Creating an Ecosystem of Innovation in Latin America

23rd June 2016

Jerry Haar

The last few years have not been kind to Latin America, economically speaking. And that is an understatement. The region has experienced two consecutive years of negative growth (-0.1% and -0.5%). 2017 will bring a slight improvement only. Recognizably, the main culprits in the projected contraction are Argentina, Brazil, Ecuador and Venezuela–accounting for 50% of the region's GDP. As for foreign direct investment (FDI), inflows reached $171.84 billion in 2015, down almost 12 percent from the $195 billion in 2014. This contrasts with a 36% increase in FDI around the world. Add to the mix a continuing depression in commodity prices (slowdown in China), corruption scandals, high interest rates, and urban crime and violence, and the forecast is gloomy overall.

However, among the storm clouds that will continue to hover over the economies of the region, there are indeed a number of pockets of sunshine—the brightest being the rapid proliferation of start-ups, both tech- and non-tech based, and the pace of innovation throughout the Hemisphere. Last year, start-ups in Latin American ballooned to 1,333 and accelerators to 62, with investment approaching $32 million. Chile leads the way, with 3 times the investment of Brazil. In terms of numbers of start-ups, Chile had 442, Mexico, and Brazil 297.

While start-ups pop up serendipitously, it takes the formation of an "ecosystem" to fuel the growth, interaction, and dynamism necessary to foster and expand innovation. Ecosystems of innovation, as referred to here, are communities of interacting parties–business, government, academe and non-profit organizations. They can be national and subnational (Chile, Uruguay, Costa Rica) or can be found in clusters (aerospace in Querétero, Mexico; IT in Campinas, Brazil; sugar cane, Valle de Cauca, Colombia). As Ricardo Ernst and I point out in our new book Innovation in Emerging Markets, an ecosystem's drivers are innovation are national policies, facilitating institutions (such as Colombia's Colciencias), and firm-level innovation. We find also that facilitating institutions, themselves, can have far greater impact than government or individual firms. Examples include Techstars, 500 Startups, Endeavor, Wayra, and NXTP Labs.

Just what are the key ingredients that comprise a successful ecosystem of innovation? Any research-based assessment and extensive conversations with entrepreneurs, other business professionals, and government officials would most likely agree that the list encompasses:

1. Large pool of skilled talent
2. Installed and diffuse technological base (e.g., broadband networks)
3. Dedicated infrastructure of research universities, labs and entrepreneurship instruction
4. Ample funding (angel investment, venture capital, convertible debt, microfinance, crowdfunding)
5. Networks and collaboration among financiers, entrepreneurs, scientists, technologists, and designers
6. An environment that nurtures, supports and sustains creativity
7. Mechanisms for the fast transfer of knowledge
8. Strong intellectual property laws and surety of enforcement
9. Pro-market economic, tax and regulatory policies
10. Well-functioning administrative, legal and judicial systems
11. Federal, state and local industrial policies—especially those targeted at "clusters"

———————————————————————————

Although Latin American ranks low on the 2015 Global Innovation Index–Chile is #1 in Latin American but #42 overall – it is the second most entrepreneurial region in the world, according to the World Bank. It's Internet and mobile density is higher than the world average.

Although covered only minimally in the North American and European media, every nation in Latin America–and the Caribbean–is home to start-up activities. To illustrate, Dev.F (Mexico) brings software development techniques to that nation; Platzi (Colombia) provides an online learning platform for IT and programming courses; HubUnitec (Honduras), Impact Hub (Guatemala), and Atom House (Colombia) provide co-working and meeting spaces for young techies; and initiatives like Laboratoria (Peru), Epic Queen, and WomenWhoCode assist female start-up entrepreneurs to achieve success.

As for financing start-ups, here, too a myriad of resources such as Venture Club (Panama), Kaszek Ventures, Guadalajara Angel Investors, and Ideame, a crowdsourcing financing platform.

Successful ecosystems of innovation result from the synergy created by universities, R&D centers, talented human capital, investors (venture capitalists and angel investors), professional associations, and the private sector and government working to achieve sustainable competitiveness.

While 2017 will usher in another lackluster year for the region in terms of economic performance, with only a few countries achieving notable success, the rapidly emerging ecosystem of innovation will continue unabated and provide limitless opportunities for both technology- and non-technology entrepreneurs across the region.

Jerry Haar is a business professor at Florida International University and a global fellow of the Woodrow Wilson International Center for Scholars in Washington, D.C. He also holds non-resident appointments at Georgetown and Harvard. His latest book is Innovation in Emerging Markets.