

Frame the Future Thought Pieces



Regulations to Foster Innovation, Sustainability, and Resilience



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How can we use regulations to foster innovation, sustainability, and resilience?

Let's take the case that most influenced our lives recently to understand the impact of regulations on innovation, The Digital Technology Industry.

To be clear, for me, innovation nowadays includes sustainability, resilience, and societal integration. We are in 2021, we do not have room for other kinds of innovations. Movements like B Corp and GSG are leading the way to the new default model we need for better capitalism.

Going back to our case, on July 23, 2020, Benedict Evans, a renowned business technology analyst, wrote an article called "Regulating Technology." In this article, he described how the Digital Technology Industry was poised to be strongly regulated soon. Let me summarize the main concepts here to make my point.

The Digital Technology Industry has gone from being just one of many industries in the nineties to being systemically important to society ten years ago. As Marc Andreessen liked to say, "software is eating the world."

The problem is that when software becomes part of society, all of society's problems get expressed in software. All the things we worried about before now happen online, and are amplified, changed, and channeled in the digital world.

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All industries are subject to general legislation, but some also have industry-specific legislation. All companies have to follow employment law, accounting law, and workplace safety law, and of course criminal law. But some also have their own laws as well, because they have some very specific and important questions that need to be ruled. Banks, airlines, and utilities are regulated industries, and digital technology is going to become a regulated industry as well.

The Global Federation of Competitiveness Councils

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This new technology that impacts society and becomes part of it provides us with a lot of benefits and solutions to numerous problems, but, at the same time, it raises different issues that need to be dealt with. Using Benedict's example: "We can tell car companies to make their cars safer and punish them if they cut corners, but we can't tell them to end all accidents or make gasoline that doesn't burn. We can tell Ford to reduce emissions, but we can't tell it to fix parking or congestion or build more bike lanes."

This is how policy works: there are many largely unrelated problems captured by words like "cars" or "banking" or "tech." Some things are impossible to solve, yet in terms of technology, most things are tradeoffs — there are generally unintended consequences, and everything is complicated.

Even inside governments, competition regulations and privacy regulations often collide. It is clear at the end of Benedict's article that regulation for the Digital Technology Industry is going to be complex.

So now let's see what happened when China's State Administration for Market Regulation (SAMR) published a set of draft rules targeting practices such as false advertising, fake online reviews, unfair competition, interoperability issues, data protection, and consumer privacy issues among internet companies that could come into force this year. The shares of the biggest Chinese internet companies went down 17 percent in just three days, mainly led by foreign investors. The EdTech sector got the worst part. Two weeks later, the government effectively torpedoed China's \$100 billion EdTech industry with an edict forbidding internet companies engaged in online tutoring to earn profits.

In contrast, the very same day in July 2020 the CEOs of the big U.S. tech firms — Apple's (ticker: AAPL) Tim Cook, Alphabet's (GOOGLE) Sundar Pichai, Amazon's (AMZN) Jeff Bezos, and Facebook's (FB)

Mark Zuckerberg — went to court to testify in an antitrust hearing, their stocks went up by more than 1 percent.

What was the difference?

As I see it, the difference lies in having the discussion within a trustworthy framework: rules considered and debated in Congress and a legal system to foster investors' trust.

To recap, regulation is something inevitable, which increases costs for businesses and can erase their value very quickly. So the question is not whether the technology industry should be regulated, but **what is the right way to do it?**

Based on the examples above, we already have some clues. To have transparent institutions gives stability to the process and does not harm the value of the companies involved in the regulation to come. We know that Congress is slow, so we still have to fix that, but for new technology, it is not clear if we want to have regulations very fast. For example, in Argentina in 2016, the Central Bank and the Ministry of Economy decided not to regulate FinTechs because it was a new kind of service. The government did not want to stop innovation before it happened. The crypto industry grew in Argentina and the country got two new unicorns, Uala and BitFarms, from that. To wait was definitely the right decision.

We also know that we do not want regulation made by people that do not understand technology and its impact. As we are talking about something completely new, there should be a **collaboration process** between public and private institutions with expertise on the matter.

This is a trade-off game and a very complex one, so developing processes that can deal with multidimensional variables and complex dynamics is desirable. It seems that an iterative and agile process like the one used for creating software could be a good path to follow. Singapore made some progress along this line by creating a small city called City Lab, where they changed regulations on autonomous driving monthly, based on an iteration process in order to improve it faster.

In our panel, Frame the Future of Regulation, Laura Sandys, an expert professional on regulation, said something that really caught my attention: Regulation needs to move from the creating processes approach to the creating boundaries approach. In a VUCA world, I think the latter can obtain a much better output and create a great field for innovation, caring about some limits that are in the public interest and having room for the creation of the tools we need for a new system that is sustainable, inclusive, and prosperous.

Regulation to Accelerate Sustainable Solutions and Cleantech Innovation

In terms of accelerating the transition to a sustainable world, I would like to mention some examples of how LATAM countries have accelerated the adoption of renewable energy. The region is not the best example in the world, China and Europe are leading the way, but we can mention some good examples that could be taken as a reference to show that it is possible to make significant changes to improve the conditions and to accelerate transition.

Energy is an old industry with extensive and complex regulations, so it is not an easy topic to understand.

To simplify, we have these dimensions as seen in the [IRENA report](#):

- National Policy: general framework, national target definition and strategy for the different renewable energy sources: wind, solar, biomass, geothermal, etc.
- Fiscal Incentives: tax exemptions, carbon tax, accelerated depreciations, etc.
- Grid Access: transmission discounts, priority, grid access, preferred dispatch, etc.
- Regulatory Instruments: auctions, feed-in tariff, net metering, etc.

- Finance: Guarantees, dedicated funds, pre-investment support, currency hedging, etc.
- Programs for energy access: renewable energy in social housing, rural access program, clean cooking, etc.

Governments in Latin America were among the first to run capacity auctions to provide incentives for renewable deployment, led by Brazil in 2005. The auction model awards long-term contracts to bidders that offer to supply specified volumes of electricity at the most competitive prices. The guaranteed income has facilitated the implementation of renewable capacity throughout the region

Argentina's RenovAr program is one of the examples of how good regulation can make a positive impact enabling market conditions and financing protections to support large-scale deployment of renewable energy in countries that have historically struggled to access international capital markets. Two elements played a key role in this case, a law and a government program. At the heart of this success is an innovative, multilayered financial de-risking mechanism supported by multilateral institutions which has proved to be an effective protection against the country's unstable economy.

In this case, during the first three years, the RenovAr program attracted more than U.S. \$7.4 billion in clean energy investments, resulting in more than 5GW of new renewable energy generation capacity. After the implementation of this program, Argentina jumped to the No. 9 position in the *Renewable Energy Country Attractiveness Index* (RECAI made by EY) ranking. It took 15 years for Argentina to reach just 2 percent of renewable energy in its energy matrix. After the new law in 2015, plus the implementation of the RenovAr program, the renewable energy generation capacity multiplied by four in four years.

These are the kinds of regulations and programs that LATAM needs to get out of poverty and accelerate the energy transition.

Regulatory Frameworks to Promote Innovation in Latin America

To bring LATAM out of poverty, we need to create wealth. The distribution system in dwarf economies that has been applied for decades has not solved poverty and exclusion problems. I am not talking about trickle-down theory, I am talking about a clear framework with the right incentives to foster the creation of value by the people, the creation of jobs, and finally prosperity for our communities.

If we analyze the birth rate of companies in LATAM, on average, for every two companies created in Europe, one is created in LATAM. And if we compare the number of SMEs, the average number in Latin America is one third that of developed countries. This is the beginning of the challenges we need to face for the people to prosper, add value to society, and earn their living and dignity.

Laws like SAS, a form of a simplified legal entity similar to an LLC or a SAS in France are such great examples of regulation reducing the cost and the friction to get started.

In 2012, the general assembly of OAS created a [model for a SAS](#) that was replicated in almost every country in the region. What took six months is currently done online in 24 hours. The majority of the newly created companies are SAS now.

This is a great example of how to create regulation to tackle concrete problems already identified that are blocking prosperity and innovation.

In the *Global Innovation Index*, there is a chapter that measures how easy it is to do business in the country and how big the market is. Looking at that index, we can find good clues of where to keep on improving regulation.