

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**ARGENTINA**

**PROMOTION OF DYNAMIC ENTREPRENEURSHIP IN ARGENTINA**

**(AR-M1015)**

**DONORS MEMORANDUM**

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## **ABBREVIATIONS**

CAF	Andean Development Corporation
FEG	Fundación Empresa Global
GEM	Global Entrepreneurship Monitor
MIF	Multilateral Investment Fund
PPMR	Project performance monitoring report
SMEs	Small and medium-sized enterprises

**PROMOTION OF DYNAMIC ENTREPRENEURSHIP IN ARGENTINA  
(AR-M1015)**

**I. EXECUTIVE SUMMARY**

**Executing agency and beneficiary:** The nonreimbursable financing will be executed by Fundación Empresa Global (FEG). The reimbursable financing will be executed through a financial trust fund that will be formed.

**Beneficiaries:** The direct beneficiaries of project activities and resources will be: (i) at least eight entrepreneurship promotion institutions in Greater Buenos Aires and the rest of the country, which will implement innovative collaborative projects; (ii) 100 plans for business ventures with high growth potential selected and supported; (iii) the entrepreneurs and financial intermediaries that participate in the four investment forums; (iv) the two angel investor networks that receive support (one in- and one outside Buenos Aires); and (v) seven small dynamic enterprises promoted through a seed capital fund set up with distinguished private Argentine business leaders. Other beneficiaries will include: (i) entrepreneurs, university professors, and seed investors, who will gain access to practical experience and case studies; and (ii) the entrepreneurial climate in Argentina, which will see greater interagency cooperation and will improve as a result of public policy proposals.

<b>Financing:</b>	MIF (IIIA; nonreimbursable)	US\$1,219,800
	Fundación Empresa Global (FEG)	US\$1,027,960
	Other institutions	US\$ <u>106,000</u>
	Total:	US\$2,353,760

	MIF (IIIB; reimbursable)	US\$2,500,000
	Private entrepreneurs	US\$ <u>2,500,000</u>
	Total:	US\$5,000,000

**Execution period:** The execution period for the nonreimbursable financing for the technical-assistance components will be 48 months, with disbursements made over 54 months. The execution period for the reimbursable financing will be up to 10 years.

**Objectives:** The general objective of the project is to promote small dynamic enterprises with high value-added that help invigorate Argentina's productive structure. The specific objective is to demonstrate the validity of an integrated model for promoting dynamic entrepreneurship in Argentina that is tied to the local private sector.

<b>Social and environmental review:</b>	The Committee on Environment and Social Impact reviewed the project at its 14 July 2006 meeting, without comment.
<b>Coordination with other official development institutions:</b>	The project has been closely coordinated with the Andean Development Corporation (CAF), which participated in the analysis mission. The CAF is in the latter stages of analyzing the operation and will very likely invest in the Ilex Fund. Private entrepreneurs have pledged to match the CAF investment with additional resources, in which case the Multilateral Investment Fund (MIF) contribution would constitute a smaller percentage of the total investment.
<b>Special contractual conditions:</b>	<p>Special conditions precedent to the first disbursement of the MIF's nonreimbursable contribution: (i) selection of the coordinator for the coordinating unit; and (ii) a commitment by Mr. Sebastián Bagó to guarantee the provision of the local counterpart contribution, even in the event of acts of God or force majeure.</p> <p>Special conditions precedent to the first disbursement of the MIF's reimbursable contribution: (i) a firm commitment of private equity totaling at least US\$2.5 million in the Ilex Fund; and (ii) confirmation that a trust fund has been set up in accordance with terms agreed on with the Bank.</p>
<b>Exceptions to Bank policies:</b>	There are no exceptions to Bank policies.

## **II. BACKGROUND**

### **A. Dynamic entrepreneurship<sup>1</sup> in Argentina**

- 2.1 Empirical studies have demonstrated that new businesses and small and medium-sized enterprises (SMEs) play an important role in economic growth and social development, for primarily the following reasons: (i) in general, they engage in more labor-intensive activities than large companies; (ii) they have considerable flexibility with respect to contextual changes and are a factor in invigorating the

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<sup>1</sup> A dynamic business venture is defined as a new or recent business project that has realizable growth potential thanks to a competitive advantage, that may or may not be technological, such as at least becoming a medium-sized business, i.e., it operates according to a logic of accumulation, generating income well above the owner's subsistence level that is reinvested in developing the enterprise and that grows far beyond the average for its sector. So, it differs from the so-called survival or self-employment enterprises, the purpose of which is to cover the subsistence needs of the owner and his family or to address the specific needs of certain vulnerable social sectors.

- entire economy; and (iii) they have ample capacity to create and implement new technologies (for most, innovation is the reason they emerged). Accordingly, initiatives have been launched in many countries to create an enabling environment for the creation and development of dynamic SMEs with high growth potential.
- 2.2 Creating and developing a small dynamic enterprise is a complicated process in which entrepreneurs must find creative solutions to overcome formidable obstacles. To assist them in this process and prevent needlessly high rates of failure and a crop of business ventures afflicted with major shortcomings that keep them from achieving their full potential, there are specialized mechanisms that address their two main requirements: (i) available financial products designed according to the needs of each stage of the business's financial cycle<sup>2</sup> (financial capital); and (ii) access to business support services and networks of contacts that help the entrepreneur compensate for his or her lack of business experience (intellectual capital).
- 2.3 **The problem.** The Global Entrepreneurship Monitor (GEM)<sup>3</sup> is a study of the contribution of entrepreneurial activity to economic growth in 37 countries. The findings of the 2005 GEM for Argentina were encouraging, revealing that the Argentine people are favorably predisposed to entrepreneurship. However, the evidence suggests that the 2001 crisis and the search for alternatives to formal employment were the factors driving entrepreneurial activity, and so necessity entrepreneurship is more prevalent than opportunity entrepreneurship. Furthermore, a study on entrepreneurship in emerging countries<sup>4</sup> indicates that the growth of dynamic SMEs is much less robust in Argentina than in East Asia. According to the experts,<sup>5</sup> this could be due to the absence of a comprehensive strategy to improve the entrepreneurial climate, boost the public's entrepreneurial spirit, and secure adequate financing.
- 2.4 Financing for entrepreneurs and young small dynamic enterprises in Argentina is very limited. Due to major information asymmetries in their credit analyses, Argentine banks require excessive collateral and offer very short terms that do not suit SMEs in the initial stage of development. As a result, it is extremely hard for banks to finance the "intangibles" (design, brand development, quality certification,

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<sup>2</sup> The financial cycle of a dynamic business venture: (1) Stage I: development of the idea, with financing from friends, family, and acquaintances; (2) Stage II: research and development, with financing from research and development funds; (3) Stage III: initial development or the "valley of death," with seed capital; (4) Stage IV: growth, with risk capital; and (5) Stage V: expansion, with private equity. Document MIF/GN-103, paragraphs 1.5 – 1.10, March 2005.

<sup>3</sup> "Global Entrepreneurship Monitor" of the London Business School and Babson College. The assessment in Argentina was conducted with the assistance of Universidad Austral's Management and Business School.

<sup>4</sup> Kantis, H., Ishida, M., and Komori, M., "Entrepreneurship in Emerging Economies," IDB, March 2002.

<sup>5</sup> Caballero, Alicia, "Economía Argentina en Presente y Futuro" ["Argentina's Present and Future Economy"] Editorial Educa, Buenos Aires, 2001.



etc.) required by a young small dynamic enterprise, which does not typically have a significant credit history.

- 2.5 In addition, the following industries have either failed to get off the ground in Argentina or their development has been seriously impaired: (i) the risk capital industry (stage four of the financial cycle), driven in general by a desire to maximize financial returns for institutional investors, primarily through four- or five-year stock options, with US\$1 million invested in consolidated companies seeking to expand; and (ii) the seed capital industry (stage three of the financial cycle): generally, private individuals who invest for more than one reason (see footnote of page 8.iii), with approximately US\$500,000 invested in young SMEs with high value-added business proposals, high growth potential that has not yet been fully demonstrated, and long investment periods. Argentina has also failed to consolidate another investment sector that is vital for entrepreneurship: networks of angel investors. However, it could, given its potential to attract private financing, which, as of yet, is unrealized but demonstrated by an informal capital market that is quite active, despite a fragile legal framework that provides inadequate protection for investors.<sup>6</sup> Roughly 2% of Argentines over the age of 18 act as informal investors, with an estimated US\$1.3 billion invested. Recently, the risk capital sector has begun to grow (the MIF recently approved the project “Investment fund for SMEs in Argentina, TGLT Venture Capital I”), and angel investors are beginning to take some initiative to support business ventures through academic institutions and alumni networks (Universidad Austral’s School of Management and Business), international post-graduate alumni associations (Alumni Foundation of Argentina), and university bank programs (Banco Río). In addition, the MIF is pursuing an innovative project for the idea-development and research and development stages of the financial cycle. Despite this progress, the financial cycle for small dynamic enterprises in Argentina is still broken.
- 2.6 International best practices for promoting entrepreneurship point to the need to foster coordination between the various institutional, academic, and private actors, such that synergies are created in these linkages and entrepreneurs are able to draw on intellectual capital during the various stages of their business’s development. This project will help Argentina surmount its main problems with respect to entrepreneurial support services, which are as follows: (i) the disconnect between university training, the needs of entrepreneurs, and investor requirements, due to lack of mutual understanding and familiarity; (ii) a weak, scattered institutional fabric for entrepreneurial support, with more than 11 institutions in Buenos Aires of greatly varying quality; and (iii) scarce private-sector leadership in the provision of these services. These problems are even worse outside of Buenos Aires, where there are fewer institutional actors.

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<sup>6</sup> Pereiro, Luis E., “Angel Capital in Argentina,” Universidad Torcuato Di Tella, 2004.

## **B. Similar projects and lessons learned**

- 2.7 This project will benefit from and complement several related MIF and Bank initiatives that focus on the stages of the financial cycle preceding and following the stages covered by this project. For the initial stages of the financial cycle of dynamic business ventures in Argentina, this project will benefit from: (i) the MIF project “Promotion of new growth-oriented enterprises” (MIF/AT-638), which is awarding US\$2,000 grants for the creation and start-up (stages I and II of the financial cycle) of 100 new business ventures by university students at two business incubators in Buenos Aires and will hopefully provide good investment opportunities for this project; and (ii) the Bank’s recently approved Technological Modernization Program III (AR-L1012). At the other end of the spectrum, recent action by the MIF to support Argentina’s risk capital industry will contribute decisively to developing the later stages of the financial cycle.
- 2.8 The following are some of the initial lessons learned from seed capital investments in Latin America and the Caribbean: (i) given the constraints on the business environment, investors should be prepared to make long-term investments and receive, on average, a moderate return on their investment of time and money; (ii) there are few exit opportunities through sale to third parties and even fewer through public offerings; (iii) SMEs that receive support typically require more financing and time than initially planned, and learning curves are usually longer than expected; (iv) “death by growth” is an ever-present risk because supported businesses are unable to absorb funds efficiently. At the same time, the possibility that they may not have access to alternative sources of local financing must be considered; (v) effective supervision and support entails more than simply participating on the administrative boards of the supported businesses; (vi) family businesses, with the management and governance deficiencies that characterize them, are the rule, and investors must be prepared accordingly; (vii) local knowledge is vitally important; and (viii) because attractive investment opportunities are few and far between, business promotion institutions must give priority to developing an inventory of possible opportunities through the creation of a solid network of contacts. Since the seed capital industry is still incipient in Latin America and the Caribbean, the number and variety of lessons learned is expected to increase as the projects in the MIF cluster are implemented—and have their first successes and failures—and new initiatives in different environments are incorporated into the cluster.

## **C. Innovation and additionality**

- 2.9 The proposed project is an innovative initiative in Argentina designed to comprehensively improve entrepreneurship, by: (i) boosting the supply of financing (completing the financial cycle) and specialized support services (promoting the coordination and improvement of intellectual capital services) and (ii) boosting demand by enhancing the quantity and quality of new SMEs with high value-added in the stage of initial development. This will be the fifth project in the MIF cluster for the promotion of dynamic business ventures (document MIF/GN-103), which

seeks to test and develop innovative systems that combine business development and financial services for SMEs with high growth potential in their seed capital stage.<sup>7</sup> The MIF will play an important role in this project and will bring additionality by: (i) intervening in a market with information asymmetries and lack of confidence among the various actors; (ii) leveraging private investments that would not be made if not for this project; (iii) developing an integrated, innovative model for the promotion of dynamic entrepreneurship; and (iv) promoting innovation and economic growth in Argentina.

### **III. THE PROJECT**

#### **A. Objectives and description**

- 3.1 The general objective of the project is to promote small dynamic enterprises with high value-added that help invigorate Argentina's productive structure. The specific objective is to demonstrate the validity of an integrated model for promoting dynamic entrepreneurship in Argentina that is tied to the local private sector. To accomplish this, the project is divided into four components: (i) increased flow of small dynamic enterprises; (ii) preparation of the investment climate; (iii) seed capital facility; and (iv) evaluation and dissemination of lessons learned and public policy proposals.

#### **B. Components**

##### **1. Increased flow of dynamic business ventures (MIF: US\$282,000; Local counterpart: US\$231,060)**

- 3.2 The objective of this component is to promote the identification of entrepreneurs with good potential (based on the value-added of the promoted activity and the quality of the team of employees) and arrange for business support institutions to help them develop sound business plans. An intense effort will be made to coordinate the scattered supply of business development services in Buenos Aires (metropolitan area), through greater cooperation between existing institutions, and improve national coverage, by transferring know-how and expanding networks in Buenos Aires to the rest of the country.
- 3.3 To achieve this objective, the following activities will be pursued: (i) support for the preparation of quality business plans; (ii) promotion of entrepreneurial support networks outside of the capital; (iii) support for the four regional offices outside Buenos Aires; and (iv) coordination of entrepreneurship networks in Buenos Aires, through the promotion and recognition of new initiatives by two or more entrepreneurship promotion institutions.

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<sup>7</sup> Seed capital: financing (i) used for the initial investment in an enterprise for the development of prototypes, market research, or initial production; (ii) with a long time horizon; and (iii) for purposes of obtaining positive returns, developing new technologies, or for various personal reasons (giving back to society, going into business again, developing, etc). In addition, seed capital has a much higher risk-return profile than venture capital. Document MIF/GN-103.

- 3.4 This component is expected to produce the following outputs: (i) the method used by Fundación Empresa Global (FEG) is transferred to four institutions outside Buenos Aires; (ii) institutions in greater Buenos Aires engage in at least four collaborative endeavors; and (iii) at least 250 business plans are selected and the respective entrepreneurship promotion entities are compensated.

**2. Preparation of the investment climate (MIF: US\$247,000; Local counterpart: US\$577,260)**

- 3.5 The objective of this component is to ensure that entrepreneurs and dynamic small and medium-sized enterprises (SMEs) have access to financing for the stage of the financial cycle they are in by helping young dynamic businesses attain a level of development that attracts private investors or by building investor capacity and confidence. This will require groundwork on the demand side (business plans and realistic strategies, justified valuations, and proper constitution of young dynamic SMEs) and the supply side (training of potential private investors and closer relationships with financial institutions).
- 3.6 To achieve this objective, the following activities will be pursued: (i) training and monitoring to advance the business maturation of the ventures; (ii) training and strengthening of a network of angel investors in Buenos Aires; (iii) creation and monitoring of a network of angel investors outside Buenos Aires; (iv) promotion, training, and monitoring of a seed capital facility (Ilex Fund); and (v) financial forums to foster closer relationships with the financial sector, primarily banks.
- 3.7 This component is expected to produce: (i) at least 100 business plans selected and supported, of which 18 are submitted to the seed capital facility; (ii) at least four investment forums (two in Buenos Aires and two in the rest of the country); (iii) two angel investor networks in Buenos Aires supported and activities developed in coordination with the FEG; and (iv) an angel investor network outside the capital supported and activities developed in coordination with the FEG.

**3. Seed capital facility (Nonreimbursable financing: MIF, US\$220,120; Local counterpart, US\$39,036; Reimbursable financing: MIF, US\$2,500,000; Local counterpart: US\$2,500,000)**

- 3.8 The seed capital facility, to be named the Ilex Fund,<sup>8</sup> will be the financing vehicle for the small dynamic enterprises supported under the project. It will have US\$5 million in capital (US\$2.5 million each from the MIF and a group of private investors headed up by Sebastián Bagó). The objectives of the Ilex Fund will be: (i) to test and develop a new seed financing mechanism in the Argentine market that is led by the private sector, for subsequent replication and full-scale implementation; (ii) to serve as a tool for promoting the initiative among entrepreneurs; and (iii) to generate success stories and, through a demonstration effect, boost the supply of and demand for seed capital in Argentina. The Ilex Fund's investment policy has been designed to maximize its impact and

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<sup>8</sup> Ilex is the genus name for yerba mate.

complementarity with the other project components and takes into consideration the critical importance of access to financing for businesses with high growth potential, which tend to require considerable capital to finance their consolidation and growth. The Ilex Fund will be tentatively established as a private trust fund with a public offering under Argentine law, for tax and administrative reasons. The principal terms of the Ilex Fund are presented in Annex V (bidding conditions).

- 3.9 The Ilex Fund will be a pioneering effort inasmuch as it will operate without precedent in a market (Argentina and small dynamic enterprises) in which no best practices have been developed. Similar international experiences would indicate that this is a high-risk market for investors, and so achieving financial sustainability will be the first order of business. Further innovation will be introduced by the Ilex Fund's legal and operational structure, which is a hybrid between an angel investor network (based on the leadership of its private investors) and a risk-capital or private investment fund (it will be independently run by a small group of professionals), which will allow it to benefit from and complement the entrepreneurship promotion activities of the FEG. The Ilex Fund is also expected to help provide a list of business ventures to any risk capital funds that emerge in Argentina.
- 3.10 The small dynamic enterprises promoted under this project must be registered for tax purposes in Argentina as corporations, have annual sales of less than US\$3 million at the time of the investment, and not have been incorporated for more than five years. It is expected that most of the businesses supported by the Ilex Fund will not have sufficient sales and/or assets to attract significant financing from banks. Another group of eligible beneficiaries will be dynamic SMEs in business for over five years that are facing serious problems and deficiencies in their business development (such as a nonexistent or weak management team, brand, production, product/service differentiation, internationalization, etc.) and are not in a position to obtain risk capital. Family businesses that have passed to the next generation are particularly likely to find themselves in this situation. In order to be eligible, beneficiaries must have high growth potential and the desire to at least become medium-sized enterprises, and their value-added must lie in the development or application of a modern technological innovation, a new business model, and/or greater value-added to a traditional product. They are known as "gazelles" in the literature and are opportunity (as opposed to necessity) entrepreneurs.
- 3.11 The Ilex Fund will make investments for a period of up to seven years, divided into two rounds. During the first round, which may last up to five years from the first disbursement, it will invest up to 60% of its committed capital in six to eight small dynamic enterprises, in amounts ranging from US\$200,000 to US\$350,000. During the second round, which may last up to two years, investments of between US\$300,000 and US\$550,000 will be made in businesses promoted successfully during the first round. For the small dynamic enterprises promoted, the entrepreneur(s) must either retain at least 51% stock ownership or negotiate a

repurchase agreement during the first round of financing. The Ilex Fund will not finance any company in which its private investors have a direct stake. It may not invest more than 20% of its capital in a single company or more than 35% in a single economic sector. It will give preference on the basis of the following characteristics of the companies it promotes: (i) growth potential of the company and sector; (ii) scalability; (iii) sector and cost competitiveness; (iv) export and foreign-exchange-generating potential; (v) qualified, reliable management staff; (vi) creation of skilled jobs; and (vii) differentiation and internationalization capacity.

- 3.12 The financing provided by the MIF through the Ilex Fund will have the following characteristics: (i) ordinary shares with voting rights assigned to the private investors; (ii) a call option for private investors, executable as of the third year and valued at an annual fixed interest rate of 4% in U.S. dollars, net of taxes and obligations; (iii) a put option for the MIF against the entrepreneur(s) and/or private investors (“right of first refusal” for the entrepreneur), executable as of the sixth year for first-round investments and valued at an annual fixed interest rate of 4% in U.S. dollars, net of taxes and obligations, in the event that the small dynamic enterprise has been successful; (iv) a put option for the MIF against private investors, executable as of the tenth year and valued according to losses in the event that the company has not been successful (in accordance with pre-established guidelines); and (v) an abandonment clause, a put option for the MIF against private entrepreneurs, executable at any time in the amount of US\$1.
- 3.13 This component is expected to achieve the following: (i) private investors receive ongoing training and tutoring; (ii) at least seven investments are made in the first round; and (iii) at least four additional investments are made in companies that were successful in the first round.
- 3.14 This component will also include: (i) US\$30,000, to be administered by the MIF for activities related to the dynamic business ventures cluster, in accordance with paragraph 3.14 of document MIF/GA-14-1. This amount will be deducted from the MIF’s contribution on the effective date of the technical-cooperation letter of agreement for this operation, with no request for disbursement required by the executing agency; and (ii) US\$60,000 in technical-assistance funding, to be administered by the Bank’s Country Office in Argentina for legal expenses and costs related to the evaluation and dissemination of lessons learned from these new seed financing mechanisms.

#### **4. Evaluation and dissemination of lessons learned and public policy proposals (MIF: US\$216,300; Local counterpart: US\$61,590)**

- 3.15 The objectives of this component are to disseminate information on project activities and outcomes, so that there is a greater understanding of how to promote dynamic entrepreneurship. There are also plans to draw up proposals of specific action the government can take to improve entrepreneurship in Argentina, based on project outcomes.

- 3.16 To achieve these objectives, the following activities will be pursued: (i) preparation and dissemination of promotional materials; (ii) implementation of a monitoring and evaluation system; (iii) case studies on the seed capital facility and angel investor networks; (iv) case studies of successful entrepreneurs; (v) preparation of public policy proposals; and (vi) participation in specialized events to disseminate project outcomes.
- 3.17 This is expected to produce the following: (i) an FEG website with useful information for small dynamic enterprises and private investors; (ii) three case studies on seed capital; (iii) three case studies on entrepreneurship; (iv) two public policy proposals; and (v) participation in at least five national and international events for project dissemination.

#### IV. COST AND FINANCING

- 4.1 The total budget for the project is US\$7,353,760. The Multilateral Investment Fund (MIF) will contribute US\$1,219,800 in nonreimbursable financing and US\$2,500,000 in reimbursable financing. The local counterpart contribution of US\$1,133,960 for the nonreimbursable financing will be covered by Fundación Empresa Global (FEG) (US\$1,027,960) and local angel investor networks (US\$106,000). The local counterpart contribution for the reimbursable financing will be US\$2,500,000 to be provided by a group of prominent Argentine business leaders headed up by Sebastián Bagó. The entire local counterpart contribution for the nonreimbursable financing will be in cash.<sup>9</sup> The following table presents the itemized budget, broken down by item, type, and source of financing.

	Nonreimbursable financing			Reimbursable financing		Total	%
	FEG	MIF	Other	Private investors	MIF		
<b>Component I</b>	231,060	282,000				513,060	3.5%
Component II	471,260	247,000	106,000			824,260	5.6%
Component III	39,036	130,120		2,500,000	2,500,000	5,169,156	35.4%
Component IV	61,590	216,300				277,890	1.9%
Administration	175,014	133,380				308,394	2.1%
Project preparation	40,000					40,000	0.3%
Evaluation and audits		105,000				105,000	0.7%
Contingencies	10,000	16,000				26,000	0.2%
<b>Subtotal (US\$)</b>	<b>1,027,960</b>	<b>1,129,800</b>	<b>106,000</b>	<b>2,500,000</b>	<b>2,500,000</b>	<b>7,263,760</b>	
<b>Subtotal (%)</b>	<b>14.2%</b>	<b>15.6%</b>	<b>1.5%</b>	<b>34.4%</b>	<b>34.4%</b>	<b>100.0%</b>	
Legal and evaluation costs		60,000				60,000	0.4%
Cluster activities		30,000				30,000	0.2%
<b>TOTAL</b>	<b>1,027,960</b>	<b>1,219,800</b>	<b>106,000</b>	<b>2,500,000</b>	<b>2,500,000</b>	<b>7,353,760</b>	<b>100.0%</b>

<sup>9</sup> FEG expenditures, up to US\$40,000, will be recognized against the counterpart contribution, provided it can demonstrate that they were incurred within the six months prior to approval of the project by the Donors Committee for project preparation (primarily legal expenses).

- 4.2 **Sustainability of project outcomes and activities.** The expected outcomes are as follows: (i) small dynamic enterprises supported by the project will be more likely in the long run to grow and advance to the next stage of the financial cycle; (ii) the Ilex Fund and angel investor networks will develop and test their methods with enough success that they continue to apply them; (iii) potential entrepreneurs in Argentina will have a more favorable environment in which to launch their initiatives; and (iv) there will be greater coordination and complementarity between private and public actors committed to entrepreneurship. The expectations with regard to project activities are as follows: (a) the existence of specialized business support mechanisms, both in terms of financial and intellectual capital, will boost the ranks of successful small dynamic enterprises, which will serve as examples and points of reference for more new dynamic business ventures; (b) the business projects supported by the FEG will have a higher-than-average rate of success, demonstrating the validity of its support and incubation methods; and (c) the Ilex Fund will demonstrate its financial viability and continue to attract private entrepreneurs, enabling it to expand its capital.

## V. EXECUTION

- 5.1 **Executing agency.** The beneficiary of this project will be the recently created (10 July 2006) non-profit, Fundación Empresa Global (FEG), domiciled in Buenos Aires. Its institutional mission, as established in its bylaws, is to: research, develop, transmit, promote, and foster all matters related to the global competitiveness of Argentine businesses, enabling them to meet the challenges of internationalization and globalization, for the purpose of illuminating (through events and meetings) the achievement of consensuses in the community that improve the quality of life for all Argentines, regardless of social sector.
- 5.2 The FEG is the brainchild of Sebastián Bagó, a well-known Argentine businessman in the pharmaceutical industry who has been promoting investment in highly differentiated business ventures with high growth potential for many years. Conscious of the need to make projects with high value-added viable, in late 1995, he launched the “Invertir PYMEs” project within Fundación Invertir, of which he was president. This SME investment project benefited more than 300 companies over six years. In late 1997, he launched a series of investment forums to match the supply of debt and capital to the corporate demand for financing. Six forums were held, and numerous companies, ten banks, and four private investment funds participated. The success rate (participating companies that obtained a financial solution) was 30%; unfortunately, the crisis that battered Argentina stagnated the process. The FEG is a non-profit institution completely separate from the other professional or investment activities of its founder.
- 5.3 Mr. Bagó holds a degree in business administration and graduated with honors from the Faculty of Social and Economic Sciences at Universidad Católica de Argentina, where he has also served as Treasurer, member of the Business Council, and Full Professor. Mr. Bagó was President and a Founding Member of Fundación Invertir,



- National Vice President of Fundación Mediterránea, and an active member of the Argentine Business Council (CEA) and the Latin American Business Council (CEAL). He heads up Laboratorios Bagó S.A., Disprofarma S.A., and Victoria Compañía Argentina de Seguros S.A. He founded the 16 subsidiaries of Laboratorios Bagó in Latin America and recently oversaw its global expansion. Mr. Bagó has penned essays on business management, economic development, and university education. He was also honored as Businessman of the Year and has been the recipient of the Mecenaz and Security awards, among others. Mr. Bagó has pledged to spearhead the creation of the FEG and a seed capital facility and make both sustainable, and he has begun by inviting other distinguished business leaders to participate, as a way to increase the initiative's impact. For this project, the FEG will sign agreements with the Ilex Fund, the angel investor networks, and the university entities and institutions that will support the participating entrepreneurs.
- 5.4 The Ilex Fund's strategic course will be charted by a trust committee made up of investors, who will participate in accordance with their capital contributions. In addition, an investment committee of five private entrepreneurs who have invested in the Ilex Fund will be established. The MIF will participate in the investment committee, with a voice, but not a vote. The bidding conditions for the Ilex Fund describe the conditions of its operation (Annex IV).
- 5.5 The day-to-day administration of the Ilex Fund will be handled by Capital para PYMEs, a management corporation created by Mr. Bagó to execute component III of this project, and whose corporate purpose is to manage investments in SMEs and/or investment funds. It will be run by Alicia Caballero (see Annex IX), who has over 20 years of experience in banking, mergers and acquisitions, and academia.<sup>10</sup> Ms. Caballero will be assisted by a semi-senior official and an analyst and will work closely with the Ilex Fund's private investors.
- 5.6 **Execution mechanism.** The FEG will manage the financial aspects of project implementation and ensure the proper use of MIF resources. It will set up a specific bank account and keep separate books, with a chart of accounts approved by the Bank. The executing unit will maintain adequate filing systems to which the Bank and external auditors will have access at any time. The executing unit will deliver a manual of administrative procedures to the Bank for its nonobjection within three months after the date of approval of the project.
- 5.7 The project will be implemented under the direction of a general director and an executing unit, which will execute the four project components and all component activities. The president of the FEG board of directors (Mr. Bagó) will serve as the general director. His chief functions will be to: (i) chart the strategic course of the project; (ii) appoint and dismiss, as necessary, the executive coordinator; (iii) approve the Operating Regulations for the project and timely modifications; (iv) approve all reports to be delivered to the Bank; (v) assess fulfillment of

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<sup>10</sup> Dr. Caballero will leave her other professional activities, with the exception of some in academia, to work at the Ilex Fund.

- objectives and targets; (vi) decide on any matters related to project implementation that are raised by the executive coordinator; (vii) ensure that counterpart resources are allocated on schedule; and (viii) ensure proper coordination between FEG activities, the technical-assistance project, and the seed capital facility. The general director will not receive any type of remuneration using project resources.
- 5.8 The executing unit will be made up of an executive coordinator, three specialists assigned to components I, II, and III, a coordination assistant, and a secretary. The main duties and responsibilities of the executive coordinator will be to: (i) manage implementation of all activities, in coordination with the specialists for each component; (ii) coordinate and supervise the work of the executing unit and the officials who perform activities for the project; (iii) prepare and propose a general execution strategy to the general director of the project; (iv) prepare semiannual work plans and submit them to the general director for approval, prior to delivery to the Bank; (v) determine whether the Operating Regulations are being properly followed; (vi) directly manage component IV activities; (vii) supervise the procurement of all goods and services; (viii) coordinate and confirm implementation of the monitoring and oversight system; (ix) provide assistance to the external auditors; (x) authorize disbursement requests to the Bank and arrange for the allocation of counterpart resources on schedule; (xi) coordinate project activities with activities pursued by other institutions that promote entrepreneurship in Argentina; (xii) ensure that the FEG methodology is continually updated; (xiii) confirm compliance with the Bank/MIF's social and environmental policies; and (xiv) stay apprised of the activities of the Ilex Fund's management company and coordinate these with the technical-assistance activities. The responsibilities of the component specialists are described in Annex VII (Operating Regulations).
- 5.9 In addition, experts in entrepreneurship and seed financing will be invited to form a consultative committee of sector specialists, who will be convened collectively or individually, as needed, by the general director to assist him with his duties.
- 5.10 **Special conditions precedent to the first disbursement of the MIF's nonreimbursable contribution:** (i) selection of the coordinator for the coordinating unit;<sup>11</sup> and (ii) a commitment by Sebastián Bagó to guarantee the provision of local counterpart resources, even in the event of acts of God or force majeure. **Special conditions precedent to the first disbursement of the MIF's reimbursable contribution:** (i) a firm commitment of at least US\$2.5 million in private equity in the Ilex Fund; and (ii) confirmation that a trust fund has been set up in accordance with terms agreed on with the Bank.
- 5.11 **Project readiness.** Project objectives, components, and activities have been agreed on. The executing agency has committed in writing to contribute the counterpart funds. In addition, the Operating Regulations and the bidding conditions for the Ilex

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<sup>11</sup> The FEG professionals who were directly involved in designing the project and have served as the technical counterpart to the Bank can be responsible for selecting the executive coordinator and component specialists.

Fund have been drafted, the terms of reference for the main consulting assignments have been agreed on, and a procurement plan and schedule of activities have been prepared for the first year. The Ilex Fund has a monetary commitment from its principal advocate (Mr. Bagó), who has already recruited five other Argentine business leaders.

- 5.12 **Procurement.** The policies set forth in documents GN-2349-7 and GN-2350-7 will be followed, together with the 8 August 2006 MIF guidelines.
- 5.13 **Execution period and disbursement schedule.** The execution period for the nonreimbursable financing will be 48 months, with disbursements made over 54 months. The execution period for the reimbursable financing will be up to 10 years.

## VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** The Bank's Country Office in Argentina will oversee and monitor the project. In the case of the Ilex Fund, it will coordinate with, and report to, the Investment Unit at the Multilateral Investment Fund (MIF). The executing unit will prepare progress reports and deliver them to the Bank within 30 days after the end of each six-month period. It will deliver the final report within 30 days after the last disbursement. For the first annual progress report, the executing unit will prepare its work plan for the second year. These reports will be prepared according to the format previously agreed on with the Bank and will cover component activities and financial performance, as well as component outcomes, as measured against the execution and performance indicators set forth in the logical framework. The Bank will use these reports to oversee project implementation and prepare a project completion report in the three months following the last disbursement. Based on the semiannual progress reports, the Bank will review project status. In addition, a closing workshop is scheduled to be held three months before the end of the execution period in order to identify and publicize project outcomes, lessons learned, and action needed to ensure project sustainability.
- 6.2 **Evaluation.** Using resources from the MIF contribution, the Bank will hire independent consultants to conduct a midterm evaluation of the project 20 months after the agreement is signed or when the Country Office in Argentina decides it is needed based on the status of the project, whichever occurs first. Based on this midterm evaluation, the Bank will determine whether the individual project components should continue or be modified, suspended, or cancelled. This evaluation will take into account the performance of the indicators set forth in the logical framework and the degree to which the agreed activities have been implemented. When 90% of the MIF funds have been disbursed, or three months prior to the last disbursement, a final evaluation will be performed. In addition, component III calls for the preparation and dissemination of case studies so that lessons learned can be extracted during project implementation.

## VII. RATIONALE AND RISKS

- 7.1 **Rationale.** The project has a comprehensive strategy to promote the financial cycle and help make it work, in the medium term, for dynamic business ventures in Argentina, which will strengthen the country's entrepreneurial culture and business fabric. As a result, more and more people will start and expand dynamic companies, something that rarely occurs in the current business framework. These companies will help demonstrate to the public that it is possible to create high-growth businesses that add considerable value to their products and/or services by introducing new technologies or developing innovative marketing, design, and other strategies. The project will also provide an opportunity to learn about the new training, technical assistance, and seed financing mechanisms to promote the gestation and development of dynamic SMEs that could be replicated in other countries.
- 7.2 The reimbursable resources will complement the technical assistance activities by providing access to seed capital at a critical juncture in the revitalization of Argentina's economy. The MIF's institutional backing and related know-how have had a very important catalytic effect in final decision-making by private investors. The success of the Ilex Fund will be depend on creating a more favorable environment for risk capital that has a greater critical mass of good investment opportunities and a framework more favorable to dynamic ventures. The Ilex Fund's demonstration effect and lessons learned will enable the MIF to continue to develop and test its seed capital know-how, thus complementing the other initiatives in the promotion of dynamic ventures cluster.
- 7.3 **Beneficiaries.** The direct beneficiaries of this project will be current and future dynamic entrepreneurs in Argentina who require technical assistance and financing to expand and/or differentiate their high value-added companies. Other beneficiaries will include: (i) private investors, who will have a seed investment vehicle tailored to their needs; (ii) business promotion institutions in Greater Buenos Aires and the rest of the country, which will have access to best practices and international experiences and will be assisted in their efforts to pursue cooperative endeavors; (iii) the country's newly created angel investor networks; and (iv) the executing agency, which will be strengthened.
- 7.4 **Risks.** The project faces the following risks: (i) the Fundación Empresa Global's (FEG) lack of experience as an executing agency could impede the implementation of project activities. Although the FEG was just recently created, its staff has extensive experience, in professional and academic settings, with promoting business ventures; (ii) there may not be enough demand for project services, measured as the number of potential entrepreneurs; entrepreneurship promotion institutions, particularly outside Buenos Aires; or dynamic SMEs seeking financing. This risk is lowered by Argentina's entrepreneurial drive and strong interagency coordination in the area of dynamic entrepreneurship, as well as the various activities to promote and disseminate information on the project; and (iii) project

implementation may be compromised by the absence or lack of dedication among key staff. This risk is lowered by the professional, personal, and financial commitment these individuals will assume.

7.5 A number of endogenous and exogenous risks may adversely affect the performance of the **reimbursable resources**. The four most significant ones are:

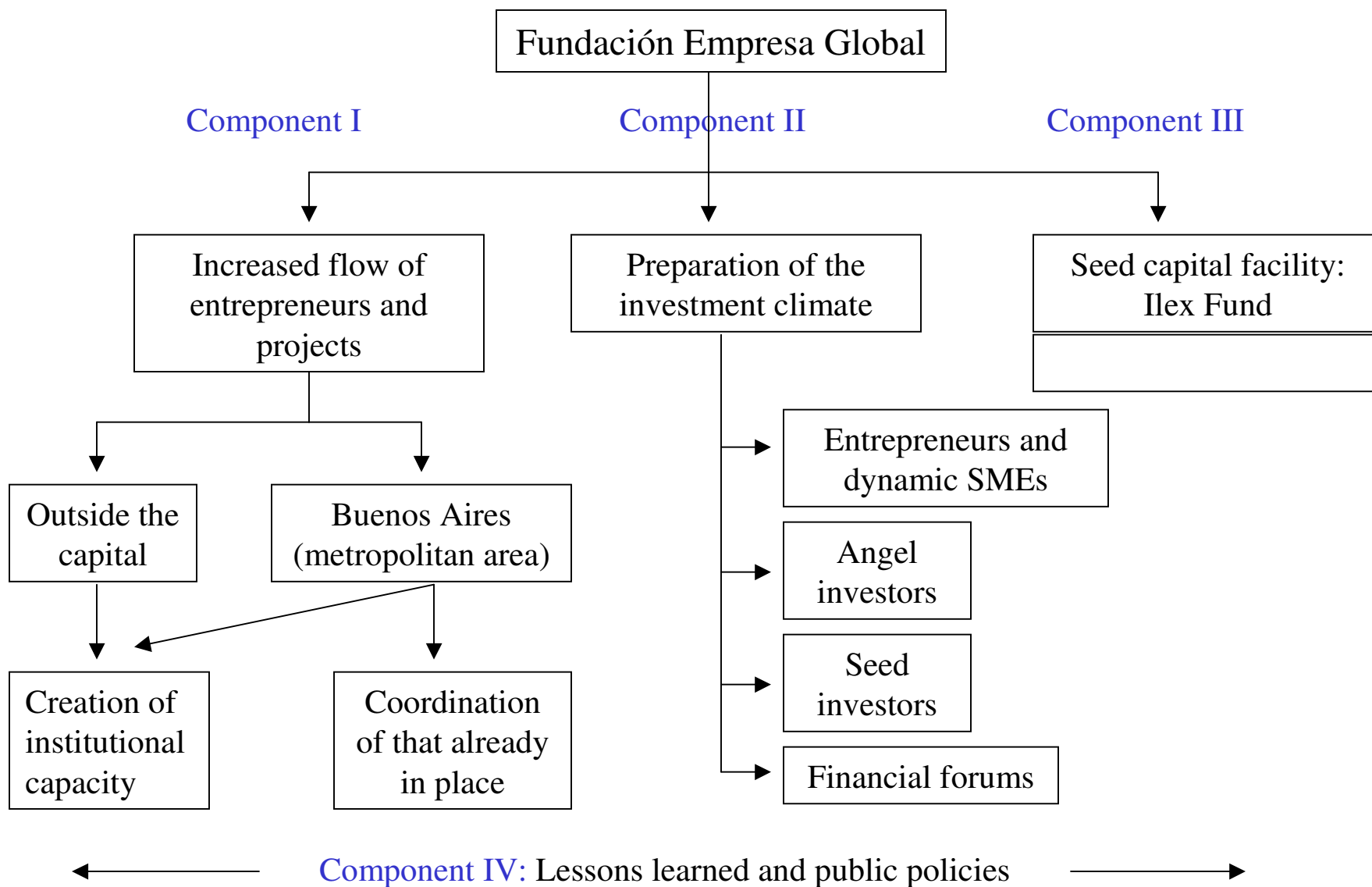
- (i) There is an execution and administration risk associated with covering a market, in which there is very little previous experience, with a new investment methodology. This risk will be mitigated by the expertise of the Ilex Fund administrator and the private business investors;
- (ii) There may not be enough dynamic small and medium-sized enterprises (SMEs) with investment opportunities, a risk that will be counteracted through the promotion activities planned under the various components, the demand anticipated by the project team, and the high degree of complementarity of the project activities, which constitute an innovative element for attracting and training high-growth entrepreneurs;
- (iii) The MIF could post major losses on its contribution if the investments perform poorly, especially considering the lack of any precedents demonstrating the viability of financing dynamic business ventures in Argentina. The investment policy was designed with this risk in mind and was tailored to the uncertain nature of business ventures. The MIF also has the option of liquidating its investment prior to maturity in the case of poor performance. Moreover, inasmuch as the executing unit staff and private co-investors have made a strong personal commitment and are knowledgeable about the target market, they will add considerable value to the process; and
- (iv) The entrepreneurs may have concerns about getting involved with large entrepreneurs. To lower this risk and better prepare them, they will receive ample training and independent legal advisory services. Lastly, the business investors in the Ilex Fund are motivated by two factors (financial return and the desire to contribute to the country through its economic development), which will give them plenty of incentive to provide both financial and intellectual capital to the entrepreneurs.

## VIII. SOCIAL AND ENVIRONMENTAL IMPACT

8.1 The Committee on Environment and Social Impact reviewed the project at its 14 July 2006 meeting, without comment. The Ilex Fund will be administered in accordance with the MIF/IDB environmental and social guidelines for MIF

financial intermediary operations. These policies, which are contractual requirements, include: (i) the obligation to comply with local and national laws and regulations; (ii) the obligation to refrain from financing any activity on the exclusion list of harmful projects, such as weapons, explosives, real estate speculation, etc.; and (iii) the obligation to perform environmental and social due diligence. In addition, there is an obligation not to discriminate on the basis of ethnicity, gender, religion, or disability.

## Organizational chart Promotion of Dynamic Entrepreneurship in Argentina (AR-M1015)



**LOGICAL FRAMEWORK MATRIX**  
**PROMOTION OF DYNAMIC ENTREPRENEURSHIP IN ARGENTINA**  
**(AR-M1015)**

Objectives	Indicators	Means of verification	Assumptions
<b>GOAL</b>			
To promote small dynamic enterprises with high value-added that help invigorate Argentina's productive structure	<p>Two years after project completion:</p> <ul style="list-style-type: none"> <li>- The number of angel investor networks and seed capital funds with business-sector participation in Buenos Aires and the rest of the country doubles.</li> <li>- The methodology used by Fundación Empresa Global (FEG) is applied by other entrepreneurship promotion institutions in Argentina.</li> <li>- Entrepreneurship promotion institutions coordinate their activities.</li> <li>- Demand among small dynamic enterprises for technical assistance to prepare their business plans and submit them for financing to the angel investor networks that are established triples nationwide.</li> </ul>	<ul style="list-style-type: none"> <li>- Ex post evaluation</li> </ul>	<ul style="list-style-type: none"> <li>- Macroeconomic policy and the markets remain stable, and the current investment climate does not deteriorate.</li> <li>- No economic or tax reforms are passed that significantly modify the evolution and ownership of the companies.</li> <li>- The baseline is agreed on with the Multilateral Investment Fund (MIF).</li> </ul>
<b>PURPOSE</b>			
To demonstrate the validity of an integrated model for promoting dynamic entrepreneurship in Argentina that is tied to the local private sector	<p>At 24 months after project startup:</p> <ul style="list-style-type: none"> <li>- At least 50% of entrepreneurs report a high level of satisfaction with the business development services provided by the FEG.</li> <li>- 60% of the companies in which investments are made through the seed capital facility, with at least one year in operation, meet the targets set forth in their business plans, with no more than 40% noncompliance.</li> <li>- 3 institutions/alliances outside the capital participate in project activities.</li> <li>- At least 30% of the selected business plans call for financing in the form of capital stock from the beginning.</li> </ul>	<ul style="list-style-type: none"> <li>- Board minutes</li> <li>- Midterm and final evaluation reports</li> <li>- Financial statements</li> <li>- Company statistical reports</li> <li>- Sector economic analyses</li> </ul>	<ul style="list-style-type: none"> <li>- Demand for capital starts to reach significant levels, particularly among small dynamic enterprises.</li> <li>- Individuals are available to act as angel investors and/or private investors in seed capital.</li> <li>- Private business leaders in the FEG remain committed and willing.</li> <li>- The macroeconomic context remains stable (foreign exchange, tax, and monetary variables).</li> </ul>



Objectives	Indicators	Means of verification	Assumptions
	<p>At project completion:</p> <ul style="list-style-type: none"> <li>- The FEG dynamic entrepreneurship model continues to be used and is adopted by at least 2 other institutions/institutional alliances.</li> <li>- 40% of the companies in which investments are made through the facility triple their earnings before interest, taxes, depreciation, and amortization.</li> <li>- A new seed capital facility for private investors that is associated with the FEG is created.</li> <li>- At least 50% of entrepreneurs report a high level of satisfaction with the business development services provided by the FEG.</li> <li>- At least 50% of the selected business plans call for financing in the form of capital stock from the beginning.</li> </ul>		
<b>COMPONENTS</b>			
I. Increased flow of business ventures	<p>At 24 months:</p> <ul style="list-style-type: none"> <li>- FEG methodology transferred to 2 institutions outside the capital.</li> <li>- At least 2 collaborative endeavors pursued by institutions in Greater Buenos Aires.</li> <li>- At least 100 business plans selected and the respective entrepreneurship promotion entities compensated.</li> </ul> <p>At project completion:</p> <ul style="list-style-type: none"> <li>- FEG methodology transferred to 4 institutions outside the capital.</li> <li>- At least 4 collaborative endeavors pursued by institutions in Greater Buenos Aires.</li> <li>- At least 250 business plans selected and the respective entrepreneurship promotion entities compensated.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> <li>- FEG minutes</li> <li>- FEG accounting records</li> </ul>	<ul style="list-style-type: none"> <li>- There are promising small dynamic enterprises and business ideas.</li> <li>- There are institutions interested in implementing the FEG methodology.</li> <li>- There are institutions interested in working together.</li> </ul>

Objectives	Indicators	Means of verification	Assumptions
II. Preparation of the investment climate	<p>At 24 months:</p> <ul style="list-style-type: none"> <li>- At least 45 business plans selected and supported, and 12 presented to the seed capital facility.</li> <li>- At least 2 investment forums held (1 inside and 1 outside Buenos Aires).</li> <li>- 1 angel investor network in Buenos Aires supported, and activities pursued in coordination with the FEG.</li> </ul> <p>At project completion:</p> <ul style="list-style-type: none"> <li>- At least 100 business plans selected and supported, and 18 presented to the seed capital facility.</li> <li>- At least 4 investment forums held (2 inside and 2 outside Buenos Aires).</li> <li>- 2 angel investor networks in Buenos Aires supported, and activities pursued in coordination with the FEG.</li> <li>- 1 angel investor network outside Buenos Aires supported, and activities pursued in coordination with the FEG.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> </ul>	<ul style="list-style-type: none"> <li>- There are small dynamic enterprises interested in improving their business plans.</li> <li>- Private investors join angel investor networks.</li> </ul>
III. Seed capital facility	<p>At 24 months:</p> <ul style="list-style-type: none"> <li>- Private investors participate in a training session and receive ongoing tutoring.</li> <li>- At least 3 investments of between US\$200,000 and US\$350,000 made during the first round.</li> </ul> <p>At project completion:</p> <ul style="list-style-type: none"> <li>- Private investors participate in a training session and receive ongoing tutoring.</li> <li>- At least 7 investments of between US\$200,000 and US\$350,000 made during the first round.</li> <li>- At least 4 additional investments of between US\$300,000 and US\$550,000 made in successful businesses from the first round.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Report from the angel investor network</li> <li>- Semiannual progress reports</li> <li>- Reports from the fund administrator</li> </ul>	<ul style="list-style-type: none"> <li>- There is interest among private investors in participating in angel investor networks.</li> <li>- Private investors remain interested in investing in small dynamic enterprises.</li> </ul>

Objectives	Indicators	Means of verification	Assumptions
IV. Evaluation and dissemination of lessons learned and public policy proposals	<p>At 24 months:</p> <ul style="list-style-type: none"> <li>- FEG website posted with useful information for small dynamic enterprises and private investors.</li> <li>- 1 case study conducted on seed capital.</li> <li>- 1 case study conducted on entrepreneurship.</li> <li>- At least 2 national and international events attended to disseminate information on the project.</li> </ul> <p>At project completion:</p> <ul style="list-style-type: none"> <li>- FEG website posted with useful information for small dynamic enterprises and private investors.</li> <li>- 3 case studies conducted on seed capital.</li> <li>- 3 case studies conducted on entrepreneurship.</li> <li>- 2 public policy proposals drafted.</li> <li>- At least 5 national and international events attended to disseminate information on the project.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> <li>- Reports from the fund administrator</li> <li>- Semiannual reports on the seed capital facility</li> </ul>	
<b>ACTIVITIES</b>			
I.1. Support for preparation of quality business plans	<p>At 12 months:</p> <ul style="list-style-type: none"> <li>- 10 academic or business institutions with a proven track record in this area identified.</li> <li>- 3 academic or business institutions with a proven track record in this area present business plans for small dynamic enterprises.</li> </ul> <p>At project completion:</p> <ul style="list-style-type: none"> <li>- At least 250 business plans presented.</li> <li>- At least 25 business plans per year selected.</li> </ul>	<ul style="list-style-type: none"> <li>- List of identified businesses</li> <li>- Inspection visits</li> <li>- Semiannual reports from the executing agency, including a list of the businesses that have submitted small dynamic enterprise business plans</li> <li>- Project Performance Monitoring Report (PPMR)</li> </ul>	<ul style="list-style-type: none"> <li>- The services provided meet demand.</li> <li>- There is interest in participating among the institutions.</li> <li>- There is interest among the small dynamic enterprises.</li> </ul>

Objectives	Indicators	Means of verification	Assumptions
I.2. Promotion of entrepreneurship support networks in cities outside the capital	<p>At 12 months:</p> <ul style="list-style-type: none"> <li>- Manual of procedures developed in accordance with the FEG methodology.</li> <li>- 2 regional offices in operation.</li> <li>- 2 regional offices supported economically.</li> </ul> <p>At 24 months:</p> <ul style="list-style-type: none"> <li>- At least 2 courses completed, with a minimum number of 24 small dynamic enterprises as participants.</li> <li>- 4 regional offices in operation.</li> <li>- 4 regional offices supported economically.</li> </ul>	<ul style="list-style-type: none"> <li>- Agreements signed with the institutions</li> <li>- Reports from consultants</li> <li>- Surveys and evaluations on the execution and results of the courses</li> <li>- Semiannual reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	<ul style="list-style-type: none"> <li>- There is interest in adopting the FEG methodology.</li> <li>- There is interest in participating among the small dynamic enterprises.</li> </ul>
I.3. Coordination of entrepreneurship networks in Buenos Aires	<p>At 12 months:</p> <ul style="list-style-type: none"> <li>- Conditions of competition established</li> </ul> <p>At project completion:</p> <ul style="list-style-type: none"> <li>- 1 competition held per year</li> <li>- 10 innovative projects presented by groups, with an average of 3 per year</li> </ul>	<ul style="list-style-type: none"> <li>- Competition results</li> <li>- Document containing the proposed projects</li> <li>- Semiannual reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	<ul style="list-style-type: none"> <li>- There is interest in participating among the institutions.</li> </ul>
II.1. Training and monitoring for maturation of the business ventures	<p>At project completion:</p> <ul style="list-style-type: none"> <li>- 30 projects per year selected.</li> <li>- 10 theory-practical training programs held (2 in the first year, 3 in the second and third years, and 2 in the fourth year).</li> <li>- 100 small dynamic enterprises trained, with an average of 25 per year.</li> <li>- 960 face-to-face meetings held between small dynamic entrepreneurs and two senior professors to fine-tune the respective business plans, with an average of 190 per year.</li> <li>- 5 small dynamic enterprises selected each year on average for financing from the seed capital facility.</li> </ul>	<ul style="list-style-type: none"> <li>- List of selected projects</li> <li>- Surveys and evaluations on the execution and results of the trainings</li> <li>- Reports from consultants</li> <li>- Semiannual reports from the executing agency, including the list of trained small dynamic enterprises</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	<ul style="list-style-type: none"> <li>- There is interest in participating among the small dynamic enterprises.</li> </ul>

Objectives	Indicators	Means of verification	Assumptions
II.2. Training and strengthening of an angel investor network in Buenos Aires	At 12 months: <ul style="list-style-type: none"> <li>- Survey conducted of existing angel investor networks in Buenos Aires.</li> <li>- 2 cooperative agreements signed by different angel investor networks.</li> </ul>	<ul style="list-style-type: none"> <li>- Database of existing angel investor networks</li> <li>- Agreements signed</li> <li>- Semiannual reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	<ul style="list-style-type: none"> <li>- There is interest among private investors in participating in angel investor networks.</li> </ul>
II.3. Creation and monitoring of an angel investor network outside the capital	At 12 months: <ul style="list-style-type: none"> <li>- Survey conducted of existing angel investor networks outside the capital.</li> <li>- 2 cooperative agreements signed by different angel investor networks.</li> </ul>	<ul style="list-style-type: none"> <li>- Database of existing angel investor networks</li> <li>- Agreements signed</li> <li>- Semiannual reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	<ul style="list-style-type: none"> <li>- There is interest among private investors in participating in angel investor networks.</li> </ul>
II.4. Promotion, training, and monitoring of the seed capital facility	At 12 months: <ul style="list-style-type: none"> <li>- A meeting is convened for identified networks to strengthen the project.</li> </ul> At project completion: <ul style="list-style-type: none"> <li>- 2 informational and training courses per year held.</li> </ul>	<ul style="list-style-type: none"> <li>- Report on course results</li> <li>- Reports from consultants</li> <li>- Strengthening proposals delivered</li> <li>- Semiannual reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	<ul style="list-style-type: none"> <li>- There is interest on the part of private investors.</li> </ul>
II.5. Organization of financial forums to promote closer ties with the financial sector, especially banks	At project completion: <ul style="list-style-type: none"> <li>- 4 financial forums held (1 per year).</li> </ul>	<ul style="list-style-type: none"> <li>- Report on topics to be covered at the forums</li> <li>- Reports from consultants, including forum evaluations</li> <li>- Semiannual reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	

Objectives	Indicators	Means of verification	Assumptions
II.6. Legal and financial advisory services for small dynamic enterprises in which investments are made	At 36 months: - 5 small dynamic enterprises assisted with legal and financial advisory services.	- Reports from consultants and/or consulting firms - Semiannual reports from the executing agency - Inspection visits - PPMR	
IV.1. Preparation and dissemination of promotional material	At 12 months: - Website up and running. - Publicity campaign and brochures prepared.	- Website - Brochures disseminated - Semiannual reports from the executing agency - Inspection visits - PPMR	
IV.2. Case studies on the seed capital facility and angel investor networks	At project completion: - At least 3 case studies conducted by experts.	- Report from consultants - Semiannual reports from the executing agency - Inspection visits - PPMR	- Access is obtained to cases involving different angel investor networks.
IV.3. Case studies on successful entrepreneurs	At project completion: - At least 3 case studies conducted by experts.	- Report from consultants - Semiannual reports from the executing agency - Inspection visits - PPMR	- Consultants are available to perform this activity.
IV.4. Preparation of public policy proposals	At project completion: - 2 public policy proposals drafted.	- Public policy proposal - Report from consultants and/or research institutes - Semiannual reports from the executing agency - Inspection visits - PPMR	

Objectives	Indicators	Means of verification	Assumptions
IV.5. Participation in specialized events to disseminate results	At project completion: <ul style="list-style-type: none"><li>- At least 12 specialized (national and international) events—no fewer than 3 per year—attended.</li></ul>	<ul style="list-style-type: none"><li>- Report on the event held by the participant(s) by the FEG</li><li>- Semiannual reports from the executing agency</li><li>- Inspection visits</li><li>- PPMR</li></ul>	

## Itemized Budget

## PROMOTION OF DYNAMIC ENTREPRENEURSHIP IN ARGENTINA (AR-M1015)

## NONREIMBURSABLE FINANCING

I. Increased flow of business ventures				
	TOTAL COST	MIF	LOCAL	OTHER
I.i. Support for the preparation of business plans	60,000	60,000		
I.ii. Promotion of networks outside the capital	200,000	40,000	160,000	
I.iii. Coordination of networks through recognition of initiatives	50,000	50,000		
Coordinator Component I (gross)	132,000	132,000		
Contribution to worker benefits	39,600		39,600	
Administrative assistant	24,200		24,200	
Contribution to worker benefits	7,260		7,260	
<b>Subtotal</b>	<b>513,060</b>	<b>282,000</b>	<b>231,060</b>	

II. Preparation of the investment climate				
	TOTAL COST	MIF	LOCAL	OTHER
II.i.a. Analysis and selection of business ventures	60,000		60,000	
II.i.b. Training for business maturation	280,000		280,000	
II.ii. Training of angel investor network in Buenos Aires	154,000	68,000	18,000	68,000
II.iii. Creation and monitoring of angel investor network outside the capital	100,000	38,000	24,000	38,000
II.iv. Motivation and monitoring of seed capital facility	38,000		38,000	
II.v. Organization of financial forums	40,000	40,000	0	
II.vi. Legal/financial advisory services for small dynamic bus. invested in	35,000	35,000		
Coordinator Component II (gross)	66,000	66,000	0	
Contribution to worker benefits	19,800		19,800	
Administrative assistant	24,200		24,200	
Contribution to worker benefits	7,260		7,260	
<b>Subtotal</b>	<b>824,260</b>	<b>247,000</b>	<b>471,260</b>	<b>106,000</b>

III. Seed capital facility				
	TOTAL COST	MIF	LOCAL	OTHER
Project coordinator	42,120	42,120	0	
Contribution to worker benefits	12,636	0	12,636	
Component III Seed capital coordinator	88,000	88,000	0	
Contribution to worker benefits	26,400	0	26,400	
<b>Subtotal</b>	<b>169,156</b>	<b>130,120</b>	<b>39,036</b>	

IV. Evaluation and dissemination of lessons learned and public policy proposals				
	TOTAL COST	MIF	LOCAL	OTHER
IV.i. Preparation and dissemination of materials	40,000	40,000		
IV.ii. Case studies on seed capital	18,000	18,000		
IV.iii. Case studies of successful businesses	18,000	18,000		
IV.iv. Public policy proposals	20,000	20,000		
IV.v. Events	45,000	15,000	30,000	
Project coordinator	105,300	105,300	0	
Contribution to worker benefits	31,590	0	31,590	
<b>Subtotal</b>	<b>277,890</b>	<b>216,300</b>	<b>61,590</b>	

V. Administration				
	TOTAL COST	MIF	LOCAL	OTHER
Project coordinator	63,180	63,180	0	
Contribution to worker benefits	18,954	0	18,954	
Accounting assistant	70,200	70,200	0	
Contribution to worker benefits	21,060	0	21,060	
Lease, telecommunications, etc.	135,000	0	135,000	
<b>Subtotal</b>	<b>308,394</b>	<b>133,380</b>	<b>175,014</b>	

Other				
	TOTAL COST	MIF	LOCAL	OTHER
Legal and preparation expenses	40,000		40,000	
Design of baseline system and concurrent evaluations	85,000	85,000	0	
Annual audit	20,000	20,000	0	
Contingencies	26,000	16,000	10,000	
<b>Subtotal</b>	<b>171,000</b>	<b>121,000</b>	<b>50,000</b>	

<b>PROJECT SUBTOTAL</b>	<b>2,263,760</b>	<b>1,129,800</b>	<b>1,027,960</b>	<b>106,000</b>
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	TOTAL COST	MIF	LOCAL	OTHER
Legal expenses and evaluations	60,000	60,000		
Cluster activities	30,000	30,000		

<b>NONREIMBURSABLE FINANCING TOTAL</b>	<b>2,353,760</b>	<b>1,219,800</b>	<b>1,027,960</b>	<b>106,000</b>
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## REIMBURSABLE FINANCING

	TOTAL COST	MIF	LOCAL	OTHER
III. Seed capital facility (Ilex Fund)	5,000,000	2,500,000	2,500,000	
<b>Subtotal</b>	<b>5,000,000</b>	<b>2,500,000</b>	<b>2,500,000</b>	

<b>REIMBURSABLE FINANCING TOTAL</b>	<b>5,000,000</b>	<b>2,500,000</b>	<b>2,500,000</b>	<b>0</b>
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## RELATED PROJECTS

### PROMOTION OF DYNAMIC ENTREPRENEURSHIP IN ARGENTINA (AR-M1015)

#### A. Projects in the promotion of dynamic business ventures cluster

Project number / Approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Percentage disbursed	Comments: Satisfactory execution or problems with execution, including delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-8973-CH 82/MS-CH  1 December 2004	Seed Financing Facility for the Development of Technology-based Enterprises  Fundación Chile  US\$3 million	25 August 2005  42 months (technical cooperation)  8 years (seed capital fund)	11%	Execution of this technical-cooperation operation is proceeding satisfactorily, although there is a delay in the disbursement rate.
ATN/ME-9510-BO  16 November 2005	Program to Promote an Entrepreneurial Culture  Grupo Nueva Economía  US\$1.2 million	14 June 2006  48 months	0.00%	Execution is considered satisfactory. As of 30 June 2006, the executing agency met some of the conditions precedent to the first disbursement and had initiated activities that will enable it to attain the indicators set forth for execution of the agreement by the respective deadlines.
ATN/ME-9571-CR  7 December 2005	Program for the Promotion of Dynamic Entrepreneurship  Fundación Mesoamérica, Parque-Tec, and Cámara Costarricense de Tecnologías de la Información y la Comunicación (CAMTIC)  US\$952,200	22 February 2006  48 months	8.56%	The Parque-Tec component is in the recruitment, hiring, and organization phase of execution. CAMTIC, which lost key staff who were supporting the project, is working to meet the conditions precedent to the first disbursement. The network of angel investors has been formed, and two investments approved.

Project number / Approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Percentage disbursed	Comments: Satisfactory execution or problems with execution, including delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-1014-UR  12 December 2006	Comprehensive Support for Dynamic Entrepreneurship in Uruguay  LATU, CND, and Prosperitas Capital Partners  US\$3,191,362	N/A	N/A	The legal closing of the project is under way.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION

Argentina. Capital Investment in the “Fondo Ilex” \_\_\_\_/\_\_\_\_-AR and Nonreimbursable  
Technical Cooperation \_\_\_\_/\_\_\_\_-AR for the Promotion of the Dynamic  
Entrepreneurship in Argentina

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements and take such additional measures as may be necessary to execute and administer the operation referred to in the Donors Memorandum document MIF/AT-\_\_\_\_ in order to:

- (a) make an investment in the Ilex Fund for equity financing of small and medium dynamic enterprises in Argentina; and
- (b) provide a nonreimbursable technical cooperation to Fundación Empresa Global for the promotion of the dynamic entrepreneurship in Argentina.

2. That up to US\$2,500,000 is authorized for the purposes indicated in paragraph 1(a), chargeable to the Small Enterprise Investment Fund of the Multilateral Investment Fund.

3. That up to US\$1,219,800 is authorized for the purposes indicated in paragraph 1(b), chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.