

PUBLIC POLICY AND PRODUCTIVE
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The Case of INNpulsa Colombia

THE EVOLUTION OF A PUBLIC POLICY FOR THE PROMOTION OF BUSINESS HYPER-GROWTH

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**Public Policies and Productive Transformation Series
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Rafael Vesga

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Foreword

Productive transformation has been one of the areas that CAF, as the development bank of Latin America, has fostered as a necessary condition for reaching a high and sustainable development in the region.

The experience and expertise generated in each project during the last decades have made the Institution a Latin American point of reference in areas such as competitiveness, Corporate Governance, local and business development, and productive inclusion.

The public policies necessary to drive productive transformation are based on the development of those capabilities aimed at the implementation of good practices and specific supports for improving business management and productivity. Thus, CAF makes its knowledge and expertise available and offers efficient support to a variety of sectors while, at the same, it creates documentation and does research on success stories that are relevant for the region.

“Public Policy and Productive Transformation” consists of a series of documents aimed at disseminating those experiences and relevant stories in Latin America as an instrument for spreading the knowledge that CAF makes available to the countries in the region so that better practices with respect to business development and productive transformation practices can be implemented.

L. Enrique García
Executive President

Executive Summary

INNpalsa Colombia, a special program by the Colombian development bank, Bancóldex, was created in 2012 in an effort to “support and promote business hyper-growth, led by innovation throughout the country.” INNpalsa promotes the emergence of new companies with hyper-growth potential and supports businesses that place innovation at the center of their strategy.

Several Latin American countries have launched public policy initiatives aimed at strengthening their entrepreneurial ecosystems. In this sense, INNpalsa hopes to generate an interaction of different ideas and options that can contribute to the common goal of creating public policies that foster entrepreneurship so it becomes an engine for economic growth in Latin America.

Introduction: The Role of INNpulsa to Support Entrepreneurship

INNpulsa Colombia, a special program by Bancóldex, the Colombian development bank, was created in 2012 in an effort to “support and promote business hyper-growth in the country, led by innovation.” INNpulsa promotes the emergence of new companies with hyper-growth potential and supports businesses that place innovation at the center of their strategy. It focuses on identifying entrepreneurs and innovative companies, aiming to support them so they can reach stages of dynamic and sustainable growth over time.

INNpulsa has positioned itself as a very visible player in the context of public policies in Colombia. Thanks to its efforts, many entrepreneurs have had the chance to interact with the government and leaders of entrepreneurial ecosystems in cities and regions throughout the country. Similarly, within these local ecosystems, INNpulsa has disseminated global knowledge about the management of dynamic growth companies.

INNpulsa is not the only government organization in Colombia that looks to promote hyper-growth potential entrepreneurship¹. However, it has played an especially relevant role in so far as its focus on the cultural aspects and the transformation of business perspectives and behaviors, striving for a modern conception of dynamic entrepreneurship. INNpulsa is committed to establishing the notions of entrepreneurship and innovation in the country’s culture, and in this sense, it focuses on ventures that approach business with ambitious growth and innovation goals, and not merely as a vehicle for technology management. It calls on entrepreneurs to rethink the structures of the companies they lead and offers a new interpretation of the role of public policy, which prioritizes the development of companies’ knowledge absorption capabilities as a condition for the advancement of innovation in the country². Despite its limited resources, INNpulsa has made a solid contribution by conveying the importance of high-impact entrepreneurship to key stakeholders: entrepreneurs, government representatives and ecosystem leaders, including universities, chambers of commerce and business incubators, among many others.

1 Bancóldex is linked to the Ministry of Trade, Industry and Tourism, also responsible for other programs with an impact on entrepreneurship. Additionally, entities such as the Ministry of Information Technology and Communications (Mintic), Colciencias (the governing body in charge of science and technology) and the Servicio Nacional de Aprendizaje, SENA, (a state entity in charge of tertiary technical training), also offer important programs that support dynamic entrepreneurship.

2 OECD (2014).

Even though it is still early to determine the extent of INNpalsa's impact on the entrepreneurial culture in Colombia, evidence of change is already apparent. Towards the end of 2014, more than 3,245 new companies had taken part in the organization's programs. Also, more than 40 organizations from 18 departments throughout the country were included in a partnering system designed to support the development of hyper-growth companies; the model looks for these entities to behave as sustainable companies, making a living by supporting value generation in new ventures, instead of simply surviving by channeling the incentives or subsidies offered by government entities. For larger firms, the program achieved observable results in the management of open innovation initiatives. On a complementary basis, and thanks to the work led by Bancóldex and its Programa Bancóldex Capital, the system has also dynamized the private equity and venture capital funds industry, although much more remains to be done in terms of launching investment funds focused on start-ups and early development stage companies.

It's worth pointing out that INNpalsa's working methodology calls on basic principles of rapid learning resulting from its direct actions. Just as modern methods of entrepreneurial management suggest that entrepreneurs must "hit the streets" (Blank & Dorf, 2012) and explore their clients' realities by learning out in the field, INNpalsa has adopted a management model that prioritizes evidence-based learning derived from its own actions. The premise is that if innovative and hyper-growth entrepreneurs operate in such a manner, then an organization that has been created to support said entrepreneurs must operate under the same rationale. A public policy initiative aimed at innovative entrepreneurship must respond and adapt to the way in which innovative entrepreneurs think and work.

Evidently, this is not to say that every change in the entrepreneurial world in Colombia is attributable to INNpalsa's efforts, but the organization's coherent discourse and support mechanisms for multiple initiatives in the most important regions of the country have certainly been important catalysts.

Thus, learning about INNpalsa can be a valuable experience for those participating in the renewal of entrepreneurship ecosystems in other Latin American countries. Global knowledge about the management of dynamic growth companies and public policy actions that support these companies has grown at breakneck speed. The institutional framework in which INNpalsa has operated is the result of a series of adjustments made to cater for the Colombian reality; visions of dynamic entrepreneurship have been adjusted to the possibilities and restrictions of its particular environment. Other countries have also initiated similar efforts to respond to their own particular circumstances, and their results are, and will also be, unique. In this sense, INNpalsa hopes to generate an interaction of different ideas and options that can contribute to the common goal of creating public policies to foster entrepreneurship so it becomes an engine of economic growth in Latin America.

This report describes INNpalsa's journey since it was created two years ago. It includes useful learning experiences for the formulation of public policies aimed at stimulating dynamic entrepreneurship and business innovation, without claiming to be a formal assessment of the initiative's impact. We discuss hyper-growth entrepreneurship on a global scale as well as the evolution of public policies revolving around entrepreneurship in Colombia, up until the creation of INNpalsa. After describing the organization and its experience, the report points to future challenges that must be addressed.

Innovative Entrepreneurship and Public Policies

Public policies promoting entrepreneurship underwent significant changes globally at the end of the 1990s and during the first decade of the 21st Century. Prior to 1990, public policies were, generally speaking, focused on providing support to small ventures, and the policies revolved around a series of entities and instruments specialized in supporting these types of companies. The driving principle was to protect their existence and defend their job-creation capabilities *vis a vis* a threatening economic environment that favored the productivity and competitive advantages of large companies that had substantial amounts of capital and could generate economies of scale.

Such was the core principle of public policies aimed at entrepreneurship when the world followed a “managed economy” rationale, straight after the Second World War, where capital-intensive activities and large economies of scale afforded larger companies a series of advantages that were unreachable for their smaller counterparts (Audretsch & Thurik, 2001). Smaller companies, and therefore start-ups, were far from being considered as the economy’s growth engine. In fact, they were not even considered as an important source of new jobs, which was another aspect where the dynamics were also thought to be under the control of larger companies.

However, in the 1990s it became evident that the managed economy model, based on capital advantages, had hit a ceiling in terms of its growth potential and was less capable of generating the economic dynamism necessary to meet society’s employment demands. In fact, the opposite occurred as the pressure of globalization led capital-intensive companies to adopt strategies that sought to increase productivity by substituting labor with capital and outsourcing labor-intensive activities to other parts of the world.

At the same time, it became evident that knowledge had become the new source of advantage and productivity. At the same time, it was also proven that simply stimulating the development of knowledge in a given country or region was not enough to attain new levels of economic growth. In fact, public policies aimed exclusively at this side of the equation (through the support of universities and research centers, and the research and development (R&D) activities of larger companies) failed to produce results matching those expectations. Such was the case of Sweden, where investment in R&D was among the highest in the world but failed to generate the expected economic growth. The inability of several European nations to transform their technological development into commercial success was described (according to the above mentioned work) by the European Commission as the “European paradox.”

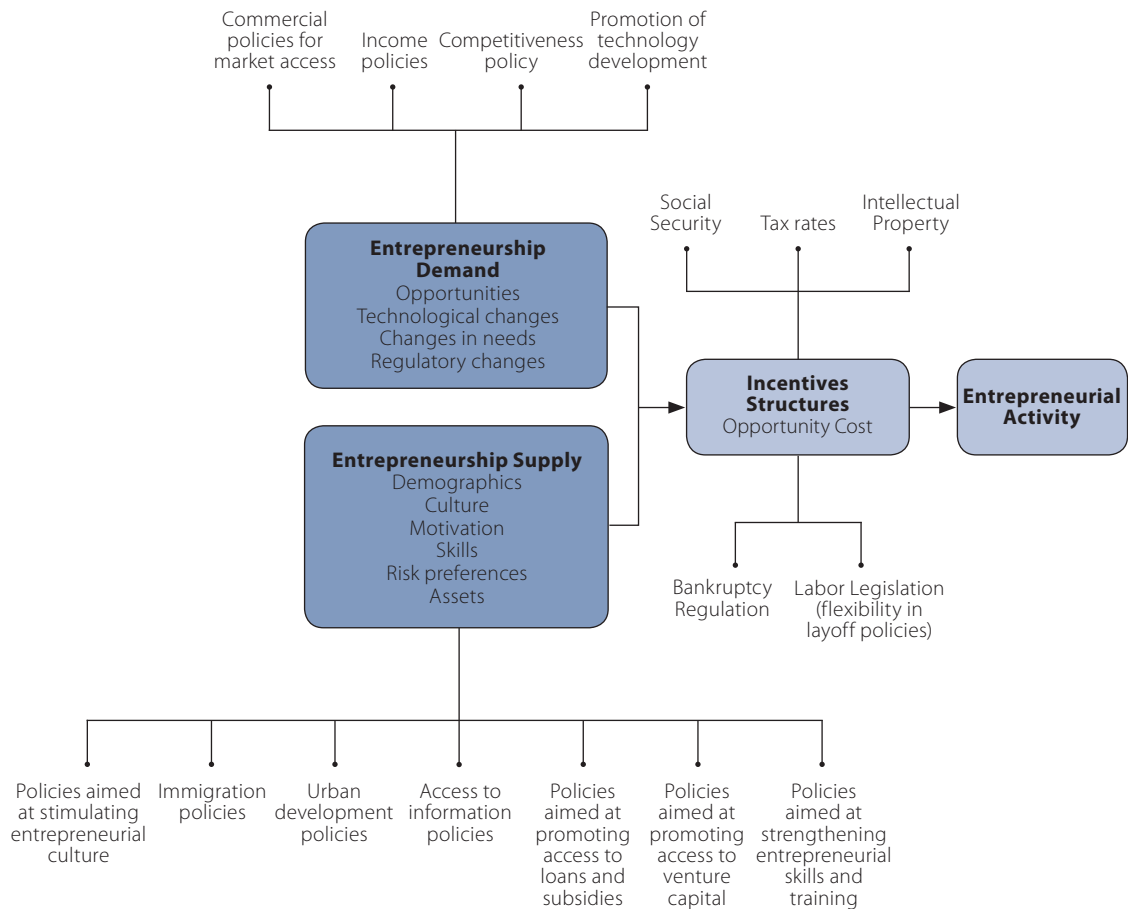
Hence, it became clear that developing new forms of knowledge was not enough to boost economic growth; a different approach was needed to identify those companies capable of transforming new forms of knowledge into sources of productivity and competitive advantages; of transforming knowledge into concrete products that would gain supremacy in the market and add value. Thus, public policy designs aimed at economic growth experienced a paradigm shift from the “managed economy” model to the “entrepreneurial economy” model.

Such a reality meant that a new approach was also needed for public policies aimed at entrepreneurship. The new objectives would prioritize the commercialization of new forms of knowledge through entrepreneurial organizations capable of managing new products, services and business models. At this stage, more than creating new companies, development policies began to prioritize and boost the entrepreneurial vitality of countries and regions, and their capabilities to establish networks that would allow for the rapid flow of knowledge from universities and research centers towards businesses, as well as a more entrepreneurial spirit amongst the population. Whereas the focus of the managed economy lay in regulating the activities of large companies, in the entrepreneurial economy the focus became the design of mechanisms and instruments capable of fostering a fluid flow of knowledge from its source to the channels where it could be commercialized. An entrepreneurship policy based on this new paradigm would not be limited to simply defining the guidelines for certain entities. Rather, for a country to achieve greater entrepreneurial energy it was now necessary to take into account the new context that affected the decision-making processes of entrepreneurs.

In the entrepreneurial economy, the role of public policy in so far as promoter of entrepreneurship is now a holistic one and covers lines of action on multiple fronts. This approach is summarized in Graph 1. If the objective of public policy is to boost dynamic entrepreneurship and develop the capabilities to transform the economy, then it must work simultaneously on different fronts.

These different public policy actions must ensure there is a demand for entrepreneurship in the form of a series of opportunities to create and capture value, and this in turn has to be matched with a supply of entrepreneurial efforts, made up of individuals that have the necessary motivation, capabilities and skills to be entrepreneurial. At the same time, it is important to strike a balance between the costs and benefits of being entrepreneurial so that the supply of entrepreneurs matches the demand. In this sense, the conditions that affect the costs and benefits of entrepreneurship must render a positive result, barring which no entrepreneurial activity can be materialized.

GRAPH 1. PUBLIC POLICY MODEL AIMED AT PROMOTING ENTREPRENEURSHIP



Source: Based on Audretsch and Beckmann (2007), and Hoffmann (2007).

To summarize, public policies aimed at entrepreneurship in Colombia have shown that the country has undergone a learning process about the impact of entrepreneurship on economic development, and that this has led to new measures and approaches, and to the creation of INNpalsa.

A New Public Policy Aimed at Entrepreneurship

In the past two decades Colombia has been exploring ways it can articulate entrepreneurship as an important component of its competitiveness. The interest in competitiveness began in 1993 when Michael Porter and the Monitor Group visited the country and advised Colombia to adopt a series of initiatives in a number of productive sectors so it could seize its competitive advantages. Since then, the country has tried to accelerate the productivity and competitiveness of its companies by deploying a number of approaches. Before the 1990s, development policies focused primarily on macroeconomic topics, but the work of Porter and Monitor demonstrated that the most crucial decisions around competitiveness were taken at regional or city levels. Since then, a succession of governments has designed their competitiveness policies with an eye on promoting greater involvement of local and regional stakeholders.

However, despite the fact that Colombia's economic growth potential is now widely recognized, the country still lags behind others in terms of productivity and competitiveness. According to figures from the World Bank, Colombia's per capita Gross Domestic Product (measured in purchasing power parity terms) grew from US\$5,267 in 1994 to US\$10,433 in 2012. However, this was still lower than other Latin American countries such as Chile (US\$22,362 in 2012), Mexico (US\$16,733) or Brazil (US\$11,715). Colombia was also behind countries such as South Korea (US\$30,800), Malaysia (US\$16,918), Finland (US\$38,271), Bulgaria (US\$16,043) and Turkey (US\$18,384), but the gaps have intensified in the last 20 years, as the differences in per capita GDP in 1994 were much smaller than they are today. Other indicators, such as productivity per worker or multi-factorial productivity, reveal an even greater lag.

Colombia has recognized this situation and several governments have attempted different public policy formulas to promote the competitiveness of the productive base. In this sense, for quite some time the development of entrepreneurial capabilities has been included in the formulas that could help the country reach the levels of competitiveness it requires. As from the year 2000, it became evident that public policy interventions for economic development and competitiveness that simply focused on regional approaches, as recommended by Michael Porter, were not enough, and that it was necessary to work closer with companies and more specifically, with new entrepreneurs capable of generating wealth.

In the context of public policies in Colombia, promoting dynamic business growth has been a gradual process. To be certain, improving conditions so that some companies may expand rapidly and create significant value is a relatively recent notion in Latin America, as it is throughout the world. In this sense, recognizing that some companies may achieve hyper-growth by developing a certain set of capabilities has taken time. In fact, the identification of

a link between these capabilities and the characteristics of entrepreneurs, the existing culture within organizations and overall results of economic growth is currently one of the most active areas of international academic research in the field of entrepreneurial development.

In Colombia, public policy has been especially concerned with the figure of “the entrepreneur” (the creator of a company) since the mid 1990s. The administration of Andrés Pastrana (1998-2002) supported young entrepreneurs and founders of exporting companies, as well the development of micro, small and medium-sized businesses. The starting point of its analysis was that entrepreneurial capabilities were hindered by institutional barriers, difficult access to production factors and hurdles for competition, so policy efforts had to focus on bringing in mechanisms to solve these difficulties. Hence, the government created the Consejo Superior de la Pequeña y Mediana Empresa (higher council for SMEs), comprised by several ministers, leaders of professional associations and regional representatives, together with the Fondo de Modernización y Desarrollo Tecnológico de las Micro, Pequeñas y Medianas Empresas (known as Fomipyme, a modernization and technological development fund for micro and SMEs), the resources of which would be managed by a trust and channeled to smaller companies.

In 2002, the administration of Álvaro Uribe increased programs for entrepreneurship (Graph 2), by creating Fondo Emprender, a fund aimed at funding entrepreneurial initiatives developed by university and technical college students. It was the first time the State had created a specific instrument to finance seed capital projects and, once again, the assumption was that younger generations had greater possibilities of creating value, especially if they received assistance for the creation of start-ups. It is worth pointing out that the main objective of Fondo Emprender was to strengthen the social protection afforded to workers in their employment contracts. Thus, entrepreneurship was understood at that time as an instrument of social policy linked to job creation.

Colombia also developed business incubators, and by 2005 there were 34 business incubators in operation associated to the Servicio Nacional de Aprendizaje (SENA), which had contributed to the creation of 801 companies with average annual sales of approximately US\$92,500 per company. These incubators were non-profit organizations that were mainly funded through their access to State resources (DNP, 2010). Some of these incubators remain, but others are no longer in operation. A new generation of privately-funded institutions supporting entrepreneurship went on to emerge in Colombia.

In 2006, Colombia passed a law for the promotion of entrepreneurial culture, Ley 1014 de Fomento a la Cultura del Emprendimiento, where entrepreneurs are identified in terms of their innovation capabilities, and entrepreneurship is defined as “a way of thinking and acting oriented towards the creation of wealth.” The law mandated the creation of national and regional networks to support entrepreneurship, with the participation of the ministers of Trade, Industry and Tourism, Education and Social Protection, as well as the directors of the

GRAPH 2. EVOLUTION OF ENTREPRENEURSHIP AS SUBJECT OF PUBLIC POLICY, 2002-2012

2002	Law 789/2002 Entrepreneurial Fund (Fondo Emprendedor).
2004	CONPES 3297/2004 Internal Agenda for competitiveness and Productivity.
2006	Law 1014/2006 Promotion of Entrepreneurial Culture. CONPES 3439/2006 National Competitiveness Administrative System and National Competitiveness Commission.
2007	Decree 2175/2007 Regulates the Management of Collective Portfolios. CONPES 3484/2007 Productive Transformation of SMEs.
2008	CONPES 3527/2008 National Competitiveness and Productivity Policy World Class Sectors. Objectives of Entrepreneurship Promotion. CONPES 3533/2008 Adaptation of the intellectual property system to the productivity and competitiveness policy.
2009	Law 1286/2009 Transforms Colciencias into an Administrative Department; strengthens the Sistema Nacional de Ciencia, Tecnología e Innovación (SNTCI). Decree 1192/2009 Regulation L1014/2006, creates the National Entrepreneurship Network and the Regional Entrepreneurship Networks. CONPES 3582/2009 National Policy for Science, Technology and Innovation. Creation of the Bancoldex Capital program.
2010	Decree 2955/2010 Establishes the investment regime for Mandatory Pension Funds and Insurance Companies, allowing them to invest in private equity funds. Decree 2953/2010 Regulates the investment regime for Insurance Companies, allowing them to invest in private equity funds. CONPES 3652/2010 Authorizes credit seeking for SNTCI funding
2011	Legislative Session 5/2011 General Royalties System Development Plan Foundations. The Government will promote a greater development of private equity funds through the Development Unit of Bancóldex. The role of Bancóldex shifts towards that of a Comprehensive Development Bank. Agreement 164 between the Nation and MinCIT for the creation of UDI Law 1450/2011 Development Plan Law. Mandates Bancóldex to create the Fondo de Modernización y Desarrollo Tecnológico de las Micro, Pequeñas y Medianas Empresas (Fomipyme fund) and the Development Unit.
2012	Creation of Innpulsa Colombia

Source: the Author

Servicio Nacional de Aprendizaje (technical training) and the National Planning Department (DNP), the director of Colciencias (the science and technology authority), and representatives of several professional associations, universities, business incubators and associations of young entrepreneurs.

Several support services for entrepreneurship were introduced, ranging from entrepreneur training to pre-incubation, financing and start-up phase services. Schools were also under the obligation to teach mandatory courses on entrepreneurship to every student, and companies with a headcount of less than 10 employees, or total assets worth less than 500 minimum monthly wages were favored by tax breaks. In compliance of the law, in 2009 the national network proposed a strategic plan to promote entrepreneurship throughout the country. All these measures represented a milestone within the institutional framework for the promotion of entrepreneurship in Colombia.

The country also moved forward to create the institutional mechanisms necessary for the development of technological innovation, and Colciencias was formally transformed into an administrative department of the Presidential Office. All that being said, in practice many obstacles have prevented Colombia from reaching its goals. In its assessment of Colombia's innovation policies, the OECD (2014) emphasized the importance of knowledge creation and the development of human capital assets within companies in order to materialize the country's innovation capabilities.

Development of the Private Equity Industry

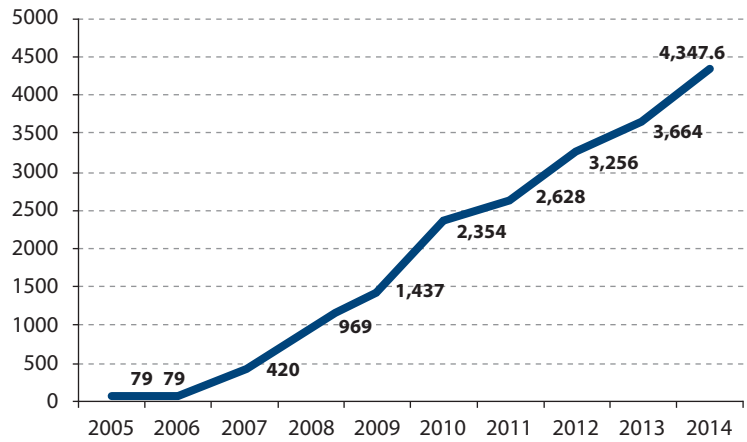
Colombia's journey to create an institutional environment conducive to the operation of financial activities specialized in high-risk and hyper-growth investments is also worth pointing out - that is, the private equity and venture capital funds industry. The country has been discussing about these entities specialized in funding high-risk capital projects since the 1960s. However, its financial system and regulatory framework required a certain degree of maturity, and its economy needed to achieve macroeconomic stability.

In this sense, as from the 1990s both the financial system and capital markets underwent a series of reforms; the country overcame the economic and financial crisis towards the end of that decade and also managed to keep inflation under control. At the same time, Colombia embraced the potential of pension funds as a supporting mechanism for capital markets and adopted OECD recommendations with regards to strengthening the corporate governance within companies as well as the institutional infrastructure of the financial system. The government improved conditions for the development of private equity and venture capital funds and paved the way for the establishment of collective investment portfolios managed by brokerage firms, investment trusts and investment managers. It was determined that the asset value of these portfolios would be kept independent of the management firm's own assets, and that managers were under the obligation to prioritize the interests of investors. Similarly, administrative entities were set up to prevent unlawful enrichment of the management firms (Rojas and Gonzalez, 2008).

Regulation paved the way for management firms to offer investment vehicles based on equity participation in companies, and pension funds could create high-risk and high-return portfolios to offer to their clients as retirement savings instruments. All these changes in the legal framework paved the way for the development of a capital funds industry.

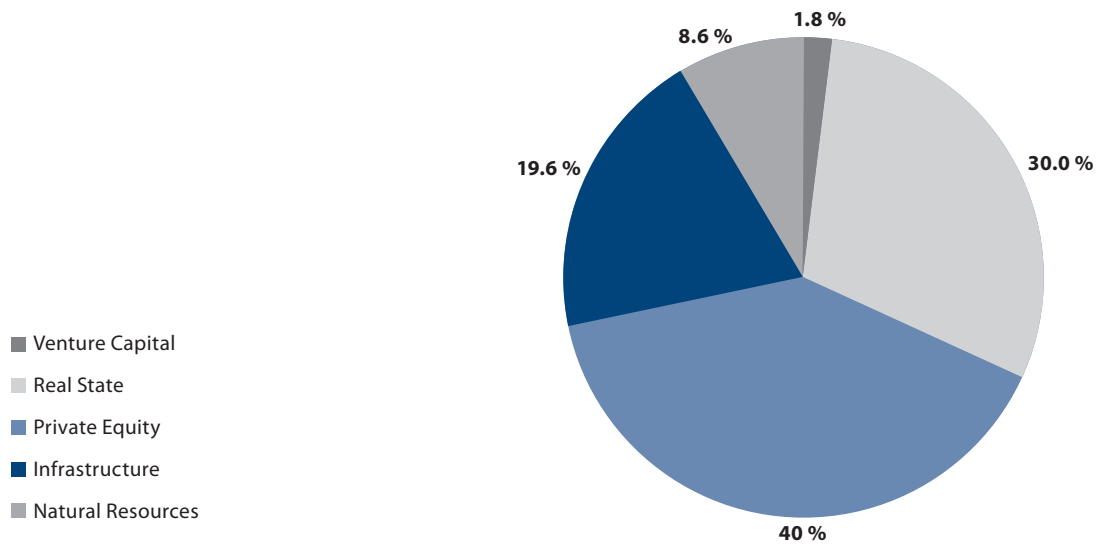
In 2009, the government further boosted the creation of private equity funds by launching the Programa Bancóldex Capital. Bancóldex was created in 1992 and is the development bank linked to the Ministry of Trade, Industry and Tourism (MINCIT). Initially created to enable the funding of export-related businesses, it has gradually become a comprehensive development bank focused on entrepreneurial development. The Bancóldex Capital program promotes the development of private equity and venture capital funds, both for national and international institutional investors investing in Colombia. Bancóldex participates in the program as an investor (limited partner) in private equity funds.

GRAPH 3. CAPITAL COMMITMENTS OF CAPITAL FUNDS IN COLOMBIA TOTAL ANNUAL AMOUNT (US\$ MILLIONS)



Source: Bancóldex, Private Equity Funds in Colombia 2013-2014; 2014-2015

GRAPH 4. CAPITAL COMMITMENTS BY TYPE OF CAPITAL FUND, JULY 2014



Source: Bancóldex, Private Equity Funds in Colombia 2014-2015

As shown in Graph 3, at July 2014, Colombia had capital commitments in different types of funds totaling \$US4.35 billion (Bancóldex, 2014d). However, only 1.8% corresponded to venture capital funds aimed at financing start-up growth. 40% corresponded to private equity funds that invested in established companies, and the remaining funds were devoted to financing real estate, infrastructure and natural resources projects (Graph 4).

By July 2014, the aggregate value of the capital funds in which Bancóldex had invested totaled US\$437 million, and at that date the bank had invested in seven funds that had provided funding for 27 companies in different stages of development, totaling US\$223.8 million. The bank had made capital commitments totaling US\$45.67 million, and estimated that for every dollar it had committed another 9.5 dollars had been mobilized in aggregate resources by the capital funds in which it had invested, as well as 8.5 dollars of investments in companies (Bancóldex, 2014c; Bancóldex 2014d). Most of these funds did not address investment in start-ups, and were either directed to energy, infrastructure and real estate projects, or to medium-sized manufacturing and services companies with substantial sales volumes.

At the time, three venture capital funds were available (Bancóldex 2014d):

- I. Fondo Inversor, with a “first close” of US\$9 million and a target size of US\$20.5 million
- II. Fondo de Capital Privado de Emprendimiento e Innovación en Servicios Públicos, an investment platform of Empresas Públicas de Medellín (EPM) and EPM Inversiones, with declared closing capital of US\$ 51.5 million in 2014 and planned investments between US\$515,000 and US\$10.3 million per company.
- III. Progresía Capital, focusing on technology companies in start-up phase that required capital and strategic partnering. The fund’s closing target size was US\$20.6 million and it looked to make investments in companies ranging between US\$515.000 and US\$2.6 million per company; at July 2014 it had invested in seven companies, having exited two of these investments with a ROI of 22.63%.

In summary, it can be said that by the end of the 1990s entrepreneurship had gained its own space in the Colombian institutional context. Gradually, the country had paved the way for the creation of investment instruments designed to raise funds for hyper-growth companies. However, the new scheme had yet to design an effective mechanism to attract those entrepreneurs with highest success potential.

The Creation of INNpulsa Colombia

In 2010, the Development Plan of the government of Juan Manuel Santos included a chapter devoted to Sustainable Growth and Competitiveness³. It was the first time that an administration's Development Plan had included entrepreneurship in the competitiveness chapter instead of in the chapter devoted to social policies. The document also made proposals pertaining to innovation: "More than developing strategies to generate innovation in the production apparatus, it is necessary to promote a culture of innovation in every sphere of the State, including...the business sector, universities and civil society." The Plan highlighted the need to create new companies that would be motivated by opportunities, as well as financing mechanisms for new companies (including a deeper development of private equity and venture capital funds) and the industry that would support entrepreneurship.

Also, the 2010 Plan announced the creation of the Development Unit at Bancóldex, responsible for deepening the activities of private equity funds, especially in the development of seed capital funds and venture capital funds. Its mission consisted in allocating co-investment resources, ensuring the joint participation of national and foreign capital, and structuring a success premium for private investors by creating exit mechanisms from listed investments. It mandated that the government could allocate resources from Bancóldex's earnings to the implementation of projects and programs, managed through separate accounts annexed to its financial statements, all of which allowed for an absolute separation from a legal, accounting and equity perspective. Consequently, all of the necessary elements for the creation of INNpulsa Colombia had been established.

Entrepreneurship had already been a part of Colombian public policy for ten years and the country had learned several important lessons along the way. During the first decade, policymakers came to understand that even though entrepreneurship could be seen as a part of other strategies that looked to fulfill a number of objectives - from self-employment to ambitious hyper-growth - it was important to count on specifically designed policies with clear objectives and programs specifically designed to achieve said targets. To be concrete, if the objective was economic growth, the aim was to create ventures capable of exploiting hyper-growth opportunities, where competitive advantages would be derived from the innovative capabilities of entrepreneurs. Towards the end of the first decade of the 21st Century, **the high rate of failed companies proved that it was not enough to simply support the creation**

³ In accordance with a constitutional mandate, the Colombian government is under the legal obligation to deliver its Development Plan to Congress, where it must establish the goals and priorities of its actions during its four-year administration. The Development Plan is linked to a National Investment Plan, which includes the multi-annual budgets of the main programs as well as the national public investments projects, and a detailed breakdown of the financial resources required for their execution.

of companies, and that it was also necessary to impact other factors that determined their sustainability and growth over time. Hence, it was thought that the government should look to boost hyper-growth entrepreneurial activities based on innovation.

In 2011, a study carried out by the consulting firm The Breakthrough found that hyper-growth companies were quite the exception: only 284 companies (5% of the analyzed sample) created in the previous 10 years had reached sales above US\$3.3 billion during the period, with operational margins higher than 10%. It was the first measurement of this type in Colombia and the low readings made the government question the estimates in its Development Plan, where the objective was to create 2,350 highly dynamic companies in the next four years. According to Daniel Isenberg, a researcher from Babson College, for a city or region to generate a change in its level of wealth through entrepreneurship it must generate at least one high-impact venture for every 100,000 inhabitants (Isenberg, 2011). According to this parameter, Colombia should be creating around 500 high-impact ventures every year; however, the figures showed the country was far from reaching these levels.

Also, The Breakthrough study indicated that Colombia still faced huge immediate hurdles in so far as it lacked the business culture that could be conducive to entrepreneurship. The study pointed out that people with the necessary talent and experience to develop companies with hyper-growth potential tended to aspire to high-paying jobs and were fearsome of the possibility of failing as entrepreneurs. It indicated that the mental and cultural barriers were very strong and that even if other restrictions were solved Colombia would find it very difficult to move forward with entrepreneurial projects if it did not approach these concerns.

Going back to the institutional frameworks established to implement policies for the promotion of rapid growth entrepreneurship, Bancóldex created the Programa Bancóldex Capital in 2009, and the Development and Innovation Unit in 2012, which would eventually become INNpalsa Colombia. The participation of Bancóldex in the rapid-growth venture environment brought practical advantages in comparison to previous experiences because of its financial support to entrepreneurship. Quite frequently, the flow of funds from government agencies that offers resources to support entrepreneurship tends to be slow, and it can take between 12 and 24 months for funds to be transferred to entrepreneurs. The reason is that the money itself is not readily available; government agencies have to wait for budget transfers once allocation decisions have been made. In these cases, the effectiveness of support can be drastically reduced, especially considering that delays in allocating resources can actually paralyze a company's activities. For example, if a company is selected to be a beneficiary of resources to execute a given project, it can not begin spending the money until the delivery of government resources has been legalized by contract; any activity that relates to the execution of the project is considered invalid if it is carried out before contracts have been signed. In this type of situation, it is clear that supporting funds cease to fulfill their intended mission.

However, the participation of Bancóldex as a financial executor has changed this situation. Bancóldex can transfer the resources to companies much faster as its contracts operate under private law and the money is readily available. Additionally, given that INNpalsa's expenditures are not included in Bancóldex's accounts and that the bank cannot use the resources of that account for any purpose different to the operation of INNpalsa Colombia, the bank is also protected from any financial risks from said operation. Furthermore, Bancóldex has earned excellent risk ratings in the financial markets and has been in operation for more than two decades. If for any reason the expenditures related to its new role as a development bank were to be reflected in its P&L account, the bank's risk rating and funding costs would be clearly affected.

INNpulsa's Administration: Organizational Design

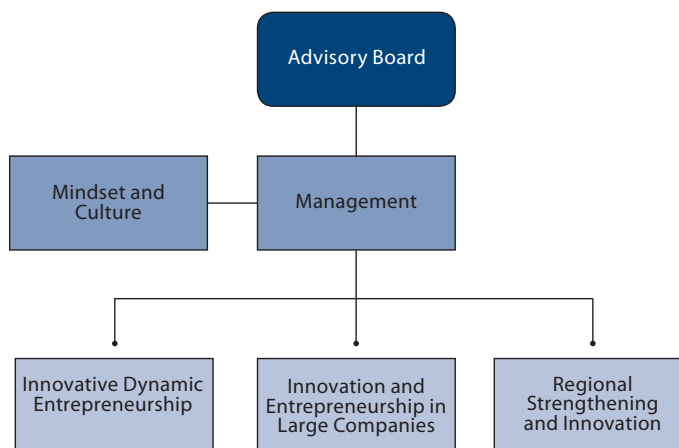
INNpulsa Colombia began to operate on the basis of two main principles. First, the entrepreneur (the individual responsible for managing and decision-making in a company) and his/her team, as generators of the innovative capabilities of the company, have to be at the center of the strategy; these individuals have to be directly involved in any initiative. Second, it was necessary to learn from actions themselves; carrying out large-scale studies to define the strategy was not a realistic option as there was no available information to do so. Learning would have to take place out in the field.

These initial principles would be hugely important in the development of INNpulsa's strategy. **Companies that manage to unleash productivity growth and achieve huge revenues have certain features that make them unique, and these in turn depend on the characteristics of entrepreneurs and their teams. These types of companies set ambitious goals for themselves, are more creative when defining the type of resources they use, take advantage of the opportunities in the environment in a better way, consolidate an entrepreneurial culture that is open to collaborating, learning from experience and taking risks. The actual insight is to recognize that identifying and seizing extraordinary opportunities are skills founded on specific entrepreneurial capabilities and processes, which depend on the decisions made by company leaders.** Hence, the key decision was that the target-client for INNpulsa Colombia would not be the entities that support entrepreneurs, but rather the visionary and innovative entrepreneur and his company (INNpulsa Colombia, 2014a).

Similarly, the rapid-learning approach through experience has also been hugely important. INNpulsa Colombia declared that its ideal was to become "a machine that allows things to happen", and that its fundamental method was to "learn by doing." It proposed that if the best available information was far from perfect, the way to improve it was by taking the initiative in the field and learning from results. By acting this way, INNpulsa Colombia focuses its efforts on specific tasks and targets that can actually be achieved, avoiding the enunciation of grandiose albeit indefinite strategic goals, what Lafley and Martin (2013) have called "the-dreams-that-never-come-through-strategy."

This approach is consistent with recent conceptual developments about the way in which new innovative companies emerge in the modern economy. In fact, the mechanisms that lead to the creation of dynamic companies have already been codified in the academic world and an entire new language to describe them has been developed (*The Economist*, 2014). It is understood that companies with hyper-growth potential, whose advantages are

GRAPH 5. INNPULSA COLOMBIA - STRUCTURAL ORGANIZATION - MARCH 2012



Source: INNpulsA Colombia

based on new forms of knowledge, creative use of technology and new business models, are developed from accelerated execution and learning cycles, where the entrepreneur submerges him or herself into the reality of his consumers, developing hypotheses about the best way to respond to their needs and then executing an offer in the field, acting on the best information available. Results are assessed rapidly. Entrepreneurs decide to what extent the initial hypothesis must be rejected, modified or accepted. This learning process generates a new cycle of action, always prioritizing contact with users through a specific offering and consolidating any learning experiences from the results. The entrepreneur learns from his actions and from “effectuation”, as described by Saraswathy (2001), in a process where his attention is focused on the possibilities of action based on the available means, the analysis of restrictions, the proposal of creative solutions to overcome the latter and the learning that comes from weighing the impact of decisions and contingencies.

This change aimed at bringing learning experiences on board occurred quite early and was incorporated to the organizational structure of INNpulsA Colombia. Three main areas were defined when activities began: Dynamic and Innovative Entrepreneurship, Innovation and Entrepreneurship in Large Companies, and Innovation and Regional Strengthening. Also proposed was a support unit that would be responsible for Entrepreneurial Mindset and Culture, which would report directly to management (Graph 5).

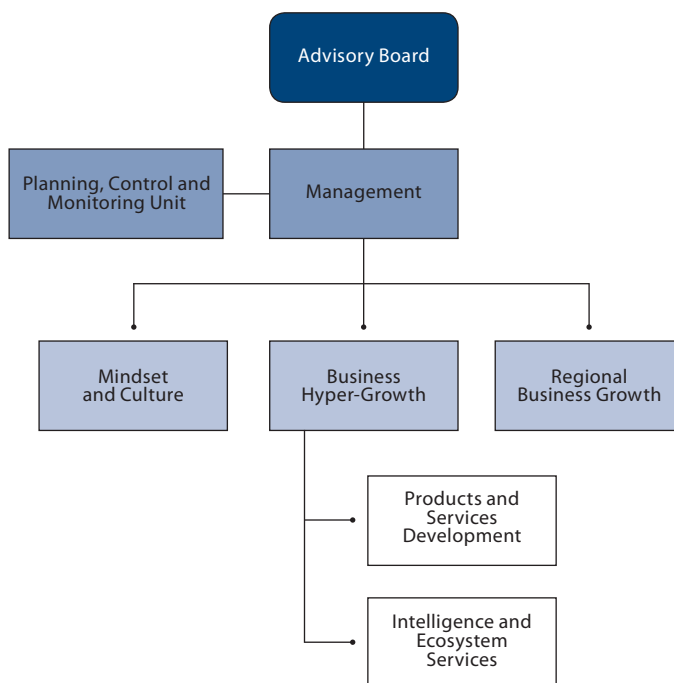
The organizational chart reflected the initial conception of the issue at hand, where the size of a company would be the deciding factor to determine its needs, and it was also a starting point to design the service response that INNpalsa Colombia had to offer. It was a vision consistent with the proposals that had been made during the creation of the Development Unit, where start-up creation was seen as the key topic.

The strategy was reviewed towards the end of 2012, in order to further define the focal point going forward. Even though it had only been a few months since its creation, as tensions and contradictions began to emerge INNpalsa Colombia concluded that some form of re-thinking process was needed. For example, after discussing with entrepreneurs, the idea that the size of companies was a decisive element to understand their dynamism was called into question. Notwithstanding the fact that small and large companies have different operating mechanisms, in both cases it was demonstrated that in different size companies dynamic growth is actually linked to their capabilities to identify opportunities and create an organizational culture oriented towards creativity, innovation and execution. If the objective was to promote business growth, wouldn't it make sense to look at the factors that determined the development of these capabilities within companies instead of looking at their size? Hence, the following questions needed to be answered: What are the key requirements the organization is looking for in an entrepreneur in order to provide support? How does INNpalsa Colombia respond to these needs and create value for the entrepreneur? How does it achieve differentiated positioning within the wide gamut of public entities devoted to entrepreneurial development in Colombia? What actions would INNpalsa Colombia need to perform to fulfill the vision embodied in its mandate?

By reviewing the strategy it was confirmed that **by categorizing companies as small or large the organization was losing sight of the most important aspect, that is, to help companies identify their true growth potential and provide them the support to materialize it. Thereby, it was concluded that INNpalsa's main task would be to support rapid, profitable and sustainable business growth.** This reflection led to a revision of the organization's mandate, which went on to be: "We work to support and promote business hyper-growth through innovation." To support the development of systematic capabilities conducive to innovation is one of the key components of INNpalsa's role, but innovation in itself is not the objective, rather a means to achieve growth, in companies of any size, sector and age. Thus, the sphere of action of INNpalsa Colombia was broken down into three main categories: Hyper-Growth, Regional Growth, and Mindset and Culture.

Similarly, the role and tasks under Mindset and Culture were also reviewed; they would no longer be seen as lending support to the management unit and instead would become one of the three main areas, as reflected in the new organizational structure (Graph 6).

GRAPH 6. INNPULSA COLOMBIA - STRUCTURAL ORGANIZATION - JULY 2013



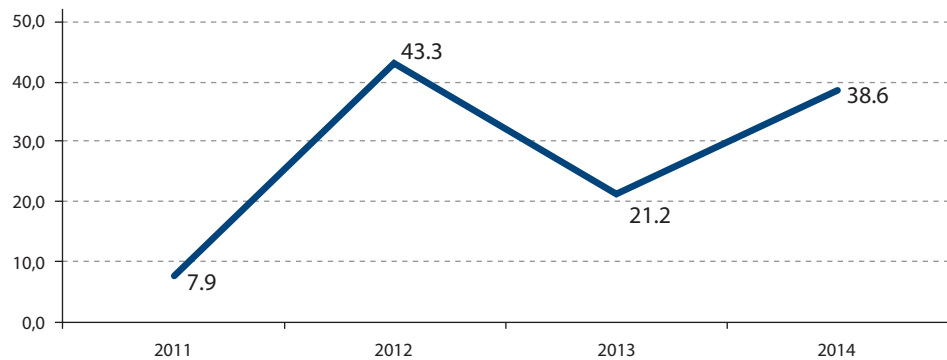
Source: INNpuls Colombia

The new organization aimed for greater clarity and differentiation in INNpuls Colombia's value proposal to its client-entrepreneurs, in comparison to other government agencies that supported innovation: Colciencias focused on technology's contribution to innovation, while the Programa de Transformación Productiva (PTP) of MINCIT tried to overcome the barriers that restricted competitiveness. INNpuls Colombia on the other hand focused on a comprehensive strategic management approach, where the definition of innovation went beyond technology and was centered on strategic issues and overhauling business models, and speaking the language of the business community.

The value proposal centered on growth through innovation also guided the offering of differentiated services to regions. The discourse and balance of incentives directed at regions changed in order to better align their motivations to the growth of companies and less to the allocation of public resources associated to support services.

INNpulsa's Administration: Operations and Results

GRAPH 7. INNPULSA COLOMBIA: INCOME (US\$)

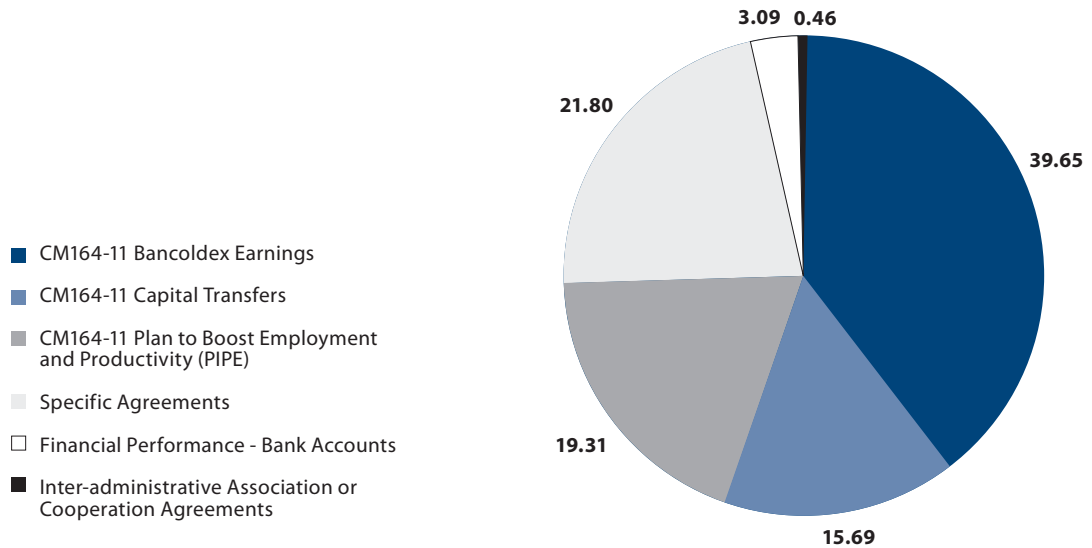


Source: INNpulsa Colombia

INNpulsa's budget has basically been built from Bancóldex's earnings and budget transfers from MINCIT. 2014 was a record year in terms of allocated resources as it received income equivalent to US\$38.6 million (Graph 7). Income sources that year were complemented by funds from the Plan de Estímulo a la Productividad y el Empleo (PIPE), which had collected a total of US\$2.7 billion from tax, customs, tariffs and credit sources, of which US\$19.3 million were allocated to INNpulsa Colombia (MINCIT, 2013). Total investments associated to the PIPE program in the country were estimated at approximately US\$2.7 billion (MINCIT, 2013). Income distribution for INNpulsa Colombia for the 2011-2014 period is shown in Graph 8, and the year-on-year distribution during that same period is shown in Graph 9. For those years, aggregate income was approximately US\$111.1 million.

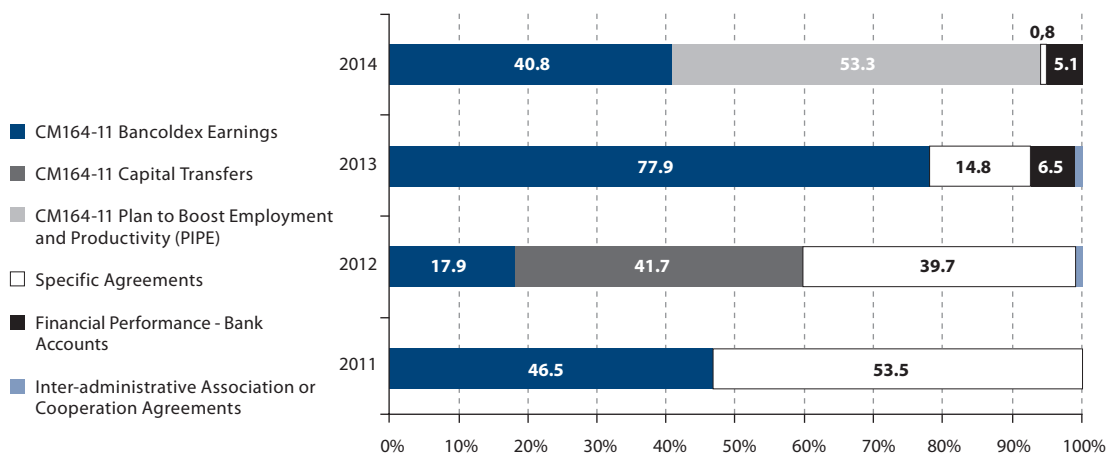
In terms of the use given to resources, Graph 10 shows the allocation to the different areas for the aggregate period 2011-2014, and Graph 11 shows the annual distribution. The highest proportion of resources was allocated to Entrepreneurial Hyper-Growth (CEE in Spanish) and Regional Entrepreneurial Growth (CER in Spanish).

GRAPH 8. INNPULSA COLOMBIA: SOURCES OF INCOME, 2011-2014 (PERCENTAGE DISTRIBUTION %)



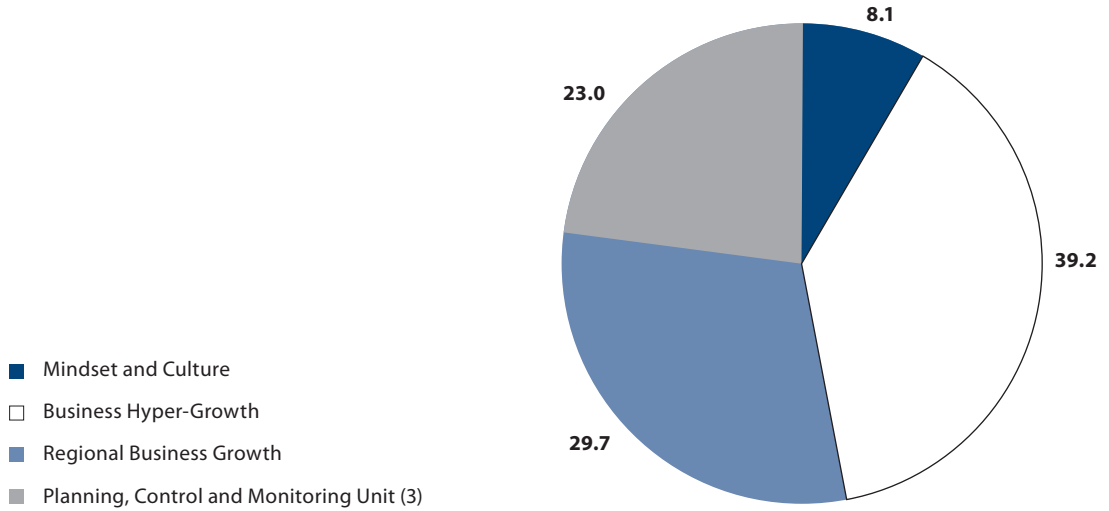
Source: INNpuls Colombia

GRAPH 9. INNPULSA COLOMBIA: SOURCES OF ANNUAL INCOME, 2011-2014 (PERCENTAGE DISTRIBUTION %)



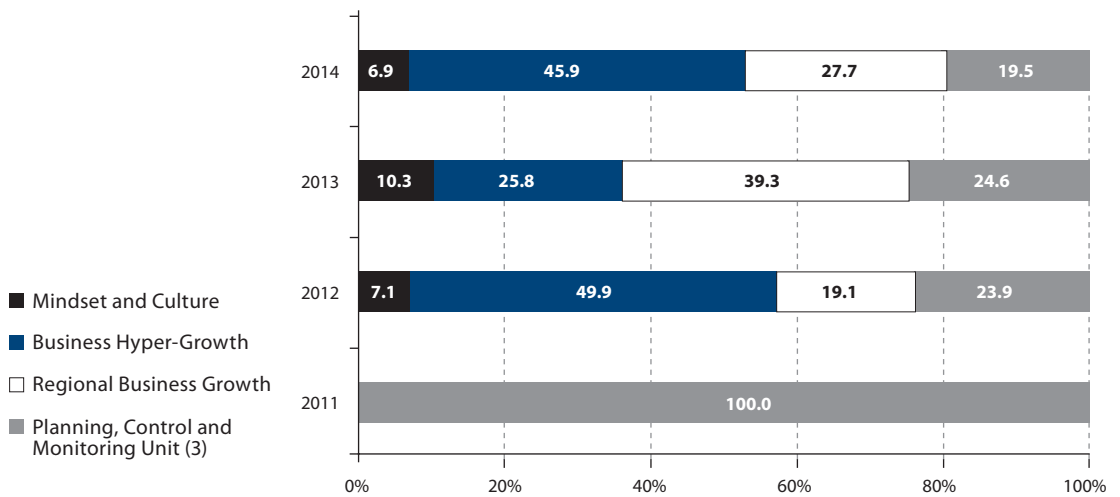
Fuente: INNpuls Colombia

GRAPH 10. INNPULSA COLOMBIA: USE OF RESOURCES BY AREA, 2011-2014 (PERCENTAGE DISTRIBUTION %)



Source: INNpalsa Colombia

GRAPH 11. INNPULSA COLOMBIA: USE OF RESOURCES BY YEAR 2011-2014 (PERCENTAGE DISTRIBUTION BY AREA %)



Source: INNpalsa Colombia

In the following sections we discuss INNpuls Colombia's actions in its three main areas of administration and we examine the way it has been responding to challenges in these three fronts.

Entrepreneurial Mindset and Culture

One of INNpuls Colombia's most ambitious proposals has been to change the prevalent mindset and culture revolving around entrepreneurship in Colombia. Several studies have pointed out that in countries where dynamic entrepreneurship tends to flourish, individuals are strongly focused on their levels of achievement; are willing to take risks; interpret mistakes and failure as learning opportunities; tend to build networks and collaborate towards the achievement of common goals; respect merit and talent, irrespective of people's origins, race or gender; trust is considered as a positive behavior and seen as people's default perspective when interacting with others (Reynolds et al., 2005; Thomas & Mueller, 2000; Monitor Regional Competitiveness, 2004; Hofstede et al., 2004). However, this was not the case of Colombia, where emerging studies pointed to a tendency of risk aversion and where failure was seen as an inability to perform that stigmatized individuals; a country lacking in trust and cooperation between entrepreneurs, and especially between companies and their own clients.

Hence, INNpuls Colombia aimed for a combined series of efforts aimed at promoting cultural change. One of these was to develop a narrative showcasing individuals that embodied the values of entrepreneurship, to stimulate the emergence of an entrepreneurial community that would be reflected in these role models and become a standard-bearer of entrepreneurship in the country. Another looked to initiate a dialog about entrepreneurship and innovation by building networks with opinion leaders and the media, as well as sponsoring missions by members of the media to find out about reputed entrepreneurial ecosystems in Israel and other countries. Its conclusions were that an evangelization process about entrepreneurship was a necessary step for a country such as Colombia; apart from stating its relevance to the media and the constant competition it faced to attract new audiences. At the same time, the announcements of financial support for hyper-growth companies advocated trust and collaboration between large companies and others of differing sizes. Additionally, INNpuls Colombia commissioned a study revolving around the narratives found in five cities in order to identify the features shared by some Colombians that could help to overcome the aversion to entrepreneurship and collaboration. The underlying premise was that if entrepreneurial values were part of day-to-day conversations, contact between those that embodied and shared said values would grow, paving the way for initiatives conducive to entrepreneurship.

In any sense, it is hard to measure the impact of initiatives that look to address changes in culture. However, a revealing example about the impact of INNpuls Colombia's interventions emerged at the 2013 Global Entrepreneurship Week - an annual event that takes place in more than 130 countries - sponsored by INNpuls Colombia. Results in terms of participation of new players in 2013, compared to the previous year, were quite noticeable: the number of allies

grew from 71 to 92; activities went from 44 to 257; and face-to-face and virtual participation numbers increased from 2,200 to 66,209 (INNpalsa, 2013).

On the other hand, through a joint initiative of INNpalsa Colombia and the National Planning Department, the news and content agency Colombia Inn was created in November 2013 (<http://colombia-inn.com.co/>) to research and publish stories about dynamic entrepreneurs, on a daily basis and through free-to-download journalistic products (texts, videos, photographs and audio files). By August 2014, Colombia Inn had published 1,892 stories, 1,061 of which had been reproduced by the international media, 633 in national media and 183 in regional media outlets. The agency also developed a community of stakeholders on social media networks, which by that date had already generated 136,053 video replays on YouTube, as well as having 3,027 followers on Twitter and 1,197 fans on Facebook. At the same time, bauds from Colombia Inn on the SoundCloud platform were listened to 832 times, and its website received 30,417 visits.

Additionally, INNpalsa Colombia has published four informative brochures in widely-distributed newspapers, where the organization disseminated information about the experiences and achievements of 38 distinguished Colombian entrepreneurs. Finally, in August 2014, together with the Municipality of Medellin, the Servicio Nacional de Aprendizaje (SENA) and Colciencias, INNpalsa Colombia organized a three-day event focusing on community building and leadership development for entrepreneurship. The so called *Heroes Fest* had close to 2,000 participants who attended talks and conferences about innovation and entrepreneurship led by important personalities from the entrepreneurial world.

These interventions demonstrate that, through a very intense agenda since its creation, INNpalsa Colombia has exhibited significant convening capabilities in Colombia, as well as exerting considerable influence on the public discourse around entrepreneurship. However, cultural change is a long-term effort, and the influence INNpalsa Colombia will finally exert on cultural changes will depend on its ability to sustain its efforts, initiatives and creativity for many years.

Business Hyper-Growth

INNpalsa's largest disbursements have been destined to boosting hyper-growth opportunities. These resources were used to reduce knowledge gaps related to the lack of training of entrepreneurs in critical aspects of their activities, ranging from business model design, financial management, team building and management, to solutions aiming to address lack of access to seed capital, which is something extremely difficult for companies in Colombia.

INNpalsa Colombia resorts to requests for proposals and agreements as instruments to promote growth for dynamic ventures. Some of these requests include the delivery of cash resources to beneficiaries, which may be used to co-finance a part of their project's value.

In other cases, INNpulsA Colombia pays for the costs of the support mechanisms needed to reduce the identified gaps, as discussed. For example, INNpulsA Colombia supports visits by entrepreneurs to international events like Mass Challenge, so they can see first hand the dynamics of first-class entrepreneurial ecosystems, such as those in Boston, Emerge Americas, NXPT Labs and Startup Tel Aviv. INNpulsA Colombia decided on the scope of these forms of participation based on a series of objectives that beneficiaries had to comply with. The requests for proposals are described in Tables 1, 2 and 3.

In aggregate terms, the requests for proposals described in Tables 1, 2 and 3 benefited a total of 528 projects. INNpulsA Colombia made outlays totaling US\$25.3 million. In those requests for proposals where the organization made cash outlays (Table 1), the leverage factor (Total value of project/Co-funded value) ranged from 1 to 1.5.

These requests for proposals (RFPs), apart from enabling INNpulsA's initiatives, allowed learning about the existing situation in companies and their capabilities to overcome the barriers limiting their development. Each of these RFP rounds have become a mechanism for entrepreneurs and supporting entities to reveal their strengths and weaknesses.

This process of "learning by doing" is better understood by examining the development of the first request for proposals initiative carried out by INNpulsA Colombia. As mentioned above, when INNpulsA Colombia began its activities there were no public entities in Colombia funding high-impact entrepreneurship projects; there were one or two capital funds funding start-ups, but they only invested sporadically. Ventures that required between US \$100,000 and US \$1 million during their start-up phases were faced with a barren landscape.

To compound this, there was a huge void of information about the projects themselves. There was no estimate of the number of hyper-growth ventures, and no one knew who the entrepreneurs were. These entrepreneurs would eventually become the demand that would take up the supply of seed capital furnished by INNpulsA Colombia; however, there were no practical mechanisms to enable a preliminary study of said demand that would allow for the design of both the instruments and the requests for proposals. Nobody knew the current status of these projects, the amounts of capital they would demand, or the degree of business sophistication of the entrepreneurs. The way forward was to go ahead and, once in the field of action, absorb as much information as possible and learn.

These were the conditions when the first seed capital request for proposal EDI07 was launched in September 2012. The key requirements were:

- Any entrepreneur could take part, both natural and legal persons (foreigners or nationals, as long as the business was based in Colombia) looking to co-fund a business idea, a business spin-off, or a scalable process of an already-validated business.

TABLE 1. REQUESTS FOR PROPOSALS IN THE BUSINESS HYPER-GROWTH AREA TO ACTIVATE THE ENTREPRENEURSHIP FUNDING INDUSTRY, US\$

RFP Code	Objective of the RFP /Agreement	Co-funded Value (US\$)	Total Value of the Project (US\$)	Total Value/ Co-funded Value Ratio	Number of beneficiary projects
CEE002	To hire a program for the execution of financial readiness targeting early stage ventures with high potential for rapid, profitable and sustained growth, and to create greater awareness in the banking sector.	258,148	258,148	1.00	1
CEE004	To allocate non-refundable co-funded resources for the development of a project (business) with the potential for rapid, profitable and sustained growth.	5,447,330	8,469,537	1.55	38
CEE005	To allocate non-refundable co-funded resources to legal persons that are developing a bio-business in Colombia, which at least have a tested concept and updated market research, with the potential for rapid, profitable and sustainable growth.	3,100,314	4,489,372	1.45	7
EDI07	Bank for viable opportunities to allocate non-refundable co-funded resources for seed capital.	5,260,229	7,189,971	1.37	32
EDI07-VB		3,167,747	4,405,772	1.39	18
EDI12	To co-fund a project to strengthen a laboratory to provide business services for biotechnology.	387,520	555,470	1.43	1
EDI13	To deliver co-funded resources for the setting-up and start-up of new national angel investors networks.	320,721	606,760	1.89	1
EDI19	To allocate non-refundable co-funded resources to proposals aimed at strengthening or developing projects or business ideas belonging to the cultural and creative sector in Colombia.	320,593	401,703	1.25	5
EDI19 BV		500,072	646,081	1.29	8
EDI24	To co-fund proposals made by professional managers aimed at creating new, pre-operational, private equity funds.	1,494,522	2,144,390	1.43	3
INNpalsa Credit Line	To promote companies and institutions involved in innovation initiatives, making credit resources available to them with favorable financial conditions.	4,280,763	N/D		67
Total		24,537,960	29,167,202		181

Source: INNpalsa Colombia

TABLE 2. REQUEST FOR PROPOSALS OF THE BUSINESS HYPER-GROWTH AREA TO STRENGTHEN CAPABILITIES TO BOOST BUSINESS HYPER-GROWTH

RFP Code	Objective of the RFP / Agreement	Number of beneficiary projects
EDI21	To carry out work-shops aimed at strengthening skills for structuring business cases and preparing entrepreneur pitches.	240
Emerge Americas	To strengthen the capabilities of entrepreneurs, business people and innovators at international events and bolster their contacts networks.	8
MassChallenge	To strengthen the capabilities of entrepreneurs, business people and innovators at international events and bolster their contacts networks.	40
NXTP Labs	To strengthen the capabilities of entrepreneurs, business people and innovators at international events and bolster their contacts networks.	10
RUTA N	To bring together efforts aimed at designing, planning and implementing programs and projects that promote science-, technology- and innovation-based businesses in Medellín.	29
Startup TelAviv	To strengthen the capabilities of entrepreneurs, business people and innovators at international events and bolster their contacts networks.	1
Total		328

Source: INNpuls Colombia

TABLE 3. REQUESTS FOR PROPOSALS OF THE BUSINESS HYPER-GROWTH AREA TO PROMOTE NETWORK CREATION

RFP Code	Objective of the RFP / Agreement	Number of beneficiary projects
CEE003	Development of the Colombia CO4 innovation program, open to every sector.	10
WeXchange	To strengthen the contacts networks of entrepreneurs, business people and innovators in international settings.	5
IEG0002	Development of a pilot program for open innovation for the hydrocarbon and mining sector - PIAGE.	4
Total		19

Source: INNpuls Colombia

- Entrepreneurs had to apply together with a supporting entity, which would provide guidance during the project in case any resources were allocated.
- Funds allocated to co-finance the project could not exceed US\$184,000, and could represent up to 80% of the total value of the project, while at least 70% of the remaining 20% would have to be funded by the entrepreneur in cash.
- 40% of resources would be delivered upon signing the agreement, another 30% after execution of 50% of all activities, and the remaining 30% at the end of the project.
- Candidate scores would be decided by an external assessment committee comprised by investment experts that would base their judgments on the following criteria: business viability and potential to become a high-impact venture; b) business team; c) market knowledge; d) technical aspects; and e) global vision.

The following results emerged from this first request for proposals (RFP) process:

- A total of 385 proposals requesting funding, totaling US\$61 million, of which 192 were considered eligible⁴ during the assessment process. 110 proposals were analyzed during the viability phase and 50 of these were considered viable, receiving funds totaling US\$8.1 million, leveraged by additional private resources representing 37% of said value. Of those companies that passed the eligibility test, 45.5% ended up being viable, and resources were allocated until they were no longer available.
- There was significant concentration in two cities, Bogotá (52% of viable projects) and Medellín (34% of viable projects). The remaining 14% was spread between 14 cities, although projects considered viable only came from seven of these cities.
- Among supporting institutions, consulting agencies were the most important, contributing with 52% of viable projects, followed by business incubators (18%) and universities (10%).
- 54% of viable projects were related to digital technologies, while the rest were distributed between 14 sectors, of which the food sector concentrated 8% of viable proposals and sustainable development another 6%.

⁴ INNpulsa's RFPs consist of a first stage in which project *eligibility* is decided, that is, the organization establishes if the proposal complies with all the requirements and documentation as per the terms of reference and, if so, it can be considered for viability analysis. A proposal is considered *viable* when it achieves a minimum score of 70% in the technical evaluation, after which it can receive co-funding resources.

- 36% of viable projects had already registered export sales, the US being the first destination, followed by Brazil and Mexico, each representing 11% of projects.
- 56% of disbursements were destined to technical support payments to companies, and the second most important outlay was acquisition of fixed assets, 11%.
- 86% of entrepreneurs leading viable projects were men (albeit women occupied key roles in said projects), and 14% were led by women.
- 56% of entrepreneurs were in the 31-40 year bracket, 22% in the 21-30 year bracket, and another 22% were 41 or older.
- In terms of education, 40% had a university degree, 50% had a specialization or master's degree, 8% had obtained a PhD, and 2% had completed technical training.

Looking beyond these results, the experience provided by this first RFP helped to guide the design of future calls:

- **Identification of entrepreneurs.** The initial expectation was for 120 candidates, but in reality 192 eligible candidates made proposals, so it was evident that the country was thirsty for support mechanisms to promote dynamic entrepreneurship.
- **Knowledge about the capabilities of supporting entities.** The requirement that candidates apply together with a supporting entity allowed identifying these organizations. Through RFP EDI04, which targeted these entities, INNpuls Colombia was able to determine which of these had the necessary knowledge and experience to offer support to dynamic entrepreneurship projects.
- **Identification of the most qualified type of supporting entity.** The supporting entities most likely to comply with the requirements tended to be organizations specialized in the acceleration phase (probably due to the stakes they had taken in the company in question).
- **Knowledge about the motivation of supporting entities.** The motivation and processes of supporting entities were revealed during the experience; many of them had responded to the incentive of potential resources from government programs, instead of a project's growth or acceleration potential.
- **Validation of some of Bancóldex's advantages.** The fact that Bancóldex began transferring resources as soon as contracts were signed was considered a key factor by eligible entrepreneurs.

- **The value of simple project assessment processes.** In contrast to existing practices for the allocation of public resources to promote entrepreneurship in the country, entrepreneurs did not have to propose a detailed business plan and instead were asked for five basic features of their plan: market potential, product differentiation, strategy *vis a vis* the competition, and alignment between product and the customer needs.
- **Flexibility in intermediate goals.** The approach used for project selection - based on the analysis of the five focal points - coincided with modern methodologies to support dynamic entrepreneurship: initially, entrepreneurs cannot have fixed and comprehensive plans; they must remain flexible and act based on possible market reactions to their proposals.
- **Main characteristics of project examiners.** Three types of examiner were chosen: experienced investors, entrepreneurs and technical specialists in different topics, all of them with international experience in dynamic entrepreneurship. Additionally, examiners could not be burdened by conflicts of interest *vis a vis* the projects under assessment.
- **Dilemmas of resource allocation.** How many times can the same company take part in the RFPs? The fact that a given venture has overcome its first phase of development does not necessarily mean it has solved its funding gaps. Hence, companies that are still facing these situations can continue to be beneficiaries of the program. However, it is also valid to question to what extent a limited number of companies is entitled to absorb a relatively high percentage of resources.

Regional Entrepreneurial Growth

The third area was aimed at strengthening the supporting entities that provide services for ventures in cities and other regions. Their role consists in channeling information and resources to entrepreneurs, as well as being network creators. The RFPs aimed at supporting entities are described in Tables 4 and 5. These covered 97 projects, where INNpalsa Colombia disbursed a total of US\$26 million. The leverage factor (Total value of project/Co-funded value) ranged from 1 to 1.72.

TABLE 4. RFPs AIMED AT REGIONAL STRATEGIES (US\$)

Code	Objective of the RFP / Agreement	Co-funded Value	Total Value of the project	Total Value/ Co-funded Value Ratio	Number of beneficiary projects
CER001	Strengthening of Regional Competitiveness Commissions.	480,562	705,065	1.47	3
IFR005	Strengthening of Regional Competitiveness Commissions.	3,039,411	4,312,976	1.42	20
Competitive Routes	Partnering with regions to develop strategies for Regional Business Growth - Clusters.	5,301,439	5,301,439	1.00	18
Total		3,519,974	5,018,040	1.43	41

Source: INNpuls Colombia

At the beginning, INNpuls Colombia ignored what the capabilities of the supporting entities in the regional ecosystems were (chambers of commerce, universities, business incubators, accelerators, consulting firms and others). Following are the lessons learned about these entities after the RFPs aimed at Regional Innovation and Growth.

– **Capabilities of supporting entities can be increased through partnerships.** RFP EDI 04 (one of the first) was created to co-fund projects that could strengthen the institutional capabilities of these supporting entities to identify, accelerate and guide dynamic entrepreneurship in different regions. As part of the design of this RFP, supporting entities were under the obligation to apply jointly with another experienced, probably international, organization responsible for knowledge transfer. Candidates managed to formalize agreements with several guiding partners (for example, Cali applied with Endeavor; Bucaramanga with IC2, from Texas; and Connect Bogotá did so with the University of San Diego, California). This made it easier to establish partnerships without having to comply with formal contractual requirements.

On the other hand, RFP EDI05 was designed to co-fund projects from academic and non-academic institutions in order to strengthen capabilities pertaining to business tests, prototype development in labs and generation of assets that would allow for the materialization of entrepreneur knowledge, which therefore could be subject to intellectual property protection. Following are the lessons learned for the design of future RFPs:

– **Motivate entities to develop a sustainable business model based on successful outcomes.** Many of these supporting entities had great difficulty to secure resources necessary for their subsistence. For this reason, they conceived themselves as agents that supported

TABLE 5. RFPs AIMED AT STRENGTHENING REGIONAL CAPABILITIES (US\$)

Code	Objective of the RFP / Agreement	Co-funded Value (USD\$)	Total Value of the Project (USD\$)	Total Value / Co-funded Value Ratio	Number of beneficiary projects
Agreement 133- SENA	Technology transfer through entities devoted to knowledge capturing.	536,692	577,420	1.08	1
EDI04	To strengthen the identification, acceleration and partnering capabilities of Dynamic Entrepreneurship.	1,971,697	3,299,707	1.67	11
EDI05	To strengthen the service-providing capabilities for business testing.	647,171	1,041,673	1.61	4
EDI15	To co-fund an institutional project aimed at strengthening capabilities for the transfer and commercialization of technology in the field of biotechnology.	265,558	442,555	1.67	1
EDI17	To strengthen capabilities for the identification, partnering and acceleration of high-potential ventures.	2,445,962	4,200,764	1.72	11
EDI17 BV		445,186	744,795	1.67	2
EDI18 - EDI 20	To support training in technology-based business development for different professional projects linked to institutions belonging to the Sistema Nacional de Ciencia Tecnología e Innovación (SNCTI).	208,408	254,022	1.22	10
IFR002	To strengthen capabilities conducive to the commercialization of technology.	4,888,925	6,750,666	1.38	16
IFR002 BV-1		1,084,576	1,430,532	1.32	5
IFR004	To strengthen skills to generate and structure projects.	4,566,474	6,206,484	1.36	25
RUPIV - Cambridge 2012	Technology transfer through entities devoted to knowledge generation.	161,866			5
Total		26,043,926	29,976,866	1.15	132

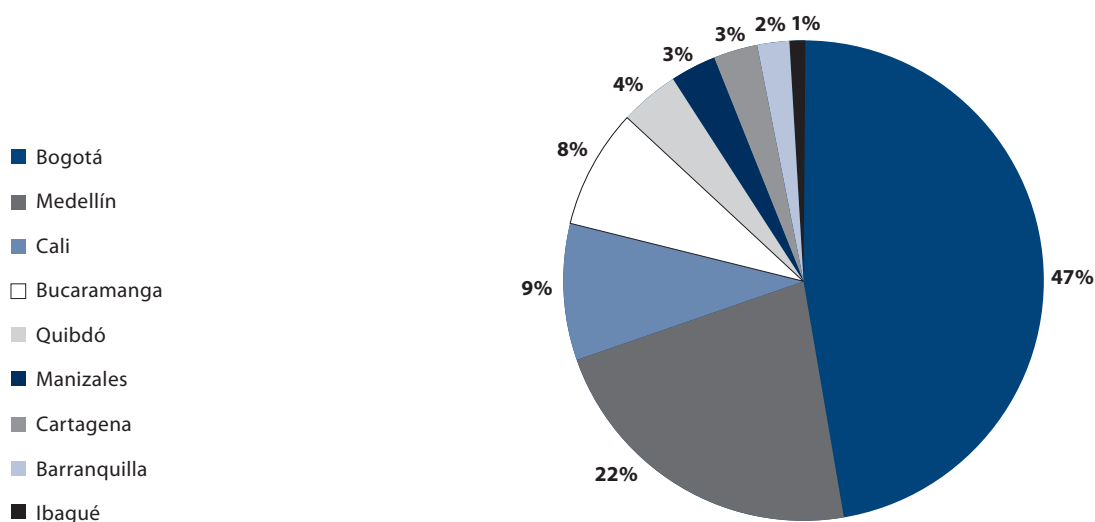
Source: INNpulsa Colombia

companies by enabling their access to government resources; so their roles consisted in guiding entrepreneurs towards securing the supporting resources, but they made no attempts to establish long-term commitments with a given project's success. Hence, INNpulsa Colombia began to offer incentives so that these entities would commit to the success of the projects they were supporting. For example, RFP EDI17 established that investments made by candidate entities in seed capital projects of dynamic ventures could be accepted as valid for offsetting purposes.

- **Supporting entities must establish priorities.** The decisions around priorities must be consistent with available resources and a vision regarding an entrepreneur’s potential and possibilities. For example, in El Valle, plans to stimulate businesses in high-potential sectors in 2012 initially identified 31 sectors, but these were eventually cut down to six.
- **Support to growth and scalability processes is vital.** Once they have started to grow and require support to consolidate their positions, it’s important to support ventures whose products match the demand in the market. The experience of INNpalsa Colombia has shown that the initial development stages and the scalability stages are different as they involve different levels of risk and require different supporting tools. The main stakeholders of the ecosystem tend to concentrate on creating new ventures and on their initial phases of development. However, it is also necessary to strengthen the support for growth in the next phases, once companies have proven they can indeed attract clients. Rapid scalability implies a series of challenges with their own particular characteristics as ventures in this phase require not only capital, but also guidance in order to consolidate their capabilities in aspects such as strategy design, team-building skills, access to markets, strategy, intellectual property (protection, patents, non-disclosure agreements), and in general, product scalability and internationalization.
- **Entities must offer focused support models.** Supporting entities must offer greater value to the ventures under their wings; their staff must look for allies that can help them get closer to entrepreneurs, regardless of their positions in the organization. Sometimes, the people most receptive to new ideas can be the ones that facilitate the credibility needed for changes.
- **Less plans and more actions.** There is no point in carrying out detailed plans if the most important components of the proposal are not validated in the field. It is imperative that entities work with entrepreneurs in the early stages of their initiatives and that they collaborate with these to generate ideas and basic designs. This type of work only enthruses entrepreneurs when focused on concrete actions.
- **Flexibility and creativity when formulating requests for proposals.** It is hard to find high-impact dynamic entrepreneurship projects in regions that are lagging behind the rest of the country. INNpalsa Colombia must therefore stimulate their emergence and at the same time remain vigilant of opportunistic agents that are only looking for opportunities to capture public resources intended for supporting purposes.

The results of the RFPs carried out by the Regional Innovation and Growth area granted visibility about the main features of supporting entities. In total, 78% of resources were allocated to three cities (Bogotá, Medellín and Cali), which reflected the extent of development both of supporting entities and entrepreneurs in these cities (Graph 12).

GRAPH 12. PERCENTAGE DISTRIBUTION OF RESOURCES ALLOCATED TO REGIONS

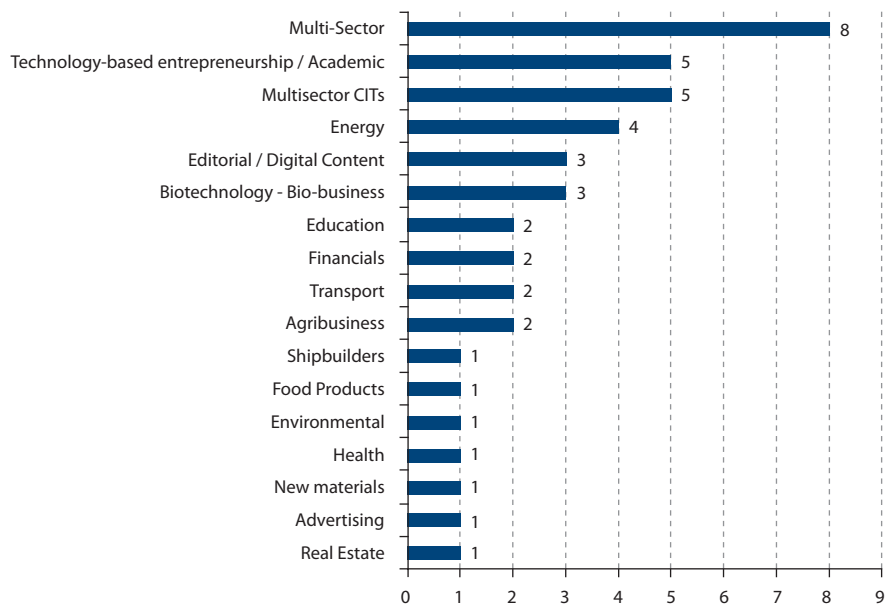


Source: INNpuls Colombia (RFPs EDI04, EDI05, EDI12, EDI15, and EDI17)

The type of specialization of entities was a key factor in determining their success. A group of eight entities declared themselves to be non-specialists but rather multi-sectoral (the largest group among the beneficiaries); the rest confirmed they had a clear sectoral vocation (Graph 13). It will be necessary to verify this trend over time, although it may be indicative of a specialization phenomenon among supporting entities that may be generating positive results.

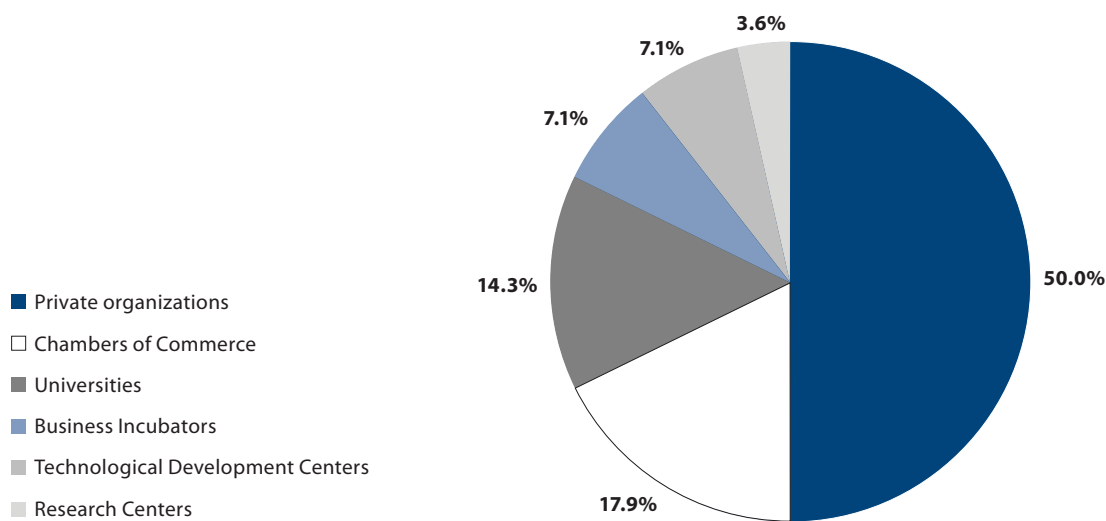
On an aggregate basis in 2012 and 2013, private supporting entities represented 50% of beneficiaries, followed by chambers of commerce and universities (Graph 14). The participation of for-profit beneficiary entities increased from 11.8% in 2012 to 42.9% in 2013 (Graph 15). These figures confirm the trend of private, for-profit, entities emerging to support entrepreneurship, which charge fees for their services and in some cases look to take a share of business earnings. This enhances the development of long-term commitments between entities and the ventures they support.

GRAPH 13. SPECIALIZED BENEFICIARY INSTITUTIONS BY SECTOR (NUMBER OF REGIONAL ENTITIES)



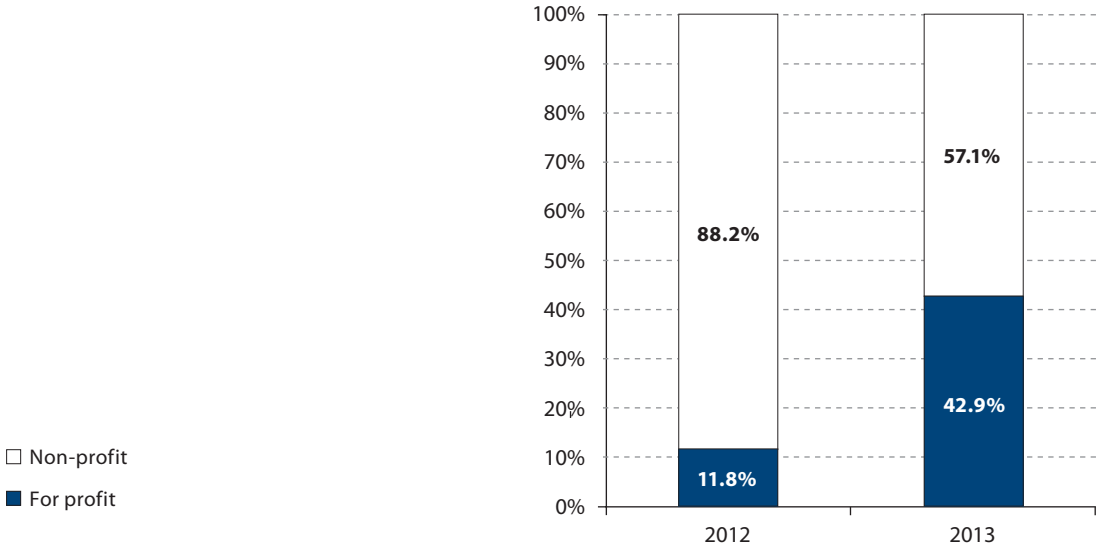
Source: INNpulsa Colombia (RFPs EDI04, EDI05, EDI12, EDI15, and EDI17)

GRAPH 14. PERCENTAGE DISTRIBUTION OF SPECIALIZED BENEFICIARY INSTITUTIONS BY TYPE OF ENTITY



Source: INNpulsa Colombia (RFPs EDI04, EDI05, EDI12, EDI15, and EDI17)

GRAPH 15. PERCENTAGE DISTRIBUTION OF SPECIALIZED BENEFICIARY INSTITUTIONS,
FOR-PROFIT AND NON-PROFIT, 2012 AND 2013



Source: INNpalsa Colombia (RFPs EDI04, EDI05, EDI12, EDI15, and EDI17)

Special Aspects of the Supporting Activities for Rapid Growth

INNpalsa Colombia has developed two programs aimed at promoting rapid business growth: a credit line for large businesses and an open innovation initiative. The rationale that led to the creation of these two programs needs to be analyzed separately.

Credit line for large companies

Identifying the appropriate mechanisms to support hyper-growth projects led by innovation in large companies took quite some time. Once it was determined that support for business growth should not be limited to start-ups or SMEs, it was also evident that support for larger companies could not be delivered in the form of subsidies similar to those received by companies in early stages of development. In fact, the use of subsidies is much harder to justify in the case of large companies as many of their issues are unrelated to a lack of access to the financial system.

At the beginning of 2012, INNpalsa Colombia made several inquiries with entrepreneurs from larger companies in order to understand their concerns when it came to the development of innovation projects. The main conclusion from this dialog was that entrepreneurs were more inclined to receiving access to credit in order to finance certain aspects of their innovation processes. Credit conditions were considered to be the most attractive aspects of this option, not only interest rates, but the possibility of being favored by a grace period before starting payments.

Entrepreneurs of every shape and size agreed that an expedite and soft credit mechanism was preferable to proposing a project for funding, both because of the speed of disbursements and the possibility of avoiding costs associated with developing detailed and cumbersome projects. There was no need for subsidies, but intelligently-designed loans were considered ideal if installments could be aligned with the cash flow profile of the projects themselves.

Therefore, INNpalsa Colombia designed a credit line for large companies (although there were also requests from smaller companies) at a rate equivalent to DTF-1⁵ for financial intermediaries, with a 12-month grace period and a five-year term. The maximum amount disbursed was US\$1.6 million, and the credit line was kept open between August 2012 and August 2013. The results of this lending exercise can be summarized as follows:

⁵ DTF is the benchmark funding rate in the Colombian financial system. During the period in which this credit line remained in place (August 2012 - August 2013), the DTF effective annual rate stood at 4.73%.

- Total loans issued were valued at approximately US\$58 million. 65% of these resources were issued to large companies, 26% to medium-sized companies and the remaining to small companies.
- The issuance of these resources began with public resource contributions totaling close to US\$6 million, and close to US\$4 million of this amount was transferred by INNpuls Colombia.
- Regarding the geographical distribution of resources, 23.1% was issued to Bogotá, 15.4% to Antioquia and 16.3% to El Valle.
- The additional spread charged to loan beneficiaries, *vis a vis* the rate paid by banks, averaged between 3.34% and 3.64%, depending on the size of the company.

These results show that innovation capabilities are more evenly distributed throughout the country amongst large companies than in the case of start-ups. Companies benefited by the program demonstrated they had already developed relatively advanced innovation strategies, either through their agreements with universities or R&D centers, or because of patents awarded or pending, innovation awards received from national or international organizations, resources obtained via RFPs, innovation competitions, or others.

Lessons learned in this case relate to the usefulness of a credit mechanism as a supporting instrument for innovation projects when companies have already gained access to the financial system. On the one hand, companies considered the credit mechanism attractive because of the availability of resources and the grace period before starting payments; this was true, even when interest rates were not all that different from those offered to them through existing relationships with banks. The fact that support was in the form of a loan also contributed to the level of acceptance by companies, simply because it was a familiar mechanism. From a financial perspective, the combination of an innovation project with uncertain results and an unknown funding mechanism could lead to the absolute rejection of an initiative. Furthermore, companies agreed that an expedite and soft credit mechanism was preferable to making project funding proposals, both because of the speed of disbursements and the possibility of avoiding costs associated with developing detailed projects, including insurance policies and other requirements when interacting with the State.

Similarly, this experience also demonstrated the need to accelerate banks' learning processes when dealing with the innovation projects of companies. Empirically speaking, it was evident that banks knew very little about these processes, and generally speaking innovation projects were a novelty for banks, which fell outside of their traditional project assessment models. Given that these were essentially credit allocation processes, assessment became a dialog between Bancóldex, the private banks responsible for disbursements, and the companies;

INNpalsa Colombia participated in the disbursement phase, which occurred in a more expedite manner than in the case of start-up allocations. In the future, it will be necessary to find ways of closing the gap between project assessment models used by commercial banks and models used to assess innovation projects proposed by companies.

Open Innovation

INNpalsa Colombia developed an open innovation program aimed at companies with rapid growth potential of different sizes to be led by the Business Hyper-Growth and Mindset and Culture areas. The program issued two requests for proposals, one in the hydrocarbon sector and another in mining, and these processes are still underway.

Open innovation can be defined as the deliberate use of knowledge flows from the inside to the outside of companies, and vice versa, in order to accelerate innovation processes and expand markets. Open innovation schemes allow companies to incorporate innovative solutions developed by third parties within their own projects, with a view to solving technical problems and strengthening their value proposals. The open innovation model is the very antithesis of the integrated and closed company paradigm, where only the innovation activities that are developed internally can lead to the development of products and services (Chesbrough, 2012).

The open innovation program looks to help companies achieve better results in their innovation efforts by reducing both time and costs. Typically, a group of companies generates a series of technical innovation challenges, which are then put forth to an open forum of companies or research organizations that may be able to solve them. As part of the program, the companies that generate the challenges receive support from an international consultancy agency. The challenges are first identified and then defined in a precise manner, after which the terms of reference to guide participants are drafted. Companies also receive general training in innovation project management skills. Once the so called "solvers" (name given to the organizations that have developed the solutions) have made proposals, the program lends support to the assessment and negotiation processes, as well as assisting in the development of engagement models. 63% of the consultancy budget was contributed by the Servicio Nacional de Aprendizaje (SENA) in accordance with an agreement with the Mindset and Culture area.

The program also lends support to "solvers" so that they can take part in the process. Similarly, national roadshows are held to present the different challenges and to invite companies from different sectors to take part as "solvers"; the program also offers support to participants so they can embrace open innovation concepts appropriately, to help in the analysis of technologies, development of business models, improvement of proposals, as well as carrying out investments and concept testing.

Collaboration is the key aspect of open innovation processes, firstly among a company's own units and then between the company and its peers. It is a process with direct impact on the organizational culture and dynamics of stakeholder relationships, both inside and outside the company. Only after this does it begin to act as a mechanism that allows for the identification of solutions to technical problems. That is, a company can only take part in an open innovation process if it has already built an organizational culture in which collaboration, openness and trust are day-to-day values within that organization.

Future challenges of INNpulsas Colombia

INNpulsas Colombia will face several challenges in the future, the most important being:

– **Strengthening project pipeline and scaling up management.** Daniel Isenberg (2011) considers that a country should have at least one high-impact venture for every 100,000 inhabitants; according to that standard, Colombia should generate close to 500 of these new companies every year. The country is quite far from achieving this. Apart from allocating more resources, it is essential that the different players in the ecosystem look for creative solutions to increase the flow of projects. It is also important to distribute projects among medium-size cities.

– **Allocating resources in the future.** There are certain implied risks in the model stemming from the fact that Bancóldex's earnings are the main source of funding. In fact, earnings registered by Bancóldex in 2013 were approximately half of earnings in 2012. This clearly reflects the program's vulnerability if the government does not guarantee a steady flow of resources for this purpose. INNpulsas Colombia needs to ensure its continuity; therefore, there must be a mechanism in place to provide a secure source of resources.

– **Using a shared definition of dynamic entrepreneurship.** It is difficult to arrive at a unanimous definition because there is no specific characterization accepted in academia or the public policies context. Hence, a deeper study of the main features of these companies must be carried out. What makes them qualitatively different? What are their specific features that other entrepreneurs must imitate? All these topics require greater research and more precise definitions.

– **Strengthening INNpulsas's positioning.** Colombia boasts more than 100 entities that offer services to the dynamic entrepreneurship community, but there are important voids in the services they offer. In this sense, INNpulsas Colombia has done a good job by strengthening the distinctive elements of its offering, including changes in culture and development of capabilities in the companies it supports. These efforts to solidify INNpulsas's positioning among the stakeholders of Colombia's entrepreneurship ecosystems must go deeper and continue well into the future.

– **Linking Colombian entrepreneurs with the rest of the world.** In order for entrepreneurial projects fostered by INNpulsas Colombia to change growth dynamics in Colombia, they must be able to gain access to international goods, services and capital markets. Countries such

as Singapore and Chile have implemented programs whereby entrepreneurs are sent to demanding entrepreneurship ecosystems in the United States for six months, a year, or more, allowing them to reach higher performance levels.

– **Stimulating entrepreneurial human capital immigration.** All of the top entrepreneurship ecosystems in the world have been visibly influenced by highly-qualified immigrants, so to exclude this factor could be costly for the country.

– **Raising the bar for companies.** It is important to demand increasingly greater standards from Colombian entrepreneurs, as this is simply the norm in advanced ecosystems in other parts of the world. In this sense, it is essential to continue nurturing the international networks of allies that can act both as mentors and evaluators.

– **Accelerate private equity inflows during the early stages of projects.** In terms of funding from specialized private equity funds at the start-up phase of companies, results are still emerging. The government should be able to reinforce actions in this respect so that investors start receiving returns on their investments in high-potential ventures in Colombia.

– **Managing results expectations of public opinion.** Failure rates when promoting high-impact entrepreneurship activities are high. Colombian tax payers and regulators need to understand that this is the nature of the beast. Both INNpulsia Colombia and government actors that promote dynamic entrepreneurship must be ready to respond to possible negative reactions from public opinion *vis a vis* their effectiveness to create successful ventures. Dynamic entrepreneurship can never be expected to achieve large-scale and generalized success.

– **Preparing for the debate around equitable resource allocation.** Political debates can surface at any time about the convenience of handing over public resources to pave the way for a select group of entrepreneurs to potentially establish hyper-growth companies, instead of allocating said resources to other types of initiatives that could reduce social inequality. INNpulsia Colombia and Bancóldex must be prepared to face these discussions about inequality and entrepreneurship, as have many other countries in the world. If these discussions are held in a highly-polarized political environment, results could be unforeseeable. In this sense, it is possible to demonstrate that the positive effects of dynamic-growth companies go beyond the generation of private earnings for their partners, as they also generate benefits for society in general and increase the wellbeing of consumers.

– **Deepening relationships with actors in the financial sector.** Banks still have a long way to go when it comes to their assessment of innovation projects. The experience of the credit line for innovation proved that banks are unaware of the workings of innovation systems within companies, and of the conditions that should be attached to loans that look to fund these types of projects. Among the goals INNpulsia Colombia must focus on in upcoming

years, it will be important to call on a greater number of banks to take part in these dynamics and generate innovative financial products for companies that have proven their effective management of innovation systems.

– **Aligning practices of entities that control the use of public resources and the requirements of dynamic entrepreneurship.** The trajectory followed by accelerated growth ventures is not typically aligned with detailed planning processes. The definition of products or business models cannot be anticipated by planning exercises before actual interaction with the market. These inflections in strategy can be very common, so much so that a special term has been coined: “pivots” (Blank, 2012); these are decision-making moments in which entrepreneurs discover that the best opportunities lie somewhere else than originally thought. This type of clarity is only possible through interaction with consumers in the market. However, this type of flexibility in managing projects goes against the traditional criteria used by a General Comptroller who must oversee the optimum use of public resources.

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INNpulsa Colombia, a special program by the Colombian development bank, Bancóldex, was created in 2012 in an effort to “support and promote business hyper-growth, led by innovation throughout the country.” INNpulsa promotes the emergence of new companies with hyper-growth potential and supports businesses that place innovation at the center of their strategy.

Several Latin American countries have launched public policy initiatives aimed at strengthening their entrepreneurial ecosystems. In this sense, INNpulsa hopes to generate an interaction of different ideas and options that can contribute to the common goal of creating public policies that foster entrepreneurship so it becomes an engine for economic growth in Latin America.

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