

TC ABSTRACT

I. BASIC PROJECT DATA

- **Country:** Mexico
- **TC Name:** Support for the development of the Digital Creative City
- **TC Number:** ME-T1254
- **Team Members:** Juan Carlos Navarro (IFD/CTI), Gregorio Arevalo (CTI/CME), Mauricio Bouskela (IFD/CTI), and Mariela Rizo (IFD/CTI)
- **Type of project:** Client support
- **Reference to request:** Letter sent to the Bank on February 12, 2014
- **Date of TC Abstract:** December 16, 2013
- **Beneficiary:** State of Jalisco.
- **Executing Agency and contact:** Inter-American Development Bank
- **IDB Funding requested:** US\$500,000
- **Local counterpart funding:** US\$70,000
- **Disbursement period:** 18 months
- **Required start date:** March 1st, 2014
- **Types of consultants:** International and local firms
- **Prepared by Unit:** IFD/CTI
- **Unit of Disbursement Resp.:** CTI Mexico
- **Included in Country Strategy:** Yes
- **TC included in CPD:** Yes
- **GCI-9 Sector Priority:** Competitive regional and global integration

II. OBJECTIVES AND JUSTIFICATION

- 2.1 **General objective.** The overall objective of this project is to support the Government of Jalisco (GoJ) support the implementation of the Digital Creative City (DCC).
- 2.2 **Specific objectives.** The specific objectives of this project are to provide technical expertise for: (i) consolidating a governance model and execution mechanism for the development of the DCC; (ii) detailing and planning a strategy for private sector involvement in the development of the DCC; and (iii) supporting complementary studies that will help prioritize actions and set up mechanisms for enterprise creation and talent development.

- 2.3 **Justification.** The city of Guadalajara¹, capital city of the State of Jalisco, is home to approximately 40% of the information and communication technologies (ICT) industry of Mexico, as a result of a pioneering and long term industrial, science and technology policies that began in the 70s. Nowadays, Guadalajara is one of the most important ICT hubs in Latin America, hosting international and national companies in the following subsectors: semiconductors, embedded systems, software development, systems integration, business process outsourcing, multimedia (2D and 3D), visual special effects, videogames, testing, emulation and simulation, with more than 90,000 employees (COECYTJAL). This very dynamic industry benefits from the high quality of universities and technical education centers in the State.
- 2.4 Products, services and business models of ICT firms tend to mature very quickly due to technological innovation, and therefore, such firms have to keep investing in innovation and human capital in order to continue to be relevant and stay competitive. The GoJ is aware of this constant pressure and recognizes that on average, its ICT companies are mature, their degree of innovation is relatively modest and some of them, especially those that manufacture hardware and/or assemble devices, are highly exposed to relocation due to pressures arising from lower prices and labor regime conditions in other parts of the world.
- 2.5 The GoJ wants to undertake a diversification of the local ICT industry, boosting the development of firms in niches that are intensive on creativity and innovative value added services, which have high demand and greater export potential. This venture is called Digital Creative City (DCC). It was designed by the Government of Jalisco, Government of Guadalajara (GoG) and CANIETI² in 2011, with the support of the Massachusetts Institute of Technology (MIT), and in 2012 was selected in a national contest to become the first digital creative city in Mexico.
- 2.6 The DCC consists on the creation of a technological cluster in the historic district of Guadalajara, which will attract firms and will help incubate and accelerate start-ups in the space of creative digital industries, with primary focus on mobile applications, animation, videogames, and production and post-production of video and cinema. The goal of the DCC is to become a world-class hub of digital creative industries. The design of the DCC master plan involved the participation of national and local institutions, private sector and academia, and a few indicators show the magnitude and complexity of this endeavor: estimated US\$6.1B of public and private investment, 30,000 new jobs, and 430,000 m² of improved facilities, office buildings and housing, along 10 years.
- 2.7 This kind of initiative, which combines urban and housing interventions, with science and technology resources and digital-based enterprise development is not new. In the past 15 years, a few cities around the world have sponsored similar initiatives, with mixed results and very important lessons for the case of DCC.

¹ Population: 1,495,000 inhabitants. Area: 151 km². Annual per capita income: US\$14,281 (2010, INEGI).

² National Chamber of the IT, Telecommunications and Electronic Industry. www.canieti.org.

- Some interesting initiatives are: Distrito Audiovisual (Buenos Aires) and Porto Digital (Recife) in Latin America; 22@ District (Barcelona) and Digital Hub (Dublin) in Europe, and the Digital City (Incheon) in South Korea. None of these models are directly transferable because of the different political, socio-economic, cultural and geographical contexts for which they were designed and operate, but they may bring key lessons, recommendations and methodologies that would be very useful for the team who has to lead the development of the DCC.
- 2.8 These cases have shown the need for adopting a dynamic and holistic approach in order to combine the implementation of different elements, some of them concurrently and some others sequentially: (i) urban planning, housing, office buildings and, when recovering marginal districts, social inclusion programs; (ii) infrastructures (energy, water, transportation, sewerage, telecommunications, waste); (iii) attraction, creation and retention of human capital; (iv) innovation and entrepreneurship; (v) venture capital/smart money; (vi) public-private partnerships; (vii) investment attraction and internationalization of DCC companies; and (viii) update of legal and regulatory frameworks in order to create the enabling environment.
- 2.9 The DCC initiative is one of the top three priorities of the Government of Guadalajara and in 2013, they already started to execute the master plan: a trust fund has been created with an allocation of public land valued at US\$30MM, the implementation of four projects of the first phase is underway (Digital Creative Complex, Ingenium, Infobox and Datacenter), and a fifth project is in the pipeline for early implementation (Digital Arts Centre). As the government moves forward the execution of the DCC's master plan, they find greater challenges that are part of the critical path and need to be solved before they can continue:
- a. Set up a governance model that combines the vision, needs and resources from the federal, state and municipal government, private sector, academia and civil society;
 - b. Establish a distributed execution mechanism, where different institutions may implement different projects (i.e. GoJ, GoG, Conicyt, Promexico, Inadem, and Prosoft, among others) in a coordinated fashion; and
 - c. Define the role of the private sector in the development of the DCC: where, when, and how.
 - d. Prepare a detailed action plan for the 1st phase of the master plan, which requires additional studies (baselines of the digital creative firms in Jalisco, business intelligence of creative industries).
- 2.10 Aware of these challenges, the GoJ has requested technical assistance to the Bank, in order to benefit from (i) previous experiences in designing and supervising the execution of investment programs in the fields of science, technology and innovation in the region, which have included technological parks and

entrepreneurship programs for the ICT sector; and (ii) its access to the Korean experience in the field of digital and smart cities.

- 2.11 IDB's involvement in the project falls within the mandate of the Bank to support countries in the area of private sector development, with particular reference to small and medium enterprises. The Digital Creative City is intended to boost economic growth and productivity in the country as a whole, beyond its local positive effects on the economy of the State of Jalisco and the city of Guadalajara, thus creating a long-term sustainable engine of growth for the economy, which has shown signs of low growth in the recent past.
- 2.12 The IDB's Division of Competitiveness and Innovation is a recognized leader in technical assistance, project design and execution and policy research in the field of technological development and innovation. It has extensive experience across Latin America and the Caribbean in supporting governments, both at the Federal and state level, in putting together investment and policy reform lending programs. One of the major areas of work for the Division is support for the development of technology-based entrepreneurship and the corresponding entrepreneurial ecosystems, which constitutes the main focus of the Digital Creative City in Guadalajara.
- 2.13 With regards to the access to the Korean experience in designing Smart Cities, since 2011 the Government of the Republic of Korea, through the Knowledge Sharing Program (KSP) has been supporting the Bank with consulting services for the municipalities of Goiania (Brazil), Montevideo (Uruguay) and Montego Bay (Jamaica). These consultancies aimed at designing technical studies and action plans for the implementation of Integrated Operating Control Centers (IOCC)³ as critical step towards the transformation of these municipalities to become Smart Cities. Furthermore, in 2013 a delegation of twelve experts from the Region participated in a Study Tour to Korea to learn the best practices in leveraging the ICTs for implementing smart cities, and had the opportunity to visit the smart cities of Anyang and Songdo (Incheon Free Economic Zone)⁴.

III. DESCRIPTION OF COMPONENTS AND OUTPUTS

- 3.1 **Component 1. Governance Model and Execution Mechanism.** The objective of this component is to review the design and support the implementation of a governance model and an execution mechanism for the development of the DCC. This component will finance consulting services for: (i) detailing the design of the governance model and the execution mechanism, considering lessons learned from

³ The IOCCs are powerful resources of a Smart City that allow experts from the municipality to work collaboratively by leveraging modern technologies and intelligent systems to solve urban problems, anticipate new problems, increase transparency and provide better services to the citizens.

⁴ The IFEZ (Incheon Free Economic Zone) is part of the long-term master plan for Korea's development of Incheon as a hub city for international business in Northeast Asia including the new cities of Songdo, Yeongjong, and Cheongna. (*KRIHS consulting report*).

other experiences; (ii) creation of the governance model and the execution mechanism specifically tailored for the Mexican context, including organization, roles for different positions, business processes, rules for decision-making, project management, monitoring and evaluation. The outcome of this component will be the governance model and the execution mechanism, created and up and running.

- 3.2 **Component 2. Involvement of the Private Sector.** The objective of this component is to support the authorities in defining specifics for the involvement of the private sector in the development of the DCC. The component will finance activities such as consulting services to define the objectives, fields, rules and incentives to attract private investment, an action plan for the 1st phase of the DCC, and the preparation of executive projects which will involve the private sector.
- 3.3 **Component 3. Technical Studies.** The objective of this component is to finance technical advice to further narrow strategic niches, provide business intelligence and define a policy mix to maximize the impact of digital creative industries (governance team, firms and academic institutions).
- 3.4 **Component 4. International Study Tour.** The objective of this component is to support the participation of key members of the governance and execution teams in an international study tour to Korea and/or selected countries with the purpose of learning the best practices from government and private entities responsible for planning, designing and implementing digital creative and smart cities, and look for opportunities for collaboration. This component will finance the costs for the airfare tickets, per diem and visits to the sites.

IV. INDICATIVE BUDGET (US\$)

Component	IDB	Local	Total
1. Governance Model and Execution Mechanism	150,000	-	150,000
Detailed design and creation of the governance model and the execution mechanism.	150,000	-	150,000
2. Involvement of the Private Sector	120,000	-	120,000
Design and planning the involvement of the private sector in the development of the DCC	120,000	-	120,000
3. Technical Studies and Business Intelligence	160,000	50,000	210,000
Business intelligence on digital creative industries	160,000	50,000	210,000
4. International Study Tour	40,000	20,000	60,000
Contingencies	30,000	-	30,000
Total	500,000	70,000	570,000

V. EXECUTION AGENCY

- 5.1 The Bank will be responsible for implementing this project, through the IFD/CTI division.

VI. PROJECT RISKS AND ISSUES

- 6.1 The main complexity of the DCC program is that it requires the alignment and management of different interconnected components: urban planning, infrastructure, innovation and entrepreneurship, human capital, social inclusion investment attraction, and financing. It is imperative that the development of this technical cooperation is conducted in close coordination with the people responsible for the other components of the DCC program. The GoJ will set up and manage a coordination mechanism that will provide the ground for consultants to interact and dialogue with the leaders of the different components of the program.

VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

- 7.1 The project will not generate any significant social or environmental negative impacts. According with the toolkit program, this project was classified with "C", meaning that no environmental assessment studies or consultations are required for this Category.