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CENTRAL AMERICA AND MEXICO

BOLSTERING STARTUPS IN CENTRAL AMERICA AND MEXICO

(RG-T3526)

DONORS MEMORANDUM

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PROJECT SUMMARY
BOLSTERING STARTUPS IN CENTRAL AMERICA AND MEXICO
(RG-T3526)

Central America has one of Latin America's highest rates of "necessity entrepreneurship," and there is little evidence of the development of "opportunity entrepreneurship," which involves an element of innovation. That said, recently a shift away from livelihood startups toward efficiency-driven ventures is being seen, where the entrepreneurial activity responds more to perceived opportunities.

Additionally, there is a disconnect among key operators in the entrepreneurship ecosystem; the way traditional corporates work with startups is still based on out-of-date models focused on acquiring a majority shareholding, rather than collaborating and co-creating; venture capital is underdeveloped and investors are risk-averse; many entrepreneurs still run their businesses simply to earn income and do not identify scalable solutions.

The objective of the project, executed by MassChallenge, is to boost the medium-term economic growth of early-stage entrepreneurs¹ in Central America (Guatemala, Costa Rica, El Salvador, Honduras, and Panama) and Mexico. It has two components aimed at strengthening the region's entrepreneurship ecosystem.

The first component's objective is to directly impact the participating startups by giving them the necessary tools to scale up to higher stages of development. The entrepreneurship ecosystem in each country will first be mapped, to understand the key operators, existing programs and initiatives, infrastructure, and events. This information is key to developing the communication strategy and the content of the bootcamps, which will be run onsite in various countries, depending on the location of the finalist startups, with four bootcamps per year. These bootcamps will be short (lasting three to five days), intensive, and include training, specialized mentoring, and community-building activities.

The second component focuses on developing a work methodology based on pilot collaborations between corporates and startups. The objective will be for 10 startups to enter into a formal working relationship with corporates under a pilot methodology, and to create and document the methodology for startups working with corporates, as a guide for future collaborations between these two.

The project's main outcomes will include: a mapping/market study of entrepreneurship ecosystems in six Central American countries and Mexico, implementation of 12 bootcamps with over 270 startups applying, 33% of which will take part in the program and adopt new practices or technologies within their business models; 10 startups formally working with corporates, and the methodology for startups working with corporates documented so it can be turned into a business line for MassChallenge and ensure its future financial sustainability.

In response to the COVID-19 pandemic, MassChallenge, COVID-19 Healthcare Coalition, and the public and private sectors have launched a global survey to identify new companies with solutions that are, or potentially may be, relevant to help limit the impact of COVID-19. This will help connect startups to organizations and front-line networks that can expand the scope and impact of their innovations. The project will support the initiative to find and scale

¹ Priority will be given to ventures that generate social or environmental impact or that work with vulnerable populations, aiming for 25% of the universe of startups to have a social and environmental focus.

groundbreaking innovations that can combat the current pandemic, revitalize the economy, and better prepare the world for future outbreaks.

ABBREVIATIONS

CID	Country Department Central America, Mexico, Panama, and the Dominican Republic
COVID-19	A novel coronavirus disease caused by the SARS-CoV-2 virus, which was first detected in 2019
GEM	Global Entrepreneurship Monitor
MC	MassChallenge
PSR	Project Status Report
SARS-CoV-2	Severe acute respiratory syndrome coronavirus 2, the pathogen responsible for COVID-19

EXECUTIVE SUMMARY

CENTRAL AMERICA AND MEXICO BOLSTERING STARTUPS IN CENTRAL AMERICA AND MEXICO (RG-T3526)

Country and geographic location:	Guatemala, Costa Rica, El Salvador, Honduras, Panama, and Mexico.		
Executing partner:	MassChallenge México S de R.L. de C.V.		
Focus area:	Knowledge Economy		
Coordination with other donors/Bank operations:	<p>This project is strategically important because it promotes the entrepreneurship ecosystem and potential linkages of startups in Central America and Mexico with IDB Invest in the long run. It offers the CID region an opportunity to leverage and capitalize good practices and success stories from mature ecosystems and bring best practices and standards to the region so as to generate a higher quality pipeline. The project will leverage synergies and forge partnerships with other IDB Lab projects: Acceleration of Disruptive Ventures with Seed Capital (ATN/ME-16143-GU); Pomona Impact Fund II (RG-Q0046); Promotion of Resilient Entrepreneurs in El Salvador, Honduras, and Nicaragua (Impact Hub) (ATN/ME-15945-RG); Development of an Ecosystem for Digital Ventures (ATN/ME-16702-PN); Digital Ecosystem 503 (ES-T1328); Inclusive Innovation, Civic Participation, and Youth Social Entrepreneurship (ATN/ME-16341-ES); and others, as well as the project executed by the Competitiveness, Technology, and Innovation Division (IFD/CTI): Institutional Strengthening Through the Creation of an Innovation Ecosystem Development Accelerator in Central America (RG-T2662).</p>		
Project beneficiaries:	The project will benefit 270 Central American startups that apply to the bootcamps, impacting 540 entrepreneurs (based on two entrepreneurs per startup) and 10 additional startups and corporates taking part in pilot programs.		
Financing:	Technical cooperation funding:	US\$696,500	50%
	Investment:		
	Loan:		
	Total IDB Lab contribution:	US\$696,500	
	Counterpart:	US\$696,500	50%
	Total project budget:	US\$1,393,000	100%
Execution and disbursement period:	36 months for execution and 42 months for disbursement.		

Special contractual conditions:	The hiring of the project coordinator will be a condition precedent to the first disbursement.
Environmental and social impact review:	This operation was screened and classified in accordance with the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703) on 8 October 2019. Given the limited impacts and risks, the proposed classification for this project is category "C."

I. THE PROBLEM

A. Description of the problem

- 1.1 Entrepreneurship ecosystems are increasingly viewed as support environments that galvanize economies to make them more efficient and productive over time. In general, economies can be classified into three phases: factor-driven, efficiency-driven, and innovation-driven. Economies that harness entrepreneurship ecosystems tend to be the most advanced and innovation-driven. In each of these phases, the mindset and opportunities for entrepreneurship ecosystem development are different, and the payoffs of entrepreneurship depend on the maturity of the ecosystem.
- 1.2 In Central America, a transition is under way from factor-driven economies to efficiency-driven ones, where entrepreneurial activity has centered on livelihood entrepreneurship but is transitioning to opportunity entrepreneurship. Drawing on its experience promoting the entrepreneurship ecosystem in Mexico and around the world, MassChallenge México can contribute to consolidating the ecosystem in Central America and Mexico by addressing the following challenges.
- 1.3 *Knowledge dissemination.* Existing knowledge-transfer strategies regarding entrepreneurship are still in the early stages, fragmented and uncoordinated, and unable to develop into processes with a measurable long-term impact; strategic mentoring and structured curricula based on entrepreneurs' needs are not yet available.
- 1.4 *Role-model recognition.* Sources of inspiration and role models need to be identified, to foster and develop capabilities that shift entrepreneurs' realities and enable them to develop sustainable businesses. Showing the paths entrepreneurs have followed to success or failure in this way is necessary to give new entrepreneurs examples when growing their businesses.
- 1.5 *Adoption of good practices.* Building successful startups² requires a level playing field, which is to say creating optimal conditions for developed ecosystems that are attuned to their environment, so that startups can compete globally. Central America is currently trying to imitate ecosystems like Silicon Valley, without taking into account its capacities and constraints on implementation. Consequently, it is not adopting successful practices that lead to consolidation but assuming that the necessary conditions will arise organically over time.
- 1.6 *Community-building.* There is a disconnect among key operators in the entrepreneurship ecosystem; the way traditional corporates work with startups is still based on out-of-date models focused on acquiring a majority shareholding, rather than collaborating and co-creating; venture capital is underdeveloped and investors are highly risk-averse; many entrepreneurs still run their businesses simply to earn income and do not identify scalable solutions. There is an ecosystem with many actors performing multiple roles, but little specialization and, thus, low rates of collaboration.

² Startup: a newly created company that sells products and/or services through intensive use of information and communication technologies, with a scalable business model enabling it to grow rapidly and sustainably over time.

Creating an entrepreneurship ecosystem is slow, and a variety of structural variables are necessary for it to evolve. The key variables include: (i) role models, which are important to building a robust ecosystem because they can help new generations of entrepreneurs understand how to succeed; (ii) nonfinancial support entities, which engage entrepreneurs as they grow, narrowing the margin of possible errors; (iii) capital funds, which provide the capital for ventures to grow; (iv) transfer of best practices, which gives entrepreneurs the tools they need to scale their operations; and (v) collaboration between corporates and startups in the most advanced ecosystems, which is crucial because it provides channels for ventures to grow and provide services to corporates, as well as offering exit options for capital funds. Since the ecosystems where the project seeks to work are at different stages, it will be necessary to have different types of interventions (see Figure 1).

Figure 1: Development of entrepreneurship ecosystem variables³



- 1.7 The stakeholders involved and the needs of the entrepreneurial ventures shift as an ecosystem matures. External role models are essential to an early-stage ecosystem, whereas in a mature ecosystem these role models already exist and working with corporates becomes more important.
- 1.8 Although the development of startups has gained pace in Latin America in recent years, this sector's growth has been limited in Central America, where it has been characterized by entrepreneurship as a form of labor market access, rather than a desire to exploit creative entrepreneurial capacities or build a business that delivers innovative solutions. The countries of Central America share a number of challenges, such as the need to raise aspirations and instill a more innovative outlook focused on growth and internationalization.

³ Source: MassChallenge Mexico, 2020.

- 1.9 Entrepreneurship ecosystems in Central America are therefore still in their early stages and lack structures for training, collaboration, and mentoring. They also comprise only a small number of actors concentrated in specific areas of each country. The latest study by the Global Entrepreneurship Monitor (GEM) (2010-2019) described the behavior of ecosystems in Central America and Mexico as follows:

Figure 2: Global Entrepreneurship Monitor Indicators – Regional⁴

GLOBAL ENTREPRENEURSHIP MONITOR INDICATORS AT REGIONAL LEVEL						
INDICATOR	Mexico	Guatemala	Honduras	El Salvador	Costa Rica	Panama
High job creation expectations	10.77%	26.98%	GEM has not produced a report for Honduras ⁵	19.80%	15.88%	6.14%
Social recognition of entrepreneurship	52.40%	71.72%		52.00%	59.00%	46.32%
Entrepreneurship as a desirable career option	50.67%	94.44%		71.50%	61.33%	44.63%
Perceived capabilities	50.07%	65.16%		70.57%	59.39%	42.13%
Entrepreneurial intentions	13.20%	49.69%		33.35%	28.95%	18.9%
Total early-stage Entrepreneurial Activity (TEA)	14.14%	25.52%		14.26%	11.33%	13.83%
Perceived opportunities	36.38%	54.63%		38.92%	39.00%	39.04%
Established business ownership rate	1.40%	11.15%		11.50%	2.53%	6.39

- 1.10 Against this backdrop, Central American governments have concentrated their efforts on reducing the number of procedures involved in formally registering a

⁴ Source: 2010-2019 GEM.

⁵ In the Doing Business Report, the highest scoring subindex for Honduras is the ease of getting credit—an essential tool in turning a business idea into a reality—on which it ranks 13th out of the 189 economies studied. The Global Competitiveness Report regards the development of the financial market, on which Honduras ranks 61st out of 148 countries, as a driver of the country's efficiency. In terms of international trade, Honduras is at an advantage relative to the regional average, ensuring that satisfactory conditions are in place for businesses so that the necessary import and export procedures, costs, and time frames do not become an obstacle. According to the Global Entrepreneurship and Development Institute (GEDI) ranking, the strengths of Hondurans' entrepreneurial attitudes are in risk acceptance, skill perception, competition, opportunity recognition, and new products. For more data on Honduras see "Estrategia de fomento al emprendimiento de Honduras" [Entrepreneurship Development Strategy of Honduras]:

http://www.sice.oas.org/SME_CH/HND/Estrategia_Fomento_Emprendimiento_HND_s.pdf.

business and supporting their operations electronically, as well as creating new programs of entrepreneurship and innovation support. Although these programs have started to bear fruit, the entrepreneurship ecosystem offers few acceleration and training programs that can help startups develop and grow.

- 1.11 Meanwhile, although there is a more developed entrepreneurship ecosystem in Mexico, collaboration between corporates and startups is just beginning, often due to barriers at the corporates, such as a lack of strategy definition, support from executives, or mechanisms for recruiting quality startups.
- 1.12 Until these challenges are addressed, startups will continue to face difficulties expanding their activities successfully and sustainably. In fact, inability to tackle these challenges effectively forces many startups to close their doors prematurely. For example, in Mexico, approximately 64% of businesses fail in the first year, 68% in the first two years, and more than 72% in the first five years.⁶ In Central America the percentage is even higher. To address this situation, bootcamps will be promoted vigorously. Bootcamps are intensive training courses to give entrepreneurs the tools they need to scale up to higher stages of development and lower the failure percentages. A pilot project will also connect corporates with startups so that they can provide innovative solutions to sell services, driving startup growth.

II. THE INNOVATION PROPOSAL

B. Project description

- 2.1 The **objective** is to contribute to the medium-term economic growth of early-stage entrepreneurs in Central America (Guatemala, Costa Rica, El Salvador, Honduras, and Panama) and Mexico. The project will prioritize entrepreneurial ventures that have a social or environmental impact or work with vulnerable populations.
- 2.2 **Innovation.** The project is innovative as there is no intensive training and acceleration model created specifically for the Central American entrepreneurship ecosystem that draws on best practices developed and tested in other countries with a similar context, such as Mexico. Additionally, the project will develop solutions that improve not only the entrepreneurship ecosystem but the services provided by firms as a result of collaborative pilots between corporates and startups to co-create innovative solutions to challenges identified by corporates in their business models.
- 2.3 MassChallenge is an organization that supports high-impact entrepreneurship and is committed to strengthening the global innovation ecosystem. It is headquartered in the United States with locations in Israel, Rhode Island, Switzerland, Texas, and Mexico. Each year, MassChallenge accelerates startups through its zero-equity, competition-based model with two training programs: (i) a highly competitive four-month program connecting participants with cash prizes, an international community of startups, world-class mentoring, programming tailored to the special needs of the industry, and access to specific partners; and (ii) bootcamps offering condensed knowledge to entrepreneurs over three to five days, to start building community, developing the ecosystem, and paving the way for an acceleration program in the near future. MassChallenge has successfully run bootcamps in Morocco, Colombia, Thailand, and elsewhere. MassChallenge will leverage its

⁶ Failure Institute report on the failure of technology startups in Mexico.

experience in Mexico to pilot its programs, tailored to conditions in Central American countries and in coordination with local operators identified through mapping in each country.

- 2.4 **Gender.** The MassChallenge model will focus on promoting the involvement of women in the program (as founders, cofounders, or managers) by giving them priority during the selection of firms so as to bridge the gender gap by ensuring a 35% participation in the program portfolio at project-end. The aim is to achieve true gender equity among startups so that they benefit commercially through (a) innovation: contracting services from startups owned or run by women makes the network more dynamic, enhances innovation, and makes the products and services more competitive; (b) reputation: a startup that strives for gender equity both among its workers and in its value chain improves its reputation; (c) social and economic impact: a positive social and economic impact is generated, not only within the firm but also externally, through diversity among workers, partners, and suppliers that enriches its operations. MassChallenge will be positioned in an ecosystem for impact entrepreneurship in the Central American region that is still developing, benefiting from the recent boom in small companies that are innovating with products and services that address economic, social, and environmental challenges.
- 2.5 The project has two components that include proposed solutions to strengthen the region's entrepreneurship ecosystem by turning startups into a powerful engine of sustainable economic growth, as well as fostering job creation in the region and collaborations between startups and corporates.
- 2.6 **Component 1: Transfer of knowledge and global best practices to the entrepreneurship ecosystem in Central America and Mexico (IDB Lab: US\$350,000; Counterpart: US\$317,500)**
- 2.7 This component's objective is to directly impact the participating startups by giving them the necessary tools to scale up to higher stages of development: from idea to product, from product to launch, from launch to growth, and lastly from growth to expansion stage, so they serve as success stories of startups that have become high-impact companies. Knowledge and best practices will also be transferred from MassChallenge to key local operators⁷ in the entrepreneurship ecosystem of Central America and Mexico through community activities and workshops, so that they can continue the acceleration processes, once the project has ended.
- 2.8 The entrepreneurship ecosystem in each country will be mapped, to understand the key operators, existing programs and initiatives, infrastructure, and events. This information is key to developing the communication strategy and the content of the bootcamps, so that the participating startup profile can be determined.⁸ For efficient implementation, MassChallenge's *Accelerate* platform will be used to invite entrepreneurs to apply to be selected. Project resources will be used to update and align the platform with the objectives and profiles to be supported by each of the bootcamps, and program applications will be completed in Spanish. Entrepreneurs

⁷ People, groups, or organizations that have an interest in a project or program, significantly influence, or are important for a situation to manifest itself in a particular way in the entrepreneurship ecosystem.

⁸ This mapping will use the knowledge products generated by other projects in certain countries as inputs, such as Developing the Digital Business Ecosystem (ATN/ME-16702-PN) in Panama and Lean Startups Mexico (ATN/ME-16065-ME) in Mexico, which conducted initial ecosystem mappings that need to be updated given the changing nature of the ecosystems in each country.

will register on the platform and complete their applications online. Applications will be evaluated by three judges online and face-to-face (videoconference).

- 2.9 Bootcamps will be run onsite in various countries, depending on the location of the finalist startups, with four bootcamps per year. These bootcamps are short (lasting three to five days), intensive, and include training, specialized mentoring, and community-building activities. The bootcamps are divided into two formats: (a) for startups at the conceptual and prototype stage, the objective will be to pass on to entrepreneurs the entrepreneurship methodology crafted by Steve Blank,⁹ using the client discovery and validation modules; and (b) for startups at the growth, launch, and expansion stages, the objective will be to refine the different business areas of startups that are already in operation, to accelerate their growth.
- 2.10 Startups will receive specialized mentoring through a global expert network, with mentors assigned depending on each startup, its stage, sector, and the identified needs. All the mentors involved in the MassChallenge program are volunteers and attend a training workshop. They can develop commercial relationships with the startups after the bootcamp.
- 2.11 During and after the bootcamp events are organized to build community among entrepreneurs, mentors, experts, partner entities, and founders of businesses that have been through MassChallenge. A communication and information content strategy will also be developed to reach key audiences. The entrepreneurship ecosystem and community will grow stronger, as these events, such as talks with entrepreneurs, become a regular fixture, and the amount of information and communication increases.
- 2.12 Lastly, as a result of these activities at least three startups taking part in the bootcamps are expected to be able to join the four-month acceleration program in Mexico at the end of the year.
- 2.13 The main outcomes of this component will be a study on the entrepreneurship ecosystems of five Central American countries and Mexico, 90 startups (20 the first year, 30 the second, and 40 the third) ready for their next phase of growth and gaining new knowledge through 12 acceleration bootcamps, 270 startups applying to bootcamps in response to the invitation, and six thematic publications on entrepreneurship, and lessons learned in the context of Central America and Mexico.
- 2.14 **Component 2: Pilot model of collaboration between startups and corporates (IDB Lab: US\$170,500; Counterpart: US\$129,500)**
- 2.15 The objective of this component is to generate a methodology from the pilot collaborations between corporates and startups that will serve as a guide for future co-creation of innovative solutions with the potential to overcome challenges faced by corporates and facilitate the growth of startups, as well as yield a future source of revenue and sustainability for MassChallenge.
- 2.16 A plan will be developed to launch this corporate/startup collaboration initiative through relevant events in the entrepreneurship and corporates sector in Mexico, the MassChallenge website, professional networks such as LinkedIn, and other

⁹ Steve Blank is the developer of the customer development methodology, which sparked the lean startup movement. It emphasizes new businesses and startups are not smaller versions of large companies but need their own processes and tools to succeed.

channels. After identifying interested corporates and startups, pilots will be run in five phases: (i) design of the corporate/startup collaboration; (ii) invitation to participate in the program; (iii) “demo day”; (iv) bootcamp for design of the solution; and (v) a 10-12 week pilot trial. Following the pilot, MassChallenge will assess the collaboration and the corporate on continuing with next steps.

- 2.17 Identification of companies with solutions potentially relevant to limiting the impact of COVID-19 will be supported, to connect startups with organizations and networks that can extend the reach and impact of their innovations to combat the pandemic, revitalize the economy, and better prepare for future outbreaks. The survey conducted by MassChallenge, together with the “COVID-19 Healthcare Coalition” and its public and private sector partners, will be used as a database to identify such solutions in the region.
- 2.18 The outcomes will be: (i) 10 startups formally working with corporates under a pilot methodology; and (ii) a methodology for startups working with corporates documented so it can be turned into a business line for MassChallenge and ensure its future financial sustainability. Since MassChallenge is currently a zero-equity accelerator, developing a methodology that charges participating corporates a fee would ensure it a source of revenue, enabling it to continue operating on a nonprofit basis, whereby startups take part in bootcamps free of charge with the sole aim of providing them with the best tools to scale their businesses. This will yield success stories with corporates, demonstrating that their investments are profitable by helping them lower operating costs or generate sales. This same business line (corporates) will support not only MassChallenge’s financial sustainability but collaboration between startups and corporates to co-create solutions with positive impacts on the economies of the countries hosting the bootcamps.

C. Project outcomes, impact, monitoring, and evaluation

- 2.19 **Outcomes.** The project will have three types of outcome: (i) transfer of knowledge and global best practices to the entrepreneurship ecosystem in Central America and Mexico; (ii) providing access to a global knowledge network through the creation of new modules on the technology platform; and (iii) establishing networks of collaboration between corporates and startups. The Results Matrix includes indicators for the project’s expected outcomes. Specifically, by project-end: (a) a mapping/market study will have been done of entrepreneurship ecosystems in six Central American countries and Mexico; (b) 12 entrepreneurship acceleration bootcamps tailored to the local context will have been run in various Central American cities, to pass on best practices and transfer knowledge; (c) the project will have worked with 90 startups that otherwise would not have had access to this type of training and business acceleration; (d) an outreach campaign will have been conducted with a communication strategy to publicize the invitations to participate in the program, to which over 270 startups are expected to apply; (e) six thematic publications will be produced on entrepreneurship and lessons learned, tailored to the context of Central America and Mexico; (f) 10 startups will be formally working with corporates under a pilot methodology; and (g) the methodology for startups working with corporates will be documented so it can be turned into a business line for MassChallenge and ensure its future financial sustainability.
- 2.20 MassChallenge’s experience with accelerating startups using a bootcamp model validated in several countries will ensure their sustained and ongoing engagement throughout the project. These bootcamps have led to early-stage startups building

sufficient capacity to grow into large companies. The results achieved by MassChallenge have earned it worldwide recognition, such that startups stay in the bootcamp, as their aim when joining the bootcamp is for the methodology to spur company growth.

- 2.21 **Impact.** At the end of three years of execution, the project will have produced 10 partnerships between startups and corporates willing to collaborate on co-creation and pilot projects to overcome business challenges. Additionally, 60% of firms taking part in the bootcamps will be adopting new practices or technologies within their business models. By project-end, the early stage startups taking part in the bootcamps and collaborating with corporates are expected to have had an average increase of 25% in sales, and 60% to have raised at least one round of investment (angel investment, crowdfunding, or venture capital).¹⁰
- 2.22 **Monitoring.** MassChallenge will be responsible for monitoring and evaluation of the project outcomes as stated in the Results Matrix. It will develop IT tools integrating data from various applications and project interactions with the beneficiary population, to evaluate not just the Results Matrix indicators but the model as a whole. Additionally, the project outcomes may be reviewed on the platform to be updated, such as: number of applications, country of origin of the startups, interested corporates, judges, number of hours of mentoring, mentor's industry, and gender of participants. The system is used to monitor results, statistics, and evaluate the startups taking part in the program. Ad hoc meetings will also be held at IDB Lab's request to review and monitor project progress.
- 2.23 **Evaluation.** This project will include a midterm evaluation and a final evaluation, as the Bank deems necessary, which must contain parameters reasonably requested by the Bank, namely at least: (a) fulfillment of the project objectives and indicators described in the project Results Matrix; and (b) extraction and analysis of lessons learned from the project. The evaluation will be prepared for publication and dissemination by IDB Lab and MassChallenge.

III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND PROJECT RISKS

A. Alignment with the IDB Group

- 3.1 This project exemplifies how IDB Lab is leading IDB Group efforts to develop the impact and innovation ecosystem in Central America and Mexico and create the conditions for broad-based economic growth, particularly by supporting vehicles for innovation that are aligned with the IDB country strategies with Mexico, Guatemala, Costa Rica, El Salvador, Honduras, and Panama. A crosscutting element of these strategies is that the private sector will support commercial opportunities promoting innovation, technological development, and startup competitiveness. The IDB Group is also backing projects capable of mobilizing the region to address development challenges by leveraging the power of innovation. The project will contribute to addressing the fundamental challenges identified in the country strategies with the targeted countries, including the need to improve ecosystem conditions so as to promote innovation and the entrepreneurial spirit, as well as to foster startup productivity. The project is therefore consistent with the

¹⁰ Drawing on MassChallenge's experience with its model in Mexico, the aim is to replicate these results in Central America. The results will be monitored by means of semiannual surveys by MassChallenge.

Corporate Results Framework 2016-2019 (document GN-2727-6), as it is directly aligned with the development challenge of productivity and innovation.

- 3.2 The project is also aligned with the Innovation, Science, and Technology Sector Framework Document (document GN-279-81), specifically the priorities related to promoting financing of technology and innovation for SMEs and startups, as well as strengthening private sector entities such as SMEs, and creating a supportive environment for business and innovation.
- 3.3 The project is aligned with the IDB Lab Business Plan 2019-2021, specifically support for the emergence of new markets, business models, and new technologies that impact vulnerable population groups. The project is also aligned with IDB Lab's knowledge economy strategy, as it will contribute to the growth of innovative and inclusive technology firms and strengthening of the entrepreneurial and innovation ecosystem.

B. Scalability and risks

- 3.4 **Scalability path.** The project will be scaled, in terms of content management, knowledge dissemination, and promotion of collaboration, using MassChallenge's *Accelerate* platform and the two modules being added as part of the project. Running bootcamps in Central America and Mexico will enable MassChallenge to apply the entrepreneur acceleration methodology it has developed and implemented in countries such as the United States, Israel, and Mexico in a more flexible and condensed format, tailored to the needs of Mexico and Central American countries, so that it can work with as many as 90 startups. The project will also leverage MassChallenge's network of connections to pave the way for regional collaboration between entrepreneurs in Central America and other innovation hubs where MassChallenge is active. Since 2007, incubation programs in Latin America have helped over 300 entrepreneurial ventures scale up in such countries as Brazil, Colombia, Mexico, Venezuela, and Guatemala. The lessons learned from IDB Lab's experience on similar incubation projects indicate the real scalability that can be achieved, once startups are connected to value chains, which is facilitated by the involvement of mentors who are also active economic agents. The project will seek to establish links between entrepreneurs and the local and national business sector in each country.
- 3.5 **Beneficiaries.** The project's direct beneficiaries are startups, entrepreneurs, and corporates. The cost to the project per beneficiary differs depending on their type: for corporates, the cost will be approximately US\$30,000 ,and for startups, US\$2,682 (the cost of taking part in the bootcamp will be financed with IDB Lab resources). Component II, which supports collaboration between corporates and startups, aims to generate a sustainable source of income for MassChallenge over time from the fees paid by corporates to take part in the project. This will enable MassChallenge to continue giving the region's entrepreneurs access to bootcamps free of charge. Moreover, network effects will be generated by seeking out collaborations with organizations in the countries hosting the bootcamps and extending the impact of the bootcamps to these networks. An effort will also be made to use the success stories with corporates to show that working with startups pays dividends, and the US\$30,000 initial investment can yield a long-term return in the form of lower costs or higher sales. The direct beneficiaries will be an estimated

- 540¹¹ entrepreneurs and 270 startups applying to the bootcamp program in Central America. Although just 90 startups will be selected to join the bootcamp program, all applicants will receive feedback on their application and business model via the platform. The calculation of 270 startups is the expected number of applications to the platform. Gradual year-on-year growth is expected, starting with 60 applications in the first year, 90 in the second, and 120 in the third. These calculations are based on MassChallenge's experience in Mexico and the momentum given to the selection processes from the various outreach strategies.
- 3.6 **Risks.** The main project risk is the weak ecosystem, since current initiatives are not tailored to startup development and a large share of startups have been created out of necessity or simply to make a living. To mitigate this first risk, the project will develop partnerships with government actors, corporates, investment funds, support agencies, mentors, and experts to build the community and, through the bootcamps, foster opportunity startups that may be scalable to regional and global levels.
- 3.7 It is always possible that there will be difficulties identifying a flow of startups in calls for applications to acceleration programs. As a mitigation measure, MassChallenge has developed a methodology to attract startups and encourage them to apply to programs, as well as an application intake and evaluation system.
- 3.8 The lack of venture capital and awareness of risk investment may affect the growth of the firms that go through the bootcamps: in Central America as a whole in 2016 and 2017 investment deals for US\$400 million were concluded (ANDE, 2018). Through its community-building initiatives, MassChallenge has raised over US\$42 million in investment from accelerated startups, so this type of investment is expected to be generated in the accelerated firms in Central America and Mexico.
- 3.9 Lastly, potential users may be put off using the platform by a lack of trust in the service or an unwillingness to share company information. MassChallenge will run an awareness campaign to build trust and explain in detail how information will be handled confidentially, as it did in the case of the acceleration program in Mexico, which was well received by startups.

IV. INSTRUMENT AND PROPOSED BUDGET

- 4.1 The project has a total cost of US\$1,393,000, with US\$696,500 (50%) of that amount contributed by IDB Lab, and US\$696,500 (50%) by the counterpart. The project will be a nonreimbursable technical-cooperation operation.
- 4.2 **Retroactive recognition of counterpart funds.** Up to US\$30,000 in counterpart funds may be recognized, starting from the project eligibility date of 7 May 2019.

¹¹ Based on two entrepreneurs per startup applying to the program.

Project budget in US\$	IDB Lab	Counter-part	TOTAL
Component I: Transfer of knowledge and global best practices to the entrepreneurship ecosystem in Central America and Mexico through bootcamps and dissemination of outcomes	\$350,500	\$317,500	\$668,000
Component II: Pilot model of collaboration between startups and corporates	\$170,500	\$129,500	\$300,000
Coordination, administration, evaluation, and audit	\$175,500	\$249,500	\$425,000
Total budget	\$696,500	\$696,500	\$1,393,000

V. PROJECT PARTNERS AND IMPLEMENTATION STRUCTURE

A. Description of Project Partner(s)

- 5.1 MassChallenge was founded in Boston in 2009 to help entrepreneurs launch and grow new ventures. The organization has been active in Mexico since 2016 and has offices in Mexico, Israel, Switzerland, and various cities in the United States. It has a team of 60 supplemented by expert consultants in various sectors and entrepreneurship topics. This accelerator is characterized by its zero-equity model, its main objective being to help the startups it supports develop and grow organically.¹²
- 5.2 MassChallenge is positioned to support projects with startups and corporates. Between 2016 and 2019, the organization accelerated over 135 startups in Mexico, which raised more than US\$45 million and created approximately 565 jobs. Thus far, four successful acceleration processes have been run in Mexico, with the participation of around 600 experts, giving over 5,000 hours of their time in mentoring, teaching, and judging. MassChallenge has accelerated over 2,458 startups globally since its founding in 2009, with 84% still in business. Overall, these startups have created more than 157,000 new jobs, received investment of US\$6.2 billion, and generated sales of over US\$3 billion.
- 5.3 The MassChallenge acceleration program is a four-month curriculum tailored to the startup's degree of maturity. During this time startups build relationships and develop business opportunities with different companies and receive support from top-tier mentors from Mexico and Latin America. Importantly, the startups accelerated by MassChallenge receive up to two million Mexican pesos in cash and in kind, but MassChallenge takes zero equity in them.

B. Structure and implementation mechanism

- 5.4 MassChallenge will establish an execution unit and the necessary structure to implement the project activities and manage resources; its organizational chart is available in the project technical files. MassChallenge will also be responsible for delivering six-monthly project status reports (PSRs). The structure of the execution unit will comprise MassChallenge staff and hired consultants, including a project manager and administrative coordinator. The execution unit will be governed by operating regulations that will be submitted to IDB Lab for approval as a condition precedent to the first disbursement. The operating regulations will include a section

¹² Organic growth means growing without investing additional capital or knowledge that does not generate incremental growth.

on pilot data generation and dissemination, and how information will be generated to prepare progress reports.

- 5.5 The execution unit will be housed at the offices of MassChallenge México and will be responsible for day-to-day running of the project to meet the established objectives, in addition to the operational team running the bootcamps in Central America, which will be based in Guatemala and meet periodically to review project progress against the timeline and make the necessary adjustments. The execution unit will consolidate and safeguard all project information and follow the administrative procedures established by IDB Lab and MassChallenge. It will also plan the details of meetings with relevant project stakeholders, events, and communication materials.

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will commit to IDB Lab's standard arrangements concerning results-based disbursements, procurement, and financial management, as specified in the technical file. Project disbursements will be contingent on the verification of fulfillment of milestones, which will be agreed between the execution unit and IDB Lab along with their means of verification. Achievement of milestones does not exempt the executing agency from responsibility for meeting the logical framework indicator targets or the project's objectives.
- 6.2 Under the risk- and performance-based project management modality, the project disbursement amounts will be determined in accordance with the project's liquidity needs, estimated for a maximum period of six months. These needs will be agreed between IDB Lab and the executing agency, reflecting the activities and costs programmed in the annual planning exercise. The first disbursement will be contingent on fulfillment of conditions precedent, and subsequent disbursements will be made, provided that the following two conditions are satisfied: (i) IDB Lab has verified that the milestones have been met, as agreed in the annual planning exercise; and (ii) the executing agency has justified at least 80% of the cumulative advances of funds.
- 6.3 **Procurement.** For the procurement of goods and the contracting of consulting services, the executing agency will be governed by the Bank's procurement policies (documents GN-2349-9 and GN-2350-9), in accordance with market practices for the private or commercial sector that are acceptable to the Bank.

VII. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 7.1 **Access to information.** Under the Access to Information Policy, this document is subject to public disclosure.
- 7.2 **Intellectual property.** All works and results achieved under this project will be the property of MassChallenge, which will grant the Bank a license to any intellectual property products deriving from project execution. This license will allow the Bank to develop derivative works and grant sublicenses.