

PROJECT ABSTRACT

Overview

SMEs are generally limited in the access to finance and rely mostly on supplier credit or internal cash generation. This financing structure limits long term growth opportunities for small and medium size firms because supplier and bank credit are typically short term and used to meet working capital needs, leaving a gap to cover the capital expenditures necessary to grow.

Increasing access to financing techniques beyond traditional bank products may be an adequate way to assist firms in expanding their production capacity.

Project Description

The objective of the Mexico Ventures SME Mezzanine Fund is to increase medium size companies' access to finance, specifically mezzanine products, either through direct loans or through fund investments, to finance SMEs' growth needs. IDB will join efforts with Mexico Ventures SME Mezzanine Fund GP, a joint venture between Fondo de Fondos and Sun Mountain Capital. The two companies have worked together since 2010.

The Fund target size is MXN5 billion (approximately US\$378 million). IDB will participate with an up to 8 years up to US\$45 million loan not to exceed 35% of the contributed capital. NAFIN and Fondo de Fondos are investors in the Fund. The Fund Manager will target other MDBs, local and international institutional investors.

Expected Development Impacts and Additionality

The expected development impacts and additionality of this project are: (i) contributing to the provision of growth financing options not readily available in the market to medium size companies and (ii) expanding the incipient mezzanine financing ecosystem through its fund of funds activities which will bring alternative options to a variety of borrowers and investors.

Project Contribution to IDB Objectives

Consistent with GCI-9 Strategy. This Financing is an effective channel for pursuing the priorities of the Ninth General Capital Increase of the IDB ("GCI-9") as it contributes to "Development through the private sector", as SMEs are an effective tool to speed up economic growth and job creation.

Consistency with IDB's Country Strategy. The proposed Partnership is consistent with IDB's Country Strategy for Mexico 2013-2018, which among its strategic objectives emphasizes the backing of financing alternatives to expand micro, small, and medium-sized enterprises' access to credit.