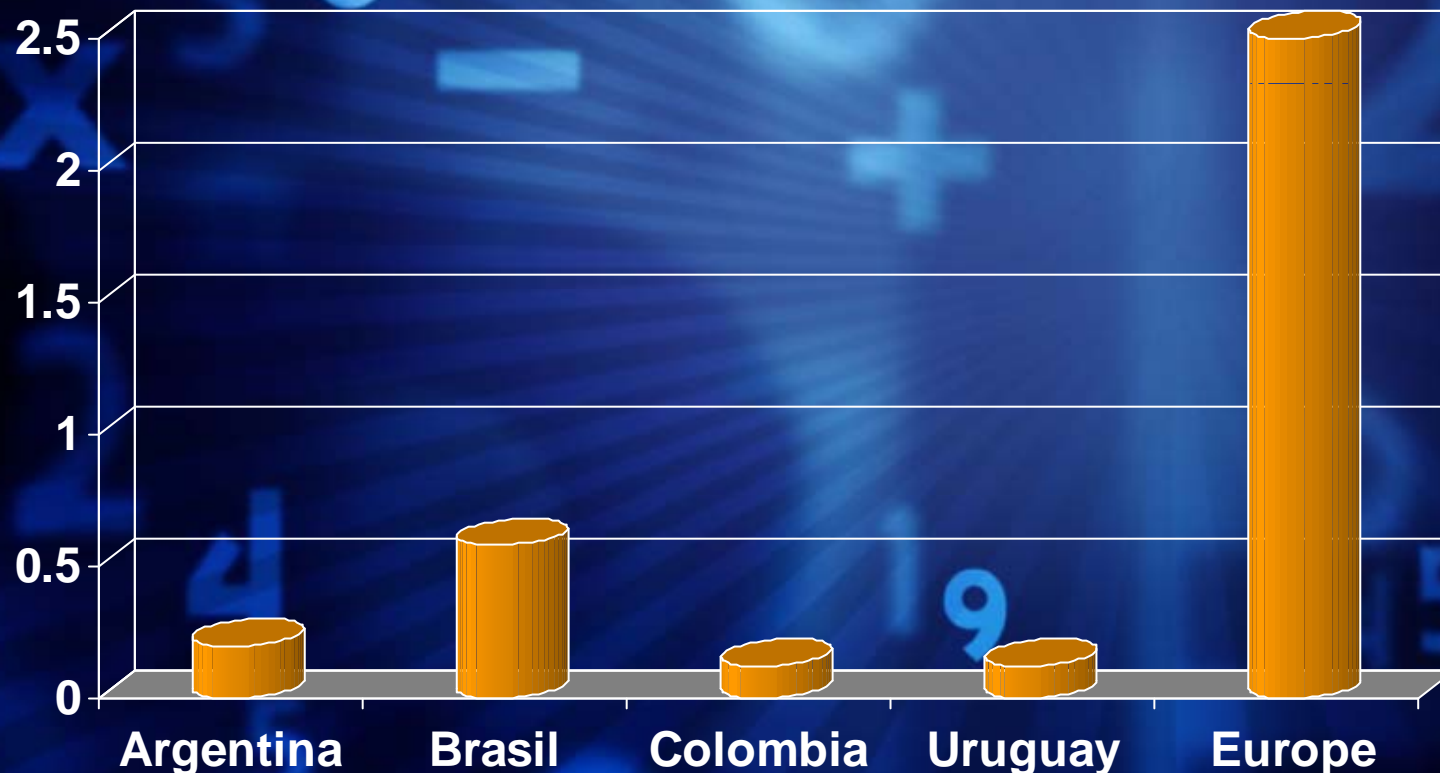


R&D Expenditure as a % of GDP: LAC trails the world



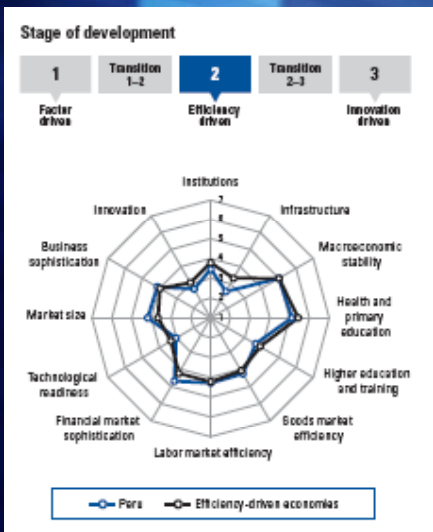
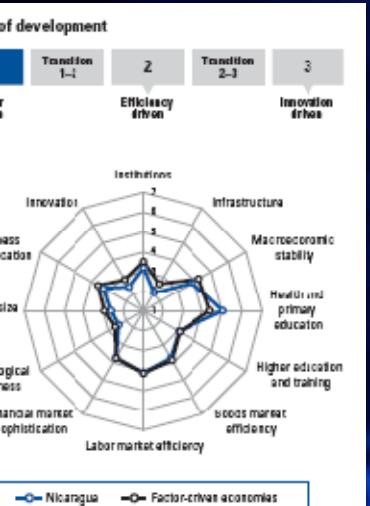
There is a low technological effort in the region's firms

R&D Intensity in firms (investment in R&D as a share of sales)

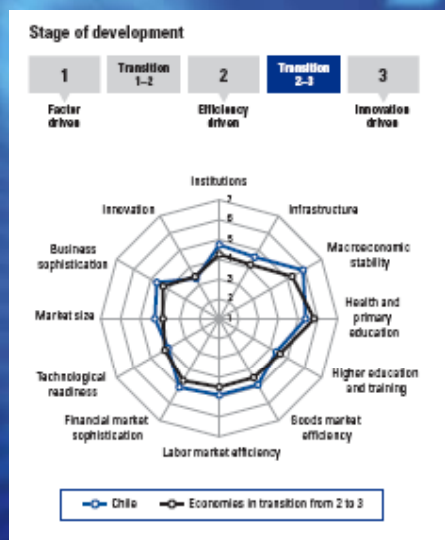


WEF sees LAC as low-tech

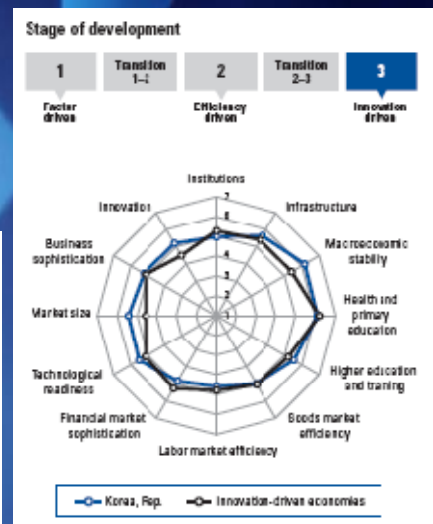
Some of the Latin-American economies can be classified as “innovation driven”, the way the Korean economy can. Most of the economies of the region fall into the “factor driven” or “efficiency driven” categories, those characterized by a low utilization of knowledge. Only one that qualifies for a transitional



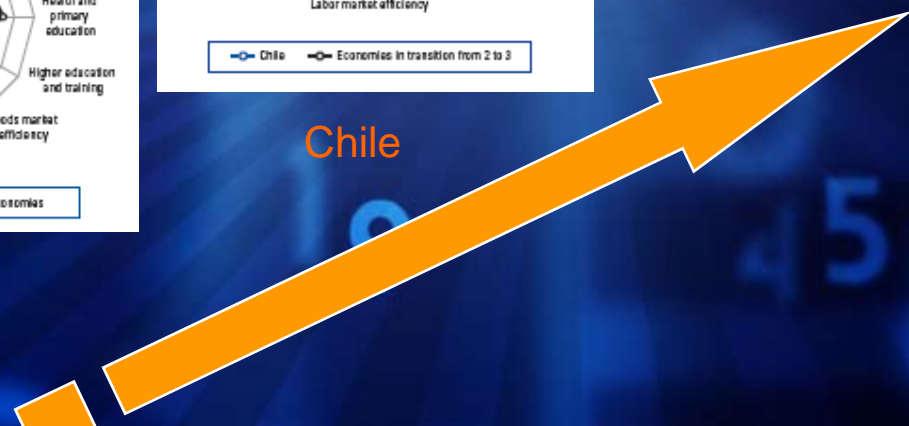
Peru



Chile



Korea



Innovation has become the necessary component of all recent high-impact development strategies

	Attraction of FDI	Business Internationalization	Export Promotion	Innovation
Australia	X			X
Canada		X	X	X
France				X
Germany				X
Japan	X	X	X	X
Malaysia	X	X	X	X
New Zealand		X	X	X
South Korea	X		X	X
Singapore	X	X	X	X
Sweden				X

The 4 Pillars of the Knowledge Economy

EIR provides incentives for the efficient creation, dissemination, and use of existing knowledge

Economic and Institutional Regime

To facilitate the effective communication, dissemination, and processing of information.

Information Infrastructure

An educated and skilled population that can use knowledge effectively

Education

Innovation consisting of organizations that can tap into the stock of global knowledge, assimilate and adapt it and create local knowledge

Innovation

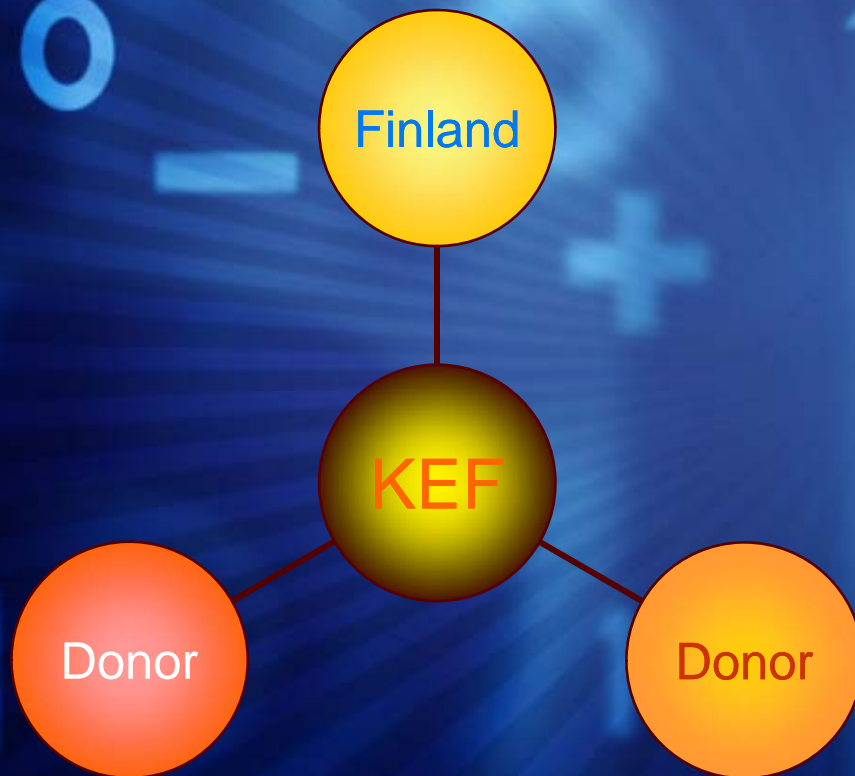
**Interconnected
Interdependent**

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KEF's Objective

- The overall objective of the IDB Knowledge Economy Fund (KEF) is to **increase competitiveness and reduce poverty in Latin America and the Caribbean through the development and strengthening of National Innovation Systems (NIS)** and the support to key scientific, technological and business actors, both national and regional, so that they can become fully integrated participants in worldwide knowledge networks.
- **This objective connects the fund directly to the core mission of the Bank**, by contributing to advancing both those development goals linked to competitiveness and growth and those related to social development and welfare.
- In doing so, it lends a contribution to making the attainment of such a mission fully relevant to the emerging challenges brought about by the emergence of knowledge-based economies

KEF: A multi-donor thematic fund



Nature of the support provided and beneficiaries

- The Fund is intended to become a source of **flexible, non-reimbursable funding for the support of activities that promote S&T capacity and innovation**. Such a source should play a catalytic role in **leveraging** public and private resources through the encouragement of domestic counterpart funds as well as by supporting the preparation of larger IDB lending programs.
- Given its nature, it constitutes **a primary source of resources for regional projects, multi-national in scope, although it is not limited to them**.
- The Fund's intended **beneficiaries** will include the **private sector, universities, educational and research institutions, local community organizations as well as LAC governments** seeking to promote and consolidate their national and regional systems of innovation.

B
Portfolio



Activities to be supported by KEF

- The KEF aims to support a range of activities designed to build and strengthen the capacities of the Bank's borrowing member countries especially the poorer ones, to
 - a) develop, acquire, and assimilate knowledge and new productive know-how through the establishment of links with leading companies, laboratories, universities and experts, as well as through the intensive use of information and communications technology;
 - b) enhance human capital formation and utilization through better education and skills training in critically needed areas such as math, sciences and engineering;
 - c) support private sector innovation in strategic business clusters and sectors of the economy; and
 - d) encourage the creative application of technology to the solution of social problems and the provision of public goods.

KEF's Thematic Focus: Top priorities

a. The Bank's long experience in science and technology projects indicates that *a wide range of mechanisms is needed to help leverage additional investment in innovation activities at the firm level*, ranging from direct public subsidies to venture capital. The Fund will support work related to the design, evaluation and adaptation of such mechanisms.

b. *Building –as well as preserving, through talent-circulation strategies a critical mass of scientists, engineers and highly qualified technicians* is fundamental for creating the delivery capacity through which new technologies are applied in the productive sectors. This includes, as a very important issue, *the improvement of university-business interaction regarding innovative activities*. The *provision of high quality education in the sciences, mathematics, technology, and engineering* to produce a skilled workforce is also a key component of this line of work. The fund will support planning, evaluation and pilot testing of programs in this area.

c. *Streamlining public policy and building effective institutions for the sector* is a necessary component of most efforts in innovation, science and technology, particularly in the smaller and poorer countries. National and Regional Systems of Innovation across Latin America and the Caribbean generate a continuing demand for institutional strengthening and regulatory enhancements that the Fund resources will contribute to satisfy.

KEF: Next phase priorities

- d. *Strengthening of basic capacities in metrology and calibration of control systems, including a wide array of technological services, intellectual property rights and patents.* Quality control mechanisms that meet international standards remain the exception rather than the rule throughout the region. Fund resources can be applied to help strengthen these capacities.
- e. *ICT applications in the private and public sectors* constitute a key transversal component of knowledge adoption and application in modern economies, but several factors have inhibited its full exploitation for the benefit of economies in Latin America and the Caribbean. The Fund will be active in playing a role in the mainstreaming of ICT applications and services in the region.
- f. Last, but not least, there is a need to encourage the *development and application of technology to the solution of social problems* such as poverty and exclusion.

How the KEF works

- Strictly aligned to country development plans and priorities
- Strictly aligned to IDB work program in each country
- Strictly aligned to IDB's new technical cooperation framework
- With a strong emphasis on evaluation and accountability, applicable to all its activities

The Fund so far (8 months)

- Benefits from KEF project have in a short time reached **all borrowing countries of the Bank**.
- Demand for KEF's support has been very strong
- If 2009 offers any guidance the current funds will be exhausted during the first half of 2010
- Demand has been highly concentrated on categories, which are fully in line with stated priorities of the fund and the vision of LAC priorities that presided its establishment
- KEF funding has leveraged resources several times over the amounts invested, becoming a vehicle apt to channel **partnerships** between donors/developing countries/IDB/other public and private sources
- 2009 pipelines is in full alignment with IDB larger operational and

“...if the intricate systems of incentives to create new ideas is underdeveloped, society suffers from the general lack of progress. Most of all the poor.”

D. Warsh, *Knowledge and the Wealth of Nations*, 2006