

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

COSTA RICA

**PROGRAM FOR THE PROMOTION OF DYNAMIC
ENTREPRENEURSHIP**

(CR-M1003)

DONORS MEMORANDUM

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CONTENTS

EXECUTIVE SUMMARY

I.	BACKGROUND.....	1
A.	The dynamic entrepreneurship of the Costa Rican technology cluster	1
B.	International best practices	3
C.	Similar projects and lessons learned	3
D.	Innovation and additionality	4
II.	THE PROGRAM.....	5
A.	Objectives and description.....	5
B.	Components.....	5
1.	New business venture incubation	5
2.	Business acceleration and internationalization	6
3.	Angel investor academy and network	7
4.	New financing mechanisms for entrepreneurs	9
III.	COST AND FINANCING	11
IV.	PROGRAM EXECUTION	12
V.	SUPERVISION AND EVALUATION.....	18
VI.	RATIONALE AND RISKS	19
VII.	ENVIRONMENTAL AND SOCIAL IMPACT.....	20

ANNEXES

Annex I	Logical framework
Annex II	Itemized budget
Annex III	Related and similar projects
Annex IV	Organizational structure of government and contractual relationships

APPENDIX

Proposed resolution

INFORMATION AVAILABLE IN MIF FILES

Preparation:

Approved program profile
MIF eligibility memorandum

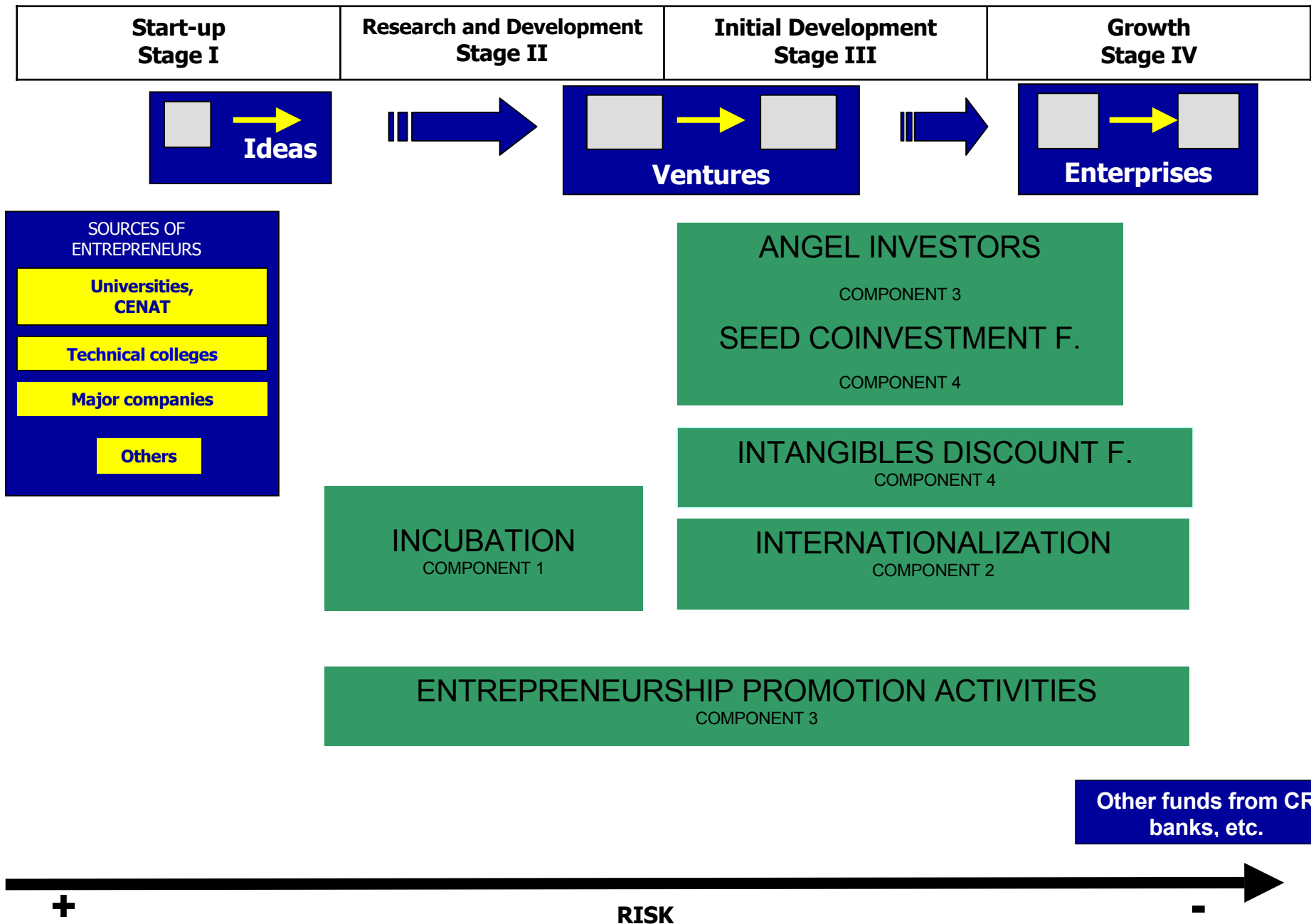
Execution:

Annex V	Bidding conditions for the Fondo de Descuento de Contratos de Intangibles [Intangible Contracts Discount Fund]
Annex VI	Bidding conditions for the Seed Coinvestment Fund
Annex VII	Terms of reference for the IDB/MIF and CAF director
Annex VIII	International best practices in entrepreneurship financing
Annex IX	Terms of reference for the general coordinator of the program
Annex X	Conditions of access to components I and II

ABBREVIATIONS

AWP	Annual work plan
CABEI	Central American Bank for Economic Integration
CAF	Corporación Andina de Fomento [Andean Development Corporation]
CAMTIC	Cámara Costarricense de Tecnologías de la Información y la Comunicación [Costa Rican Chamber of Information and Communication Technologies]
CENAT	Centro Nacional de Alta Tecnología [National Center for High Technology]
CESI	Committee on Environment and Social Impact
FDCI	Fondo de Descuento de Contratos de Intangibles [Intangible Contracts Discount Fund]
FDI	Foreign direct investment
GDP	Gross domestic product
ICT	Information and communication technologies
INCAE	Instituto Centroamericano de Administración de Empresas [Central American Institute of Business Administration]
MICIT	Ministry of Science and Technology
OR	Operating Regulations
PEC	Program Executive Committee
PMB	Program Management Board
SMES	Small and medium-sized enterprises

PROGRAM FOR THE PROMOTION OF DYNAMIC ENTREPRENEURSHIP (COSTA RICA) CR-M1003



EXECUTIVE SUMMARY

Executing agencies: The nonreimbursable financing component of the program will have three executing agencies: Mesoamerica Foundation, Parque-Tec, and the Costa Rican Chamber of Information and Communication Technologies (CAMTIC). The reimbursable financing component will have a trust to be set up at a future date.

Amount and source:	US\$
MIF (III A: nonreimbursable)	2,826,600
MIF (III B: reimbursable)	1,400,000
Andean Development Corporation (CAF)	750,000
Local counterpart	<u>2,564,800</u>
Total:	7,541,400

Terms: The technical assistance component of the program will be of 48 months' duration and the nonreimbursable financing will be disbursed in 54 months. The reimbursable financing component will be executed in up to 10 years.

Objectives: The *general objective* of the program is to enhance growth and innovation in the Costa Rican technology sector. The program's *specific objective* is to promote a favorable environment involving the private sector in developing technology-based ventures and SMEs.

Description: Four interrelated components must be developed to achieve these objectives: (i) new business venture incubation; (ii) business acceleration and internationalization; (iii) angel investor academy and network; and (iv) new financing mechanisms for entrepreneurs.

Environmental and social review: The CESI reviewed the program on 15 July 2005 and recommended increased efforts to direct part of the promotion initiative towards female entrepreneurs. This recommendation is reflected in paragraphs 2.3 and 2.9.

Coordination with other official development agencies: The program has been closely coordinated with the CAF and the Central American Bank for Economic Integration (CABEI) and both institutions were involved in the program analysis mission. The CAF decided to invest in the program and is moving forward with the internal approval process. In addition, program collaboration with the National Center for High Technology (CENAT) will promote coordination with support from the European Union in developing the Costa Rican biotechnology

sector, by building bridges to promote entrepreneurship and the marketing of technology developed in the CENAT laboratory.

Special contractual clauses:

Once the conditions set forth in Article 2 of the General Conditions have been fulfilled, each of the three executing agencies will be considered eligible for payment of part of the first disbursement upon demonstrating that each one has selected its respective component coordinator in accordance with Bank procedures. As a condition precedent to eligibility for disbursement, each executing agency must present, to the Bank's satisfaction: (i) the program's annual work plan (AWP) for year one, the preparation of which will be headed by the Mesoamerica Foundation component coordinator, who will also serve as Program Coordinator; (ii) the annual work plan (AWP) for year one; (iii) proof that the highest decision-making body has approved the Operating Regulations for its component; (iv) proof that the corresponding executing unit has been set up; and (v) proof that the Program Executive Committee (PEC) has been established.

Exceptions to Bank policy:

None.

I. BACKGROUND

A. The dynamic entrepreneurship¹ of the Costa Rican technology cluster

- 1.1 In 1998, Costa Rica was considered one of the 15 most dynamic exporters of medium- and high-technology manufactures, an achievement due largely to foreign direct investment (FDI). In the 1990s, a development model was promoted in Costa Rica based on clusters, the most successful of which in terms of impact is tourism. The high-technology cluster developed a “top down” pyramid model banking on the fact that the resources and drive of the top enterprises would permeate down to new ventures in the rest of the pyramid. Unfortunately, this synergy between the top and the rest neither generated sufficient venture volume at the base nor revitalized existing small enterprises, partly due to the absence of an entrepreneurship culture in the lower half of the pyramid that would act as a catalyst for this trickle down effect.² There was an obvious need to supplement the existing technology cluster model with another model that would generate an entrepreneurship-friendly culture. This model would have the additional benefit of strengthening Costa Rica’s position as an FDI destination, in addition to promoting strong growth in Costa Rica’s other economic activities.³
- 1.2 Nor has the Costa Rican university system been a substantial source of new ventures, as it focuses more on training future employees than training future entrepreneurs. Consequently, university research resources are aimed more at basic sciences and social sciences than applied sciences, and there are greater incentives to publishing papers than to developing patents. Both these factors and the minimal private sector involvement in universities mean that universities are not a breeding ground for new enterprises.⁴ The potential is there to change this state of affairs in view of the high caliber of the education system (the main reason for the Intel Corporation deciding to locate in Costa Rica in 1997): 20% of all students choose

¹ A dynamic undertaking is defined as a new or recent business project with genuine potential for growth because of its comparative advantage (not necessarily technological) to become at least a medium-sized company, that is one that operates according to the logic of accumulation generating revenue well above the owner subsistence levels that is reinvested in the enterprise and grows well above the average for the sector. It differs then from a subsistence or selfemployment business whose objective is to satisfy the subsistence needs of the owner and his/her family or to address specific needs of certain marginalized social sectors.

² “Un Nuevo Modelo Para el Desarrollo” [A New Development Model], Marcelo Lebendiker. “El Financiero”. May 2004.

³ The London Business School and Babson College Global Entrepreneurship Monitor draws a strong link between national economic dynamism and levels of entrepreneurship.

⁴ One of the best-known examples is the Massachusetts Institute of Technology (MIT) whose teaching staff, workers, and students have created over 5,000 new enterprises over a 50-year period. “Our Ph.D. Deficit” by Norman R. Augustine. The Wall Street Journal. May 2005.

ICT-related careers,⁵ recent investments have been made in major research and development biotechnology centers, and there is a growing interest at some universities in entrepreneurship activities (e.g. INCAE, UNIBE, etc.).

- 1.3 In addition to both factors mentioned above, it is necessary to add the restrictions prevailing in the business environment in Costa Rica (access to financing, market access, etc.) and the significant economic and cultural risks inherent in “doing business”, primarily when setting up technology-based companies, very few of which have a history of success. In more developed countries, a number of business environment services are in place that boost the chances of success. The size of the Costa Rican market⁶ magnifies these constraints and requires most ventures to be export-oriented, thus further increasing the need for an efficient factors market. In addition, ventures in Costa Rica share the same weaknesses in obtaining access to financing and managerial capability typical of entrepreneurs.⁷
- 1.4 For the few entrepreneurs with personal resources or contact networks, the current Costa Rican entrepreneurship model offers only seed capital from family and friends or bank capital (debt) without providing an intermediate step to allow entrepreneurs to acquire business management skills. As a result, there is an excessive business failure rate and an excessive number of ventures with no growth potential, creating a “valley of death” full of good but unfulfilled ideas. In turn, this results in the absence of an attractive domestic universe of good investment opportunities for venture capital and this means that this market fails to develop with the resulting negative impact on private capital and capital markets.
- 1.5 Despite the difficulties identified above, Costa Rica has the potential to produce a successful development model in which entrepreneurship plays an important role.⁸ In addition to macroeconomic factors, such as stability, growth, and notable improvements since 1995 in the Index of Economic Freedom (that measures key investment aspects including trade and monetary policy, FDI, and the legal framework), other circumstantial factors need to be considered, such as the possible entry in force of the Free Trade Agreement with the United States or the fact that

⁵ Information and Communication Technology (ICT) enterprises enable digital voice, data, text, video, and image transmission and include software companies. According to the “Tecnologías de la Información y las Comunicaciones en Costa Rica” [Costa Rican Information and Communication Technologies] report issued by the “Comisión Asesora en Alta Tecnología de Costa Rica” [Costa Rican High Technology Advisory Committee], 2004) [...sufficient global empirical evidence is available to assert that ICTs are vital tools in ensuring the prosperity of any nation...].

⁶ According to World Bank Development Indicators, in 1998, Costa Rica was ranked 82nd worldwide in terms of economic size.

⁷ “Enabling Angel Investment: Perspectives from Costa Rica.” INCAE, various authors. 2004.

⁸ See Fomento de la actividad emprendedora en América Latina y el Caribe. Sugerencias para la formulación de proyectos”. Pablo J. Angelelli y Julia Prats. IDB/SDS, 2005. The obstacles to entrepreneurship development identified do not have to be systematic if the actions here proposed are consistent with the objectives.

Central America has received just under US\$500 million in remittances since 2000;⁹ or Costa Rica-internal factors, such as its sophisticated corporate strategy¹⁰ or its excellent level of university education.

B. International best practices

- 1.6 In 2004, with funding from the Fondo Italiano de Consultoría, the MIF requested a study based on the current situation of Costa Rican technology-based SMEs to identify and designate one or more investment vehicles and development models to be adapted to the current local conditions and best practices for promoting dynamic entrepreneurship. The present program follows the recommendations of this study (see Annex VIII). As in other sources,¹¹ the study identifies the lack of confidence, the limitations of the institutional environment, and, above all, the lack of success stories as the key parameters that fail to motivate investors and entrepreneurs to undertake business ventures.
- 1.7 An analysis of international best practices (United States, Israel, Ireland, etc.) bears out the need for a comprehensive or interdisciplinary approach to promoting financing vehicles for business ventures, as there are both demand-side (number and quality of business ventures) and supply-side (available financing) problems. International best practices point to a comprehensive approach that places emphasis on the interrelationship and complementarities that can be achieved by promoting the entrepreneurship factors market as a whole. Public-private partnerships feature predominantly in these cases and are characterized by being complementary and having recourse to professional management in investment decision-making.

C. Similar projects and lessons learned

- 1.8 The Bank's country strategy with Costa Rica for 2003-2006 takes two strategic areas into account. The first of these areas is aimed at consolidating macroeconomic stability and the second at accelerating production growth within a framework of increased integration into the global economy, specifically by developing productive investment and improving the institutional environment. The MIF complements the Bank strategy (see Annex III) with: (i) public sector operations to strengthen those aspects of the overall environment that affect private sector performance; and (ii) private agency projects that benefit or group SMEs into various industrial and services subsectors and provide technical assistance, training, and financing. This program complements the Bank strategy of accelerating production growth and fills an important gap by promoting a favorable environment

⁹ Data from the United Nations Economic Commission for Latin America and the Caribbean.

¹⁰ Costa Rica is 32nd in the World Economic Forum global rankings.

¹¹ "Is angel investing feasible in Central America?" Arturo Condo, Luis Sanz, and Thomas Williams. INCAE 2004.

for developing technology-based ventures and SMEs with linkages with the private sector.

- 1.9 This program will complement and benefit from the “ProCompetitiveness Science and Technology” component of the ProCompetitiveness Productive Investment Program (document PR-2938) loan recently approved by the Bank in July 2005. This operation provides for a number of actions to support new business initiatives and the incubated ventures in Component I of this program will be able to benefit from this support. Similarly, applied research projects supported by the loan will be able to access the other program components. To ensure proper coordination, the Ministry of Science and Technology (MICIT) will sit on the Program Executive Committee (PEC). The present program will benefit from the outcomes, particularly in terms of promoting a culture of private venture capital investment with the venture capital funds of the MIF and the Inter-American Investment Corporation available in Costa Rica. It will also supplement those funds recently approved (Central American Growth Fund, EQU/MS-9412-RG) to which it could even eventually represent an investment opportunity.
- 1.10 This program will be the third in the MIF “Promotion of Dynamic Business Ventures” (document MIF/GN-103) cluster aimed at testing and developing private sector-led innovative vehicles and comprehensively combining business development and financial services for the benefit of business ventures with high growth potential in the seed stage.

D. Innovation and additionality

- 1.11 To realize its full potential, the current Costa Rican technological development model must generate a business financial cycle to energize the business network, promote innovation and competitiveness, and thus ensure upward mobility within the existing cluster pyramid. This program includes a number of highly complementary components to be executed in parallel but independently. Business incubation ensures a critical mass of new business ventures and the program promotes an entrepreneurship culture (Component I) and these are matured through acceleration and internationalization services (Component II) to make use of the envisaged innovative financing facilities (Components III and IV).
- 1.12 The traditional Costa Rican drawback of its small market size thus becomes the great opportunity for this program since it can cover all the required financial cycle and business development stages simultaneously and synergetically and, by so doing, multiply and maximize the impact the constituent components can exert on the target population. Thanks to its versatility of being able to test new mechanisms combining technical assistance and financing components, the MIF thus becomes the dynamic and agglutinating element of the Costa Rican private sector.

II. THE PROGRAM

A. Objectives and description

- 2.1 The general objective is to enhance growth and innovation in the Costa Rican technology sector. The program's specific objective is to promote a favorable environment involving the private sector in developing technology-based ventures and SMEs in Costa Rica. Four work interrelated components must be developed to achieve these objectives: (i) new business venture incubation; (ii) business acceleration and internationalization; (iii) angel investor academy and network; and (iv) new financing mechanisms for entrepreneurs.

B. Components

1. New business venture incubation (MIF US\$952,200; counterpart US\$429,800)

- 2.2 The objective of this component is to strengthen and expand the first private incubator of software enterprises in Costa Rica, aimed at generating a critical mass of quality business ventures that provide input for the rest of the program. Additional benefits of this component will include promoting the entrepreneurial culture in the target population (university staff, university graduates, and technicians), helping them to become entrepreneurs, replicating the success of the Colombian private incubator Parquesoft, and providing a valuable reference model for other initiatives in the region.
- 2.3 The following activities will be developed to achieve this objective: (i) institutional projection and positioning of the business incubation model. This will be achieved by preparing dissemination material containing business success stories (especially those relating to female entrepreneurs), a call for proposals to gather new business venture ideas, participation in national and international events, and setting up technological entrepreneurship workshops in Costa Rica; (ii) strengthening and professionalization of Parque-Tec by preparing a procedures manual, ongoing review and updating of the institutional business and sustainability plan, preparing a marketing plan, and staff internships abroad; (iii) basic training for entrepreneurs in management, finance, human development, and applied technologies with intensive use of virtual tools; (iv) advanced coaching and business management training for entrepreneurs in areas including technology validation, marketing, quality, business management, and technical support, accounting and legal advice for entrepreneurs (especially in patents and trademarks), internships for post-graduate students in business ventures, and participation in international seminars on new technologies and software developments (The Enterprise Network of Silicon Valley);¹² (v) administrative strengthening to facilitate the incubation of more entrepreneurs;

¹² <http://www.ten-net.org/>

and (vi) an entrepreneur financing fund (US\$50,000) to enable business ventures to have access to equipment and small-scale working capital. The Risk Fund will be set up by Parque-Tec (20%), the CAF (40%), and the MIF (40%) and administered by Parque-Tec, which will absorb the first loss. Individuals (and companies in special circumstances) wishing to receive incubation services to develop a business idea will have access to these activities, as will software companies being incubated in Parque-Tec (see Annex X).

- 2.4 This component is expected to produce a sustained flow of new, quality dynamic business ventures in Costa Rica. In particular, on completion of the program, it is expected that Parque-Tec will have: (i) consolidated and expanded to cater to up to 20 entrepreneurs per year as a result of having strengthened its capacity to offer a full range of incubation services, thus reaching its break-even point (calculated at approximately 40 successful business ventures in terms of sales); (ii) become a point of reference for potential Costa Rican entrepreneurs; (iii) incorporated international best practices know-how into its working methodology; (iv) implemented rigorous business venture selection, rejection, growth, and graduation processes, borne out by the business venture success rate; (v) updated business and sustainability plans in place; and (vi) catered to the initial financial requirements of entrepreneurs lacking personal or family resources. In addition, and with its involvement in the activities of this program, it will reinforce its principal private business management characteristics and links to the business community. Furthermore, it is expected that Parque-Tec will become a point of reference for potential software entrepreneurs with plans to set up their own business.

2. Business acceleration and internationalization (MIF US\$953,900; counterpart US\$404,000)

- 2.5 This component is aimed at supporting Costa Rican business venture growth, mainly in the ICT sector, by providing access to external markets. This component will meet Costa Rican dynamic business ventures' need to integrate into the international market at an early stage and thus realize their full growth potential. To this end, measures will have to be taken to remedy enterprises' lack of image, information, and experience when embarking on the internationalization process and this applies both to SMEs¹³ supported by the other program components and CAMTIC [Costa Rican Chamber of Information and Communication Technologies] member enterprises.
- 2.6 The following activities will be carried out to achieve this objective: (i) determining and disseminating a single image slogan for Costa Rican ICT enterprises to help them position themselves better in international markets; (ii) preparing and implementing a strategic plan to promote and support the internationalization of the

¹³ This program will define SMEs as duly registered and incorporated enterprises in Costa Rica with fewer than 100 employees and less than US\$3 million in annual sales.

Costa Rican ICT sector: (iii) mapping key agents and organizations in Costa Rica that can help develop the ICT enterprise habitat; (iv) developing an international market intelligence system on ICT commercial references and technologies; (v) training in and consulting services on the marketing, commercialization, and internationalization of Costa Rican business ventures and SMEs to boost their export capability; (vi) promoting business networks and partnerships between consolidated enterprises already established abroad and infant SMEs developing complementary products and/or services to gain access to international markets; and (vii) supporting the designing of and participation in international trade fairs and missions. Costa Rican SMEs, mainly those in ICT, wishing to receive business development services to speed up their growth and penetrate international markets will be eligible for these activities (see Annex X).

- 2.7 As an outcome of this component, it is expected that the participating dynamic business ventures and SMEs (mainly ICT sector) will succeed in integrating into the global market and thus realize their full growth potential. In particular, on completion of the program, it is expected that: (i) Costa Rica will have improved its international standing as a high-quality ICT producer country; (ii) Costa Rican entrepreneurs and the Costa Rican business community will have access to and benefit from the information on services and resources available in key institutions and organizations in both Costa Rica and three foreign markets to integrate into the global markets; (iii) Costa Rican entrepreneurs and the Costa Rican business community will have access to an updated database of ICT technology and purchasers in international markets; (iv) 60 business ventures and SMEs will have received training and consulting services in marketing and internationalization and at least 40 of these 60 ventures will be exporting on an ongoing basis; (v) four business partnerships will have been formed to export and/or provide after-sales services; and (vi) eight business ventures and SMEs will be suitably prepared for, and will have participated in, international trade fairs for the first time.

3. Angel investor academy and network (MIF US\$860,500; counterpart US\$381,000)

- 2.8 The objectives of this component are to: (i) develop a private seed capital vehicle for Costa Rican technology-based dynamic SMEs involving intelligent local capital (individuals with extensive business experience and resources, both in terms of capital and availability, to make long-term investments in new business initiatives with uncertain prospects of success) to support business ventures with high growth potential. In this way, it will be possible to simultaneously remedy shortfalls in knowledge (strategy, commercial, contact networks, etc.) and financing that affect entrepreneurs who generally boast a high level of technical skill but lack the business skills required to take their enterprises to the next growth stage. In addition, initiatives will be undertaken in Costa Rica to develop the know-how to set up and administrate angel investor networks; and (ii) set up a platform led by the local private sector to promote entrepreneurship in Costa Rica. This component will

serve as a nexus between dynamic business ventures in the research and development /incubation stage and the subsequent stages of risk capital and private equity. This will help to avoid the consequences of being left without access to financing, as is the case as present. These consequences are highly negative in that: (i) very few business ventures manage to become high value-added dynamic enterprises; (ii) the development of risk capital funds, private capital, and stock market funds is minimized, as there is no critical mass for sound investment opportunities; and (iii) the creation of new business ventures is inhibited, as entrepreneurs see no viable growth alternatives.

- 2.9 The following activities will be carried out to achieve these objectives: (i) the “Angels Academy” will be set up: prestigious international institutions with expertise in setting up and administering angel networks will be invited to submit bids on the transfer of this knowledge for adaptation and duplication in Costa Rica. The Academy’s principal objective is to guide potential angels through the investment process, help them define the network’s regulations and objectives (code of ethics, investment manuals, notice of meetings, etc.), while building the mutual trust they require to encourage them to invest. All Academy-related activities will be executed by the INCAE [National Center for High Technology], which will provide counterpart funds for this purpose and be supervised by Mesoamerica Foundation; (ii) actions supporting the setting up and monitoring of the angel investor network, whose investors and business ventures will be supervised by a full-time specialist (the Component Director) and advised by a local group of investment bankers through their foundation (Mesoamerica Foundation); (iii) the angel network and entrepreneurship will be promoted for the purpose of: (a) identifying and attracting a large number of angels and sound investment opportunities (with a special effort directed at the female population); and (b) becoming the reference point and source of new initiatives to promote entrepreneurship in Costa Rica with particular involvement by the private sector; and (iv) learning from and disseminating network experience through workshops and case studies.
- 2.10 An expected outcome of this component will be the setting up of the first active angel investor network in Costa Rica and a permanent entrepreneurship private promotion platform. In particular, on completion of the program, it is expected that: (i) an active angel investor network with at least 15 members will have been set up in Costa Rica and that at least ten investments will have been made in dynamic business ventures via this network; (ii) at least 20 potential “angels” will have been trained in seed financing and that network members will receive ongoing training in the relevant areas (four short courses per year); (iii) lessons learned from the network experience in three case studies are captured and disseminated; (iv) the network will be the catalyst for creating a broad-based representative Program Executive Committee (comprising members from the private and public sectors and the academic community) aimed at promoting entrepreneurship in Costa Rica; and

(v) on completion of the program, network staff and private network members will coordinate two new entrepreneurship-related initiatives and/or projects per year.

- 2.11 This component will also include: (i) an allocation of US\$30,000 in technical assistance, to be administered by the MIF, to implement activities related to the “Seed Capital for Dynamic Ventures” cluster, in accordance with document MIF/GA-14-1, paragraph 3.14. This amount will be deducted from the contribution as from the effective date of the technical-cooperation letter of agreement for this operation and will not require a disbursement request from the executing agency; (ii) funds for the administration of the program; (iii) contingencies; and (iv) program auditing.

4. New financing mechanisms for entrepreneurs (MIF US\$1,460,000; counterpart US\$2,100,000)

- 2.12 The objective of this component is to create and provide incentives for two new private sector mechanisms (the Intangible Contracts Discount Fund and the Seed Coinvestment Fund) to finance the start-up and acceleration of Costa Rican dynamic enterprises. In this way, the financial cycle of an emerging enterprise will be completed by uniting the start-up stages (generally with the entrepreneur’s own and family funds) with the risk capital stage, in which a high level of formalization and maturity in the enterprises promoted is required, thus ensuring the dynamic enterprises’ ongoing and full development.
- 2.13 Both financing mechanisms will be incorporated through a trust, in which the trustee, tentatively agreed with Fiduciaria Improsa,¹⁴ will be mainly responsible for executing MIF and CAF instructions and conducting its cash management in accordance with the highest prudential standards. The trust will be fully capitalized at the outset of the program¹⁵ and operate with separate subaccounts for each mechanism. The MIF and the CAF will share the same rights and obligations, albeit in proportion to their contributions.
- 2.14 **Intangible Contracts Discount Fund (FDCI).** One of the critical shortcomings of dynamic enterprises is their lack of access to capital to finance their first “major” contract. Due to their intrinsic weaknesses (lack of assets and credit history, financial intermediaries’ lack of knowledge on the sector, etc.), infant enterprises (especially ICTs) have no access to bank financing for the working capital they need to make their first significant sale. The FDCI will provide contract discount services for ICT ventures and other technology-based concerns. The financial

¹⁴ The IIC has a new US\$6 million credit (50% amortized) with Banco Improsa S.A. to finance SMEs and an indirect share position equivalent to US\$900,000 in Grupo Financiero Improsa equity. The MIF recently approved a maximum credit line of US\$3 million with Banco Improsa to promote the factoring industry in Costa Rica (CR-M1002). This operation will not increase IDB Group credit exposure in Banco Improsa.

¹⁵ Costa Rican commercial law forbids setting up an open-end trust (to avoid the reserve requirement risk).

mechanics of contract discounting are similar to factoring, except that a contract rather than an invoice is discounted (a high risk for clients with little business experience and longer maturities). To reduce the asymmetry of the information available and thus be in a better position to assess the credit risk for ICT ventures, the program has promoted a partnership between the CAF (with an equity holding of US\$200,000), CAMTIC (advisor to the FDCI Credit Committee), Financiera Desyfin S.A.¹⁶ (with an equity holding of US\$400,000 and market leader in providing factoring services in Costa Rica and mainly serving the small enterprise market), and the MIF (with an equity holding of US\$400,000). Financiera Desyfin will contribute its credit know-how and extensive systems to the process and be responsible for administering all discount operations in exchange for one third of the interest payable to the MIF and the CAF. In the long run, incorporating CAMTIC experts in contracts of this type into the financial analysis process to assess the credit risk for this special type of customer will make it possible to develop new know-how and suitable credit methodology for ICT ventures. Annex IV contains the bidding conditions with the terms specified and agreed by investors.

- 2.15 **Seed Coinvestment Fund.** The MIF/CAF coinvestment fund with the “angels” network will be used to finance Costa Rican dynamic enterprises promoted by the angel network. Fund capital will total US\$1.5 million (MIF US\$1 million, and CAF US\$500,000), which will require a counterpart contribution from the angel investors of at least US\$1 million and will run for ten years. Setting up this fund has the threefold objective of promoting angel investor investment, serving as a tool to promote the program among entrepreneurs, and generating success stories that boost seed capital supply and demand in the Costa Rican market by the demonstration effect. Fund investment policy was designed with a view to maximizing its impact on and complementarity with the other program components and considering the fact that access to financing is an especially critical element for technology-based enterprises, especially if they are ICT, as they tend to be highly capital-intensive.¹⁷ Annex VI contains the bidding conditions with the terms specified and agreed by investors.
- 2.16 Access to Fund resources will be process through the Program Management Board (PMB) and, for this purpose, the trust company will verify that the following access conditions have been met: (i) that the Costa Rican dynamic enterprise is receiving a capital investment from at least two angel network private investors who have contributed and disbursed at least 40% of the new financing round (set at between US\$62,500 and US\$250,000); (ii) the entrepreneur and his/her former partners (if any) retain at least 51% of the ownership of the business; (iii) the PMB certify that no conflicts of interest exist and that this is verified by the independent director

¹⁶ The MIF recently approved a credit line of up to US\$2 million with Financiera Desyfin S.A. to promote the factoring industry in Costa Rica (CR-M1002). This operation will not increase MIF credit exposure in Financiera Desyfin.

¹⁷ “Mora & Beck (San Jose, Costa Rica): Angel Investors or Angels?” INCAE. 2004.

representing the MIF and the CAF; and (iv) that compliance with IDB/MIF environmental regulations is verified.

- 2.17 The only instrument the fund will offer will be: (a) a subordinated credit in United States dollars; (b) interest at the variable 6-month LIBOR; (c) a maturity of up to 7 years; (d) a 3-year grace period on principal; (e) royalties on sales growing from between 2% to 10% over time; and (f) prepayable without penalty. This instrument has been designed to help better align the fund's interests with: (i) the entrepreneurs by offering: (a) long-term patient capital; (b) a credit assessment conducted by angel investors based on entrepreneur quality and the virtues of his/her venture (vs. assets or sufficient guarantees); (c) a debt instrument that by its very nature does not involve the entrepreneur transferring a further stake in the venture; and (d) the angel investors' intellectual capital and expertise; and (ii) the angels by: (a) offering long-term patient capital, the financial burden of which depends on the success of the venture; (b) sharing the risk of the venture by not requiring guarantees; and (c) providing a medium to allow the angels to minimize their exposure and leverage their resources. In turn, the management and monitoring of this instrument are simplified and the fund's risks are minimized by avoiding shareholdings in enterprises.
- 2.18 This component also includes the sum of US\$60,000 in technical assistance, to be administered by COF/CCR to cover legal fees and evaluation and dissemination of lessons learned from these new seed financing mechanisms.

III. COST AND FINANCING

- 3.1 The total budget for the program amounts to US\$7,541,400, of which the MIF will contribute US\$2,826,600 in nonreimbursable financing and US\$1,400,000 in reimbursable financing. The local counterpart contribution in nonreimbursable financing totals US\$1,214,800, broken down as follows: (i) CAMTIC (sponsored by PROCOMER) US\$404,000; (ii) Parque-Tec (sponsored by UNIBE and INCAE) US\$349,800 with US\$20,000 in CAF cofinancing; and (iii) Mesoamerica Foundation (sponsored by INCAE, CAF, Banco Improsa and Banco Popular) US\$356,200. The local counterpart contribution in reimbursable financing will total US\$2,100,000, of which US\$700,000 will be provided by the CAF, US\$400,000 by Financiera Desyfin S.A., and the remaining US\$1,000,000 to be committed as a coinvestment by angel investors. The Bank will be able to transfer surplus funds from one technical assistance component to another, even if this means a transfer of resources from one executing agency to another, provided there is a suitable counterpart and program objectives are met. At least 50% of the local counterpart contribution to nonreimbursable financing will be in cash. The table below presents the itemized budget broken down by financing type, and source.

Description/Source	Nonreimbursable Financing			Reimbursable Financing			Total	%
	MIF	Local	CAF	MIF	Local	CAF		
Enterprise incubation	920,200	329,800	20,000				1,270,000	17.0
Acceleration and internationalization	773,100	404,000					1,177,100	15.8
Angel Academy and network	732,800	326,200	30,000				1,089,000	14.6
New financing mechanisms				1,400,000	1,400,000	700,000	3,500,000	47.0
Program coordination	210,500	104,800					315,300	4.2
Evaluation and audits	50,000						50,000	0.7
Contingencies	50,000						50,000	0.7
Subtotal (\$)	2,736,600	1,164,800	50,000	1,400,000	1,400,000	700,000	7,451,400	100.0
Subtotal (%)	36.7	15.6	0.7	18.8	18.8	9.4	100.0	
Leg., eval., and dissem. costs	60,000							
Cluster-related activities	30,000							
Total	2,826,600	1,164,800	50,000	1,400,000	1,400,000	700,000	7,541,400	

- 3.2 **Sustainability of overall program outcomes and activities.** In terms of outcomes, it is expected that: (i) dynamic enterprises supported by the program will have a high long-term probability of growth and transition to the next financing cycle stage; (ii) “angel” investors and the financial intermediary will develop, successfully test, and continue applying their respective investment methodologies; (iii) potential Costa Rican entrepreneurs will have a more favorable environment to start their activities; and (iv) the public sector will become more involved in promoting entrepreneurship. With regard to activities, it is expected that: (a) incubation activities will continue over time because Parque-Tec, thanks to its new materials and know-how, achieves its financial break-even point for successfully incubated enterprises; (b) internationalization activities will continue over time, partly because CAMTIC will set up a sustainability fund and partly because new donors will decide to support activities once they can be shown the positive impact of these activities; (c) the angel investor network will be consolidated and expanded once success stories are forthcoming and documented; and (d) the intangible contracts discount mechanism will expand once the economic viability and financial profitability of this activity is demonstrated. In addition, one of main tasks of the Program Executive Committee (PEC) will be to review and redefine the sustainability strategy on an ongoing basis.

IV. PROGRAM EXECUTION

- 4.1 **Executing agencies.** The program will have three executing agencies for the nonreimbursable financing components (Component I: Parque-Tec; Component II: CAMTIC; Component III: Mesoamerica Foundation) and a subexecuting agency (INCAE: under Mesoamerica Foundation in Component III). The reimbursable financing component will be executed under a mandate granted to a trust company by the MIF and the CAF in accordance with the bidding conditions attached as Annexes V and VI. Program executing agencies were selected on the basis of: (i) their interest in and commitment to promoting dynamic ventures; (ii) relevant

- know-how; (iii) priority for private sector institutions; (iv) complementarity and commitment to team work with the other institutions; and (v) the regional expansion potential they contributed by participating.
- 4.2 With private investment totaling US\$300,000, **Parque-Tec** (Component I) emerged in June 2004 as a venture promotion vehicle forging a business culture aimed at the new knowledge society. Parque-Tec provides the physical space and administrative and technological infrastructure required by a business platform, in addition to the founder's business coaching, contact network, and team (the founder has been a successful entrepreneur on several occasions and is a highly renowned and experienced businessman). Parque-Tec is a non-profit association whose objective is to have the capacity to incubate 50 new ventures (12 of the 16 ventures launched are currently in incubation). The Costa Rican private and corporate sectors (i.e. Intel, CAMTIC, Mora & Beck, Oracle, etc.) are actively involved in its committees and it is sponsored by Microsoft. Parque-Tec is based on and adheres to the methodology applied in the successful Parquesoft (Colombia) model.
- 4.3 The **Chamber of Information and Communication Technologies (CAMTIC)** – Component II – is a non-profit association established in 1998 and boasts 120 associated companies, mostly from the software sector. CAMTIC represents the four main ICT-sector segments categorized as ICT producers, direct services, ICT-enabled services, and ICT components, and incorporates what is known as “ICT key services”. A total of 93% of the affiliated enterprises are operated with Costa Rican capital and 92% are micro-, small- and medium-sized enterprises. The Chamber groups together 90% of Costa Rican software companies. CAMTIC leads the Information and Communication Technologies National Strategy entitled “Costa Rica: Green & Smart”, aimed at intensifying exports from this sector and involving industry representatives, academia, and government for this purpose. CAMTIC has a long history of collaborating with the Costa Rican export promotion agency (Procomer), which contributes counterpart cash funding to the business acceleration and internationalization component. Again with Procomer sponsorship, CAMTIC headed the Costa Rican Software Sector Competitiveness Support Project -Prosoftware- (document MIF/AT-256) involving an investment of US\$1.7 million and presented by IDB/SDS as a successful example of business service development and boasting a remarkable degree of institutional evolution. This program will build on the success achieved and experience gained in the previous project.
- 4.4 **Mesoamerica Foundation** (Component III): Mesoamerica Foundation is an international corporation founded in 2001 and incorporated in the British Virgin Islands with a broad mandate to act as a non-profit catalyst to develop and implement integral solutions to social problems in Central America. Mesoamerica Foundation is composed of professionals from the Mesoamérica investment bank, based in Costa Rica and operating throughout Central America. Mesoamérica has specialized in mergers and acquisitions, strategic partnerships, risk capital, business

- sales, raising capital for regional investments, and implementing strategic consulting projects. Thanks to its extensive professional history and sound market reputation, Mesoamérica has a broad network of private, public, and academic contacts that could benefit the program. Mesoamérica emerged as a Central America extension of Bain & Company and Bain Capital, and evolved into Mesoamérica Fund (a venture capital fund with funds totaling US\$20 million) in 1996. Investment banking and strategic consulting activities began in 1998 with the launch of Mesoamerica Investments. In 1998, this became Mesoamérica Telecom, a vehicle for telecommunications investments in the region and funds totaling US\$200 million. Its best-known operation was the joint venture with Telefónica de España to break into the mobile telephone market in El Salvador and Guatemala.
- 4.5 At present, Mesoamérica's business focus is centered on electric power generation and telecommunications. Mesoamérica allocates part of its annual profits to Mesoamerica Foundation, in addition to donating its employees' time and know-how as its major contribution. Although Mesoamérica has no professional interest in the niche market targeted by this program, it did want to collaborate in this initiative due to its impact and value-added. Over and above the respective counterpart in cash and kind, Mesoamerica Foundation not only contributes its employees' financial and business know-how but also its network of contacts and professional prestige, key elements in setting up and operating the angel network.
- 4.6 **INCAE**¹⁸ is a non-profit private multinational higher education institution engaged in teaching and research in the field of administration and economy. It was founded in 1964 at the initiative of the business community and the governments of Central America in collaboration with Harvard University. INCAE will take on the dual role of supporting the setting up of the angel network and analyzing and disseminating the best practices developed in the project. INCAE supports "entrepreneurship as the vital fiber of a society's economic well-being" and new business creation promotion is established in its Board of Directors' mandate. The involvement of the INCAE academic team will confer a significant degree of prestige on the program, in addition to enabling it to benefit from the institution's academic and professional thoroughness over and above constituting an excellent platform for duplicating the experience gained in other Central American countries. INCAE has previously collaborated with Mesoamérica (the institution heading up Component III), and an association agreement must be signed with this entity.
- 4.7 **Financiera Desyfin S.A.** (Component IV) will administer and co-invest in the FDCI (one of the two mechanisms in Component IV). It was founded in 1991, is mainly engaged in factoring, and is under the supervision of the Superintendency of Financial Institutions (SUGEF). Financiera Desyfin specializes in and is a market leader in Costa Rica in catering to small-scale government suppliers. Desyfin's

¹⁸ INCAE is the executing agency of another MIF project (Learning from Business Alliances) (ATN/ME-8291-RG) approved in April 2003.

niche market comprises SMEs with fewer than 20 employees. As evidenced by the minimal arrears (3%), Financiera Desyfin has successfully developed specific know-how to deal with the informal economic status of and poor financial information on many of its customers. In December 2004, the Financiera Desyfin portfolio totaled US\$13.4 million and was placed with 1,675 customers. The portfolio comprises invoice discounting, direct credit, documentary letters of credit, and performance and participation guarantees. The most important credit operation in terms of amount and number of customers (52% and 43%, respectively) is invoice discounting and the average credit for this type of financing is equivalent to US\$10,602. By sector, trade accounts for 39.6%, construction 18.6%, and industry 17.6% of total activity. Desyfin portfolio quality is very sound and the portfolio with arrears of more than one day only represents 3% of the total portfolio. The credit portfolio features high turnover, associated with Desyfin's main business activity of invoice discounting (less than 90 days). The portfolio growth target for 2005 is 25%. As of 31 December 2004, Financiera Desyfin solvency ratios were adequate and the company's net worth stood at US\$2.5 million. Its indebtedness level is almost seven times that of its net worth and over-the-counter deposit taking from the public is barely 9.4% of total deposits and covered threefold by available funds. Financiera Desyfin was selected due to its market positioning (small enterprises), credit methodology (project evaluation as opposed to guarantee requirements), convenient supervision (as a holder of MIF and CAF credit), and commitment (measured by its 40% contribution to the fund).

- 4.8 **Andean Development Corporation (CAF):** The Business Investment and Development Fund for Small- and Medium-sized Enterprises (FIDE) is a CAF institutional operational mechanism, set up as a special fund aimed at supporting SME financing through capital and quasi-capital facilities. The FIDE shares objectives with the MIF and both institutions have a long history of collaborating in venture capital funds. The FIDE prioritizes initiatives in which the CAF can fulfill its role as a catalyst in attracting additional financial resources for SMEs and the FIDE always aims for profitability and efficiency in its operations. The CAF/FIDE participation in the form of reimbursable financing in the investment components of this program is about to be approved and will contribute up to US\$30,000 in technical assistance.
- 4.9 **Execution mechanism:** The program will be executed in parallel by three executing agencies (Parque-Tec, CAMTIC, and Mesoamerica Foundation) and this will be carried out independently while ensuring complementarity. The IDB/MIF will sign an Administration Agreement with each of these agencies containing their individual terms and conditions and counterpart requirements. An accounting and cash management administration trust fund for Component IV (see

paragraphs 2.12 to 2.17) will be set up in Fiduciaria Improsa,¹⁹ which will execute its obligations in accordance with the guidelines contained in the respective bidding conditions (see Annexes V and VI).

- 4.10 To ensure that the program is properly coordinated and maximizes its impact on Costa Rican society, a multifaceted, socially representative Program Executive Committee (PEC) with at least twelve members of recognized standing and leadership skills will be set up. The PEC will delegate day-to-day responsibilities to the Program Management Board (PMB), composed of one representative from each executing agency, INCAE, and three additional figures (two private and one public) with recognized technical prestige. The PEC's main responsibilities will be to: (i) promote the coordination of the various program activities; (ii) maximize the promotion and dissemination of the program; (iii) represent the program in Costa Rican society; and (iv) advance new entrepreneurship promotion activities in Costa Rica.
- 4.11 Each executing agency will directly execute its respective program component. An executing unit will be set up within each executing agency and these units will report directly to the head of each institution. The overall responsibilities of each executing unit will be to: (i) prepare and execute the Annual work plans (AWPs); (ii) participate in preparing and executing the program annual work plan (PAWP) to be coordinated by the Mesoamerica Foundation component coordinator; (iii) promote contracting processes in accordance with Bank rules and supervise goods and services procurement; (iv) supervise the timely and effective execution of its component's activities; (v) process disbursement requests with the Bank; (vi) prepare and submit statements of account and management reports to its chairman, the executing unit, and the Bank; (vii) monitor the performance indicators established in the logical framework; and (viii) verify the counterpart contribution. Each executing unit will comprise a component coordinator, who will also participate very actively in executing the various activities and administrative and accounting support staff. The terms of reference for hiring these persons are contained in the Operating Regulations (OR) for each component. In addition, each executing unit will design and maintain a follow-up system to monitor the impact of its component's activities. Local counterpart resources and the Bank's contribution will be deposited in a special account to be opened by each executing agency for this purpose to facilitate monitoring by the Bank.
- 4.12 Mesoamerica Foundation will assume initial leadership of the "angels" network and all other activities in Component III (with the exception of those carried out by INCAE) during the initial maximum risk period (i.e. the launch of these activities).

¹⁹ Fiduciaria Improsa was preselected together with the CAF because: (i) its economic offer was the best offer; (ii) the institutions' quality and reputation are excellent; (iii) it is committed to the program as evidenced by its US\$20,000 sponsorship contribution; and (iv) it can be easily supervised.

During this initial period, its component coordinator will be based in the National Center for High Technology (CENAT) with the dual objective of projecting an image of corporate neutrality to the market and promoting closer links with Costa Rican public universities. Once consolidated (in approximately two years) and to facilitate its sustainability, the angel network will be incorporated with its own independent legal personality and assume its own responsibilities with the technical assistance support included in the program. In accordance with Mesoamérica standard practices in success-linked remuneration, a substantial proportion of the salary of the Component III component coordinator to be hired on a long-term basis will be linked to goal achievement. Accordingly, the funding required may be less than the amount earmarked in the budget for this activity.

- 4.13 To assist COF/CCR in supervising and administering Component IV and, especially, in the day-to-day activities with the trust fund, the MIF and the CAF will put out to tender and use trust fund resources to hire an independent director (see Annex IX) to represent them on the FDCI Credit Committee and with the angel network. The profile of this director (who must reside in Costa Rica and have broad investment and financial experience) will be that usually employed by the MIF in supervising its risk capital portfolio.
- 4.14 **Conditions precedent to the first disbursement.** On compliance with the conditions set forth in Article 2 of the General Conditions, the program will grant eligibility for part payment of the first disbursement to each of the three executing agencies subject to prior evidence that each agency has selected its respective component coordinator pursuant to Bank procedures governing the selection and hiring of these component coordinators. As a condition precedent to eligibility for disbursement, each executing agency must present, to the Bank's satisfaction (i) the program annual work plan (PAWP) for year one prepared in coordination with the Mesoamerica Foundation component coordinator who will in turn act as Program Coordinator; (ii) the annual work plan (AWP) for the first year of execution; (iii) proof that the respective highest decision-making body has approved the Operating Regulations for its component; (iv) proof that the respective executing unit has been set up; and (v) proof that the Program Executive Committee has been established.
- 4.15 **Program readiness.** The program is at an advanced level of preparation given that: (i) the availability of most of the local counterpart contribution resources (both in cash and in kind) has been negotiated and documented by Parque-Tec, CAMTIC, Mesoamerica Foundation, INCAE, and Financiera Desyfin S.A. (in addition to the remaining sponsors) and the project team; (ii) discussions on execution collaboration agreements are at an advanced stage; and (iii) the executing agencies have already begun coordinating their actions.
- 4.16 **Services procurement.** In hiring consulting services to be financed by the program each purchasing unit must observe the Bank procedures established in the *Policies*

for the Selection and Contracting of Consultants financed by the Bank (document GN-2350-4). Quality and cost, least-cost, and fixed-budget selection, depending on the activity, will be used when hiring consulting services. Consulting contracts in amounts of less than US\$50,000 will be reviewed by the Bank ex post, when the COF/CCR feels that the executing agencies have sufficient experience with Bank standards. Procedures must guarantee transparency and competitiveness and be obtained at lowest cost. The procurement plan will be reviewed every six months.

- 4.17 **Execution period and disbursement timetable.** The program technical assistance component will have an execution period of 48 months, with a disbursement period of 54 months. The revolving fund will be 10% of the loan amount. The financing component will have an execution period of up to 10 years.

V. SUPERVISION AND EVALUATION

- 5.1 **Supervision reports.** Each executing unit will prepare and submit progress reports to the Bank on its program component within 30 days after the end of each calendar six-month period and a final report within 30 days after the last disbursement of its respective component. For the first annual progress report, subject to prior agreement with the Program Executive Committee, each executing unit will prepare its work plan for the second year. These reports will observe a format agreed in advance with the Bank and describe the activities and financial performance of the component, as well as its outcomes measured in terms of the execution and performance indicators specified in the logical framework. The Bank will use these reports to monitor progress in implementing the project and prepare a project completion report (PCR) within three months after the last disbursement. The Bank will review the program's progress based on these semiannual progress reports. In addition, a Closure Workshop will be scheduled three months prior to final execution to identify and publish the outcomes achieved, lessons learned, and the actions required to ensure the sustainability of the program.
- 5.2 **Evaluation.** Out of the proceeds of the MIF contribution, the Bank will hire independent consultants to perform a midterm evaluation of the program 20 months after the agreement is signed or when COF/CCR deems it necessary, based on the rate of advance of the program, whichever occurs first. On the basis of this midterm evaluation, the Bank will determine whether each program component should be continued, modified, suspended or cancelled. This evaluation will take logical framework indicator performance and the degree of implementation of the agreed activities into account. The final evaluation of the program will be carried out once 90% of the contribution has been disbursed or three months prior to the date of the last disbursement. In addition, as part of Component III case studies will be prepared and disseminated in such a way as to ensure that lessons learned can be extracted during project execution.

VI. RATIONALE AND RISKS

- 6.1 **Rationale.** The program establishes a comprehensive strategy to make it possible to render the financial cycle of Costa Rican ventures operative in the medium term, thus bolstering the national entrepreneurial culture and business network. Evidence of this entire process will be an ever-increasing proportion of individuals setting up and expanding dynamic enterprises, a rare occurrence in the current entrepreneurial structure. To this end, the main benefit of the program will be to have energized the pyramid structure of the Costa Rican technology cluster with the emergence of at least 50 new technology-based small enterprises and the development of at least 25 small enterprises into medium-sized enterprises, the entire process under the leadership of the local private sector. These enterprises will help to show the population that it is possible to create high-growth businesses. The program will also serve as a vehicle to learn about the new training, technical assistance, and financing mechanisms to promote the incubation and development of new enterprises that can be duplicated by other institutions in various countries.
- 6.2 **Beneficiaries.** The direct beneficiaries of the program are dynamic current or future Costa Rican entrepreneurs interested in expanding their technology-based enterprises and requiring technical assistance and financing for this purpose. Beneficiaries will also include: (i) private investors who will see how an investment vehicle specially tailored to their needs is constructed; (ii) local academics who will be trained in setting up and supporting angel investor networks; (iii) the local financial sector for which an attempt will be made to demonstrate the soundness of a novel financing methodology (intangible contract discounting); and, lastly, (iv) the executing agencies that will be strengthened.
- 6.3 **Risks.** Broadly speaking, the program is subject to the following risks: (i) the risk that the lack of interagency coordination will hamper the development of activities. To minimize this problem, the operation has been designed to be totally participatory, giving each institution the opportunity to decide on the activities for which it will be responsible. In addition, it was decided to sign an association agreement with each of the three lead institutions to avoid any potentially poor performance by an individual association that might affect the others. Consequently, the failure of one of the components would not jeopardize the execution of the others, although the intended synergies and complementarities would indeed be lost. Furthermore, all lead institutions will participate in the PEC and be coordinated by the director of Component III; (ii) the risk of insufficient demand for the services offered by this program, measured in terms of the number of potential entrepreneurs and the number of angel investors and dynamic enterprises. This risk is mitigated by running the program in Costa Rica, where there is a strong interest in these areas, and by the quality and market visibility of the institutions involved. In addition, through its PEC, the program will develop a high degree of interagency coordination in dynamic entrepreneurship, as well as

include various promotion and information dissemination activities; and (iii) the risks that the execution of the program may be jeopardized by a lack of commitment on the part of the management of the various institutions involved. This risk is mitigated by the additional professionals to be hired with program resources and contribute to the development and consolidation of the various initiatives.

- 6.4 In turn, **financing mechanism performance** could be negatively impacted by various endogenous and exogenous risks. The four most relevant risks are: (i) the Costa Rican economy's sensitivity to potential macroeconomic crises that could have a highly negative effect on the overall environment. The management of both financing mechanisms boasts the decisive involvement of local staff with extensive business experience and the know-how gained from previous crises. A crisis could foreseeably also affect demand for the financial services offered and angel investor activity and, as a result, MIF/CAF capital might not be used and remain conservatively invested in the trust; (ii) the execution and administration risk assumed by the financing mechanisms in providing a market with a new investment methodology. It is hoped to mitigate this risk with the know-how available from the FDCI administrator and Mesoamerica Foundation in the angel investor network, the interagency commitment and complementarities of the various institutions involved, and the potential overall impact of the remaining program components; (iii) insufficient dynamic enterprises with investment opportunities and/or angel investors. It is hoped to counteract this risk by means of the promotion activities included in the various components, team-perceived demand, and the use of the angel academy as an innovative means of attracting and training angels, and (iv) the MIF could incur significant losses in its contribution due to poor investment performance, especially in view of the fact that there is a lack of significant prior experience demonstrating the viability of financing dynamic ventures in Costa Rica. Investment policies for these mechanisms were designed with due consideration of this risk and adapting it to the uncertain nature of these ventures. Provision has been made to cancel any of the mechanisms early in the event of poor outcomes. In addition, the evaluation phase involved selecting executing agencies with a strong institutional commitment and knowledge of the target market as these agencies will be able to provide the process with a high degree of value-added.

VII. ENVIRONMENTAL AND SOCIAL IMPACT

- 7.1 The CESI reviewed the program on 15 July 2005 and recommended increasing efforts to direct part of the promotion initiative towards female entrepreneurs. This recommendation was considered in paragraphs 2.3 and 2.9.
- 7.2 The financial mechanisms included in the program will be administered in accordance with IDB/MIF Environmental and Social Policies for Financial Intermediary Operations (see <http://www.iadb.org/mif/>). These policies are a

binding contractual component and include: (i) the obligation to comply with the pertinent local and national regulations and legislation and multilateral agreements; (ii) prohibiting financing for any activity in the prejudicial projects exclusion list (Annex C of the Policies) such as firearms, explosives, real estate speculation, gambling, illegal activities, projects involving child exploitation, pesticides, radioactive materials, etc.; and (iii) the obligation to exercise environmental and social due diligence including pre-selecting and classifying projects into three categories, one of which is ineligible for financing as it involves projects that may produce various significant negative environmental impacts, such as those that imply population resettlement, affect indigenous peoples, etc. In addition, contractual obligations will include nondiscrimination due to ethnic origin, gender, religion, or disability. The terms of reference for independent evaluations requested using technical assistance funds will include verifying the agreed environmental and social requirements.

PROGRAM FOR THE PROMOTION OF DYNAMIC ENTREPRENEURSHIP (CR-M1003)
LOGICAL FRAMEWORK

Objectives	Indicators	Means of verification	Assumptions
Goal			
Contribute to growth and innovation in the Costa Rican technology sector.	2 years after completion of the project, the pyramid structure of the Costa Rican technology cluster is energized with the emergence of at least 50 new technology-based small enterprises and the development of at least 25 small enterprises into medium-sized enterprises.	<ul style="list-style-type: none"> National statistics on registered businesses and enterprises. Post review. Evolution of listed CAMTIC members. 	Macroeconomic policy and the markets both remain stable to maintain Costa Rican competitiveness.
Purpose			
Promote a favorable environment linking the private sector with the development of Costa Rican technology-based SMEs.	<p>Dynamic and sustainable enterprises supported by the program have access to external financing, access to international markets, and access to business development services.</p> <ol style="list-style-type: none"> By the end of the program, there is a significant increase in the supply of good technology enterprise investment projects, based on the business plans received through the network. By month 12, an angel investor network is formed comprising at least 15 experienced investors willing to work as a team and by the end of the program an average of US\$100,000 is invested in at least 10 ventures. 	<ul style="list-style-type: none"> Board minutes Midterm and final evaluation reports PPMR Financial statements Enterprise statistical reports Sector economic analysis PCR. 	<ul style="list-style-type: none"> The demand for capital begins to become significant, particularly for technology-based enterprises. Individuals are available to act as angel investors. The size of the Costa Rican technology market compels dynamic enterprises to go international. The private sector remains interested in promoting the ICT sector.

Objectives	Indicators	Means of verification	Assumptions
			- The demand for incubation services to launch ventures continues.
Components			
I. Parque-Tec strengthening and expansion of software ventures	<ul style="list-style-type: none"> - 20,000 persons (5,000 per year) have access to the information and orientation material - 4,800 persons (1,200 per year) receive information and personalized assistance to facilitate business start-ups - 20 business ideas per year are selected via competitions to begin the incubation program; at least 10 of these ideas are evaluated as innovative and showing growth potential thanks to the talent of their entrepreneurs and are selected. 	<ul style="list-style-type: none"> • Midterm and final evaluations • Semiannual progress reports • The Parque-Tec accounting system • A survey of users of Parque-Tec facilities • PPMR and PCR for the project 	<p>There are young people and/or professionals with entrepreneurial spirit and promising business ideas.</p> <p>The business community continues to be motivated to generate and energize the entrepreneurial group and, consequently, support incubation initiatives.</p> <p>Young university graduates regard an incubator as a favorable mechanism for creating innovative enterprises.</p>
II. Acceleration and internationalization of ICT ventures	<ul style="list-style-type: none"> - 60 enterprises (15 per year), mostly ICTs, receive specialized technical assistance and at least 40 of these go international. 	<ul style="list-style-type: none"> • Midterm and final evaluations • Semiannual progress reports • PPMR and PCR for the project 	<p>ICT entrepreneurs with sound international expansion plans are available. SMEs understand the advantages of joining to obtain access to international markets.</p>
III. Angel investor network	<ul style="list-style-type: none"> - The angel network receives 300 business plans, at least 40 of which are considered of sufficient quality to be presented to the angels and at least 25% of which obtain investment during 	<ul style="list-style-type: none"> • Midterm and final evaluations • Angel network report 	<p>Established entrepreneurs and professionals are interested in participating in</p>

Objectives	Indicators	Means of verification	Assumptions
	the program.	<ul style="list-style-type: none"> Semiannual progress reports PPMR and PCR for the project 	<p>the angel investor network.</p> <p>The private financial sector maintains interest in investing in new entrepreneurial initiatives.</p>
IV. New financing mechanisms for entrepreneurs	<ul style="list-style-type: none"> 5 years after program commences, 2 new financing mechanisms for entrepreneurs have been created and the funds made available by the MIF have been used. 10 to 15 investments in ventures and dynamic young enterprises, with an average of 2 or 3 investments per year 	<ul style="list-style-type: none"> Midterm and final evaluations Semiannual progress reports Administrator reports Semiannual reports on the facility PPMR and PCR for the project 	Costa Rican private investors have resources available to invest in technology-based enterprises and are willing to contribute their professional experience to the process.
Activities			
I.1 Institutional projection and positioning of the entrepreneurial incubation model	<ul style="list-style-type: none"> 3 calls for new ideas per year 2 press articles per year disseminating success stories By the end of the program, staff of the incubator company have taken part in 5 national and international entrepreneurship events. 1 technological entrepreneurship workshop per year 	<p>For all activities</p> <ul style="list-style-type: none"> Semiannual and final progress reports by the executing agency Midterm and final evaluation by an external consultant Project Performance Monitoring Report (PPMR) for the project Project Completion Report (PCR) for the project 	<p>Services provided meet demand</p> <p>Advertising and dissemination activities are effective</p>

Objectives	Indicators	Means of verification	Assumptions
I.2 Parque Tec strengthening and professionalization	<ul style="list-style-type: none"> - 1 procedures manual developed in year one - 1 updated business and sustainability plan for Parque-Tec developed in year one and updated during the program - 1 marketing plan for Parque-Tec developed in year one and updated during the program - 2 training programs and internships abroad per year for Parque-Tec staff 	<ul style="list-style-type: none"> • Surveys and evaluation of participants on the execution and outcomes of workshops 	
I.3 Basic training for entrepreneurs	<ul style="list-style-type: none"> - 1 academic course per year on management, finance, human development, applied technologies, and similar areas - Introduction of a website for virtual tutorials targeting entrepreneurs commencing in year one - 3 entrepreneurs trained abroad per year 	<ul style="list-style-type: none"> • Lists are available to the general public free of charge through the executing agency website 	
I.4 Coaching and business management for entrepreneurs	<ul style="list-style-type: none"> - 40 consultancies for entrepreneurs per year in technological validation, marketing, quality, business management, and technical support - Attendance at 3 seminars in The Enterprise Network for entry into the US market during the program - 20 legal and accounting advisory sessions for entrepreneurs per year - 6 entrepreneurs trained abroad per year 	<ul style="list-style-type: none"> • Databases can be accessed by the general public free of charge through the executing agency website • Consultants' reports 	
I.5 Entrepreneur risk fund	<ul style="list-style-type: none"> - Each year as 8 ventures are financed, procedures and policies for administration of the fund are developed 		

Objectives	Indicators	Means of verification	Assumptions
I.6 Expansion and administrative and accounting support for entrepreneurs	- 3 administrative accounting staff are hired to support entrepreneurs starting in year one		
II.1 Defining the ICT sector joint slogan	- By year 2 of the program, 1 advertising slogan is designed and communicated to help Costa Rican entrepreneurs overcome their lack of knowledge of the country as a producer of advanced technology.		
II.2 Mapping key organizations for the ICT sector	- By year 2, 1 list of relevant Costa Rican producers, consumers, auxiliary services, and public institutions - By year 3, 1 list of relevant producers, consumers, auxiliary services, and public institutions in at least 3 net technology importing countries		
II.3 Domestic and international promotion plan for the sector	- By year 2 of the program, a Costa Rican ICT entrepreneurial promotion office will be set up in one key technology importing country		
II.4 Market intelligence system (technological and commercial database) for the domestic ICT industry and market	- By year 2 of the program, 1 database on Costa Rican ICT commercial supply and demand abroad - 1 database on technological innovations and trends to supply the rest of the project during the program		
II.5 Consulting and training in marketing and internationalization	During the program - At least 4 courses on internationalization and 4 courses on marketing mainly for ICT SMEs		

Objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> - Participation in 2 trade fairs per year - 4 internationalization consulting sessions - 4 marketing consultancies - 6 consultancies on improving commercial processes 		
II.6 Entrepreneur networks	<p>During the program</p> <ul style="list-style-type: none"> - At least 4 internationalization partnerships between SME producers of ICT 		
II.7 Participation in trade fairs, events, and missions	<p>During the program</p> <ul style="list-style-type: none"> - Participation in at least 8 trade fairs and missions 		
III.1 Entrepreneurship coordination and promotion actions	<ul style="list-style-type: none"> - Promotion of one entrepreneurship support event per month - Entrepreneurship promotion in the mass media once per month - Annual work plan for the program negotiated and agreed by all executing agencies before the year begins - Program Executive Committee established and including public/private sector and academic representatives before the first disbursement - The PEC meets at least twice a year to promote entrepreneurship initiatives. 		
III.2 Setting up and supporting the angel investor network	<ul style="list-style-type: none"> - By the end of year one, the first angel academy with at least 10 angel investors is established. - A network meeting is held every four months. 		

Objectives	Indicators	Means of verification	Assumptions
	- 2 or 3 investments in dynamic technology-based enterprises are made per year		
III.3 Assimilating and disseminating angel investor network experience	<ul style="list-style-type: none"> - 1 case study on ventures, 2 case studies on successful ventures, and 2 on failed ventures per year - 1 analytical case study of angel academy activities per year - 1 conference disseminating angel investor activity per year 		
IV.1 Seed Coinvestment Fund		Reports on the administration of the Fund	
IV.2 Intangible Contracts Discount Fund		Reports on the administration of the Fund	

PROGRAM FOR THE PROMOTION OF DYNAMIC ENTREPRENEURSHIP (CR-M1003)
ITEMIZED BUDGET

		Total cost	MIF contribution	Local counterpart contribution	Total (US\$)	
Component I. Parque-Tec strengthening and expansion						
I.I	Institutional projection and positioning of the entrepreneurial incubation model	264,000	214,000	50,000	264,000	
I.II	Strengthening and professionalization of Parque-Tec	56,000	56,000	0	56,000	
I.III	Basic training for entrepreneurs (management, finances, human development, applied technologies, etc.)	114,200	114,200	0	114,200	
I.IV	Coaching and business management for entrepreneurs (technological validation, marketing, quality, business management, technical support)	594,000	516,000	78,000	594,000	
I.V	Entrepreneur financing fund	50,000	20,000	30,000	50,000	
I.VI	Expansion and administrative and accounting support for entrepreneurs	191,800	0	191,800	191,800	
Total component I		1,270,000	920,200	349,800	1,270,000	32.1%
		100%	72.5%			
Component II. Acceleration and internationalization of ICT ventures						
II.I	Defining the ICT sector joint slogan	7,800	7,800	0	7,800	
II.II	Mapping key organizations for the ICT sector	28,200	28,200	0	28,200	
II.III	Domestic and international promotion plan for the sector	308,100	308,100	0	308,100	
II.IV	Market intelligence system (technological and commercial database) for the domestic ICT industry and market	79,000	79,000	0	79,000	
II.V	Consulting and training in marketing and internationalization	480,000	256,000	224,000	480,000	
II.VI	Entrepreneur networks	30,000	30,000	0	30,000	
II.VII	Participation in trade fairs, events, and missions	244,000	64,000	180,000	244,000	
Total component II		1,177,100	773,100	404,000	1,177,100	29.8%
		100%	65.7%			

	Total cost	MIF contribution	Local counterpart contribution	Total (US\$)	
Component III. Entrepreneurship forum and angel investor network					
III.I Entrepreneurship promotion and coordination actions	744,300	612,800	131,500	744,300	
III.II Setting up and supporting the angel investor network	295,200	120,000	175,200	295,200	
III.III Assimilating and disseminating angel investor network experience (contributed by INCAE)	49,500	0	49,500	49,500	
Total component III	1,089,000	732,800	356,200	1,089,000	27.6%
	100%	67.3%			
Component IV. Financing trust fund					
IV.I Seed Coinvestment Fund	2,500,000	1,000,000	1,500,000	2,500,000	
IV.III Intangible Contracts Discount Fund	1,000,000	400,000	600,000	1,000,000	
Total component IV	3,500,000	1,400,000	2,100,000	3,500,000	
	100%	40.0%			
Program Administration					
Total Administration	315,300	210,500	104,800	315,300	8.0%
	100%	66.8%			
Program subtotal	7,351,400	4,036,600	3,314,800	7,351,400	
Contingences	50,000	50,000	0	50,000	1.3%
Audits	50,000	50,000	0	50,000	1.3%
Total technical assistance	3,951,400	2,736,600	1,214,800	3,951,400	100%
	100%	69.3%			
Total investment	3,500,000	1,400,000	2,100,000	3,500,000	
	100%	40.0%	60.0%		
Total Dynamic Entrepreneurship Promotion Program	7,451,400	4,136,600	3,314,800	7,451,400	

**PROGRAM FOR THE PROMOTION OF DYNAMIC ENTREPRENEURSHIP (CR-M1003)
RELATED PROJECTS IN COSTA RICA AND THE DYNAMIC VENTURES PROMOTION CLUSTER**

A. Similar MIF projects:

None.

B. Similar or related Bank projects:

Project number and approval date	Project title, executing agency, and amount	Signature date and disbursement period in months	Amount disbursed	Remarks
PR-2938 7 June 2005	Pro-Competitiveness Productive Investment Program loan	13 July 2005 Disbursement period: 5 years Grace period: 5 years	0%	Is now before the Congress but has not yet been put to the vote.

C. Projects related to the same sector or beneficiaries:

Project number and approval date	Project title, executing agency, and amount	Signature date and disbursement period in months	Amount disbursed	Remarks
ATN/MH-6538-CR 2 June 1999	Software Sector Competitiveness Support program Promotora del Comercio Exterior de Costa Rica [Costa Rican Foreign Trade Association] MIF contribution: US\$1,500,000	9 July 1999 42 months (originally) 66 months (24-month extension)	100%	The project was completed satisfactorily. The assumptions held true, activities were well executed, and outcomes supporting compliance with project objectives were achieved.

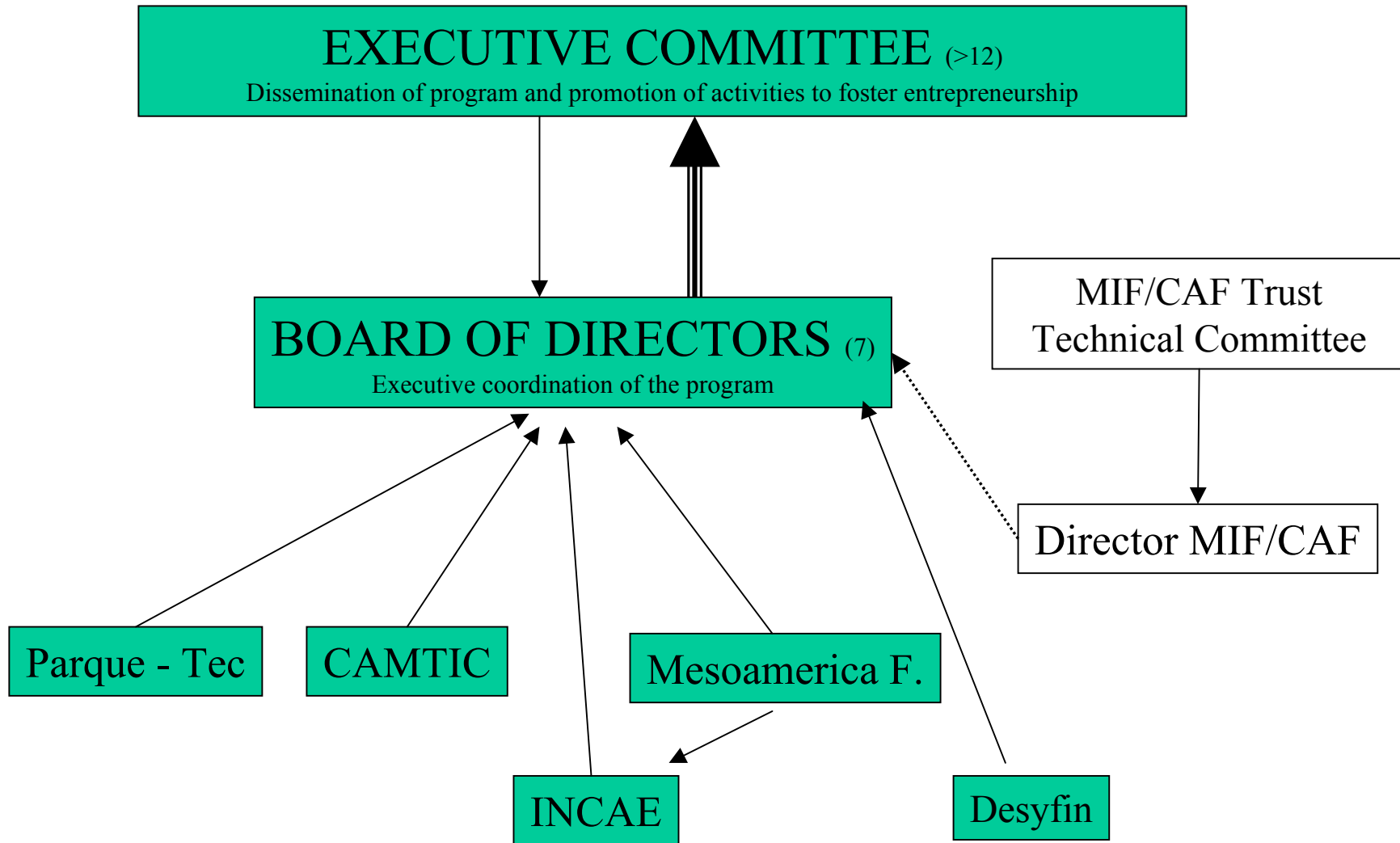
Project number and approval date	Project title, executing agency, and amount	Signature date and disbursement period in months	Amount disbursed	Remarks
ATN/ME-6751-CR 10 November 1999	Development of Suppliers for Multinational High-Tech Enterprises Centro Nacional de Alta Tecnología [National Center for High Technology] (CENAT) MIF contribution: US\$900,000	13 December 1999 42 months (originally) 66 months (24-month extension)	100%	The project was completed satisfactorily. Most of the assumptions held true and activities were properly carried out, providing the national entities and the Bank with many lessons learned.

D. Dynamic enterprise promotion cluster projects

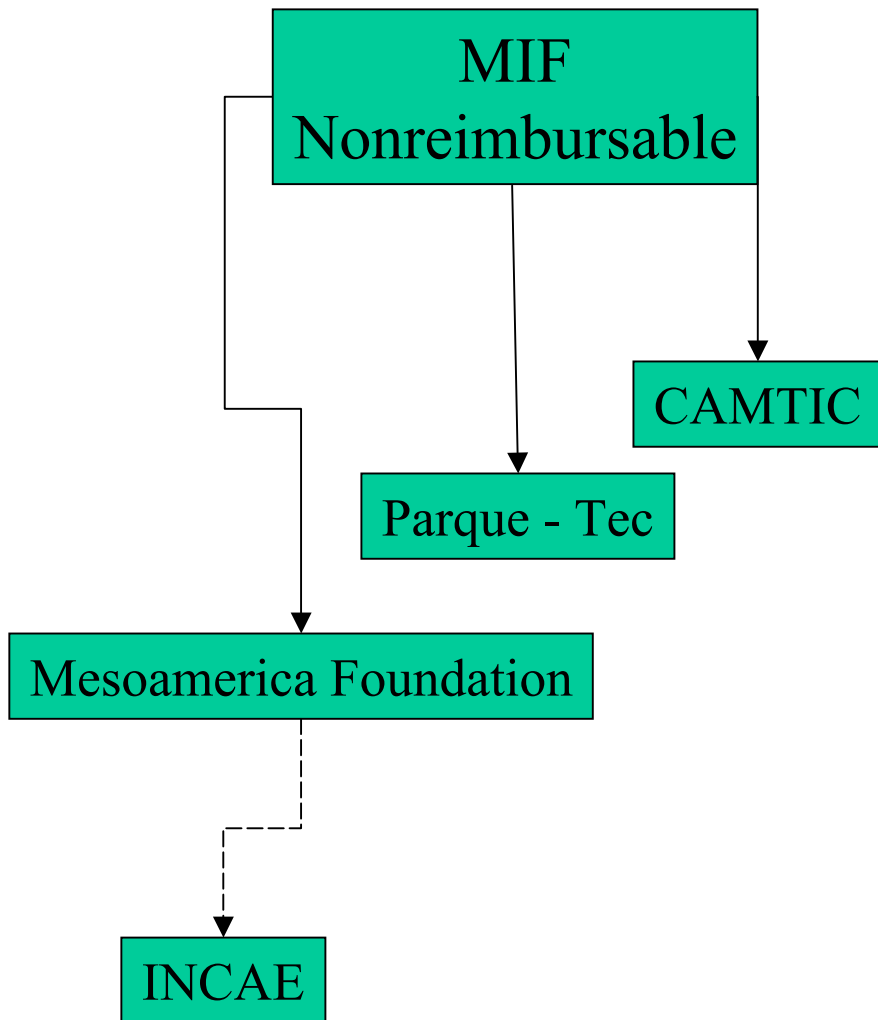
Project number and approval date	Project title, executing agency, and amount	Signature date and disbursement period in months	Amount disbursed	Remarks
ATN/ME-8973-CH 82/MS-CH 1 December 2004	Development of technology-based enterprises: seed capital facility Fundación Chile MIF contribution: US\$3,530,000			

Annex IV

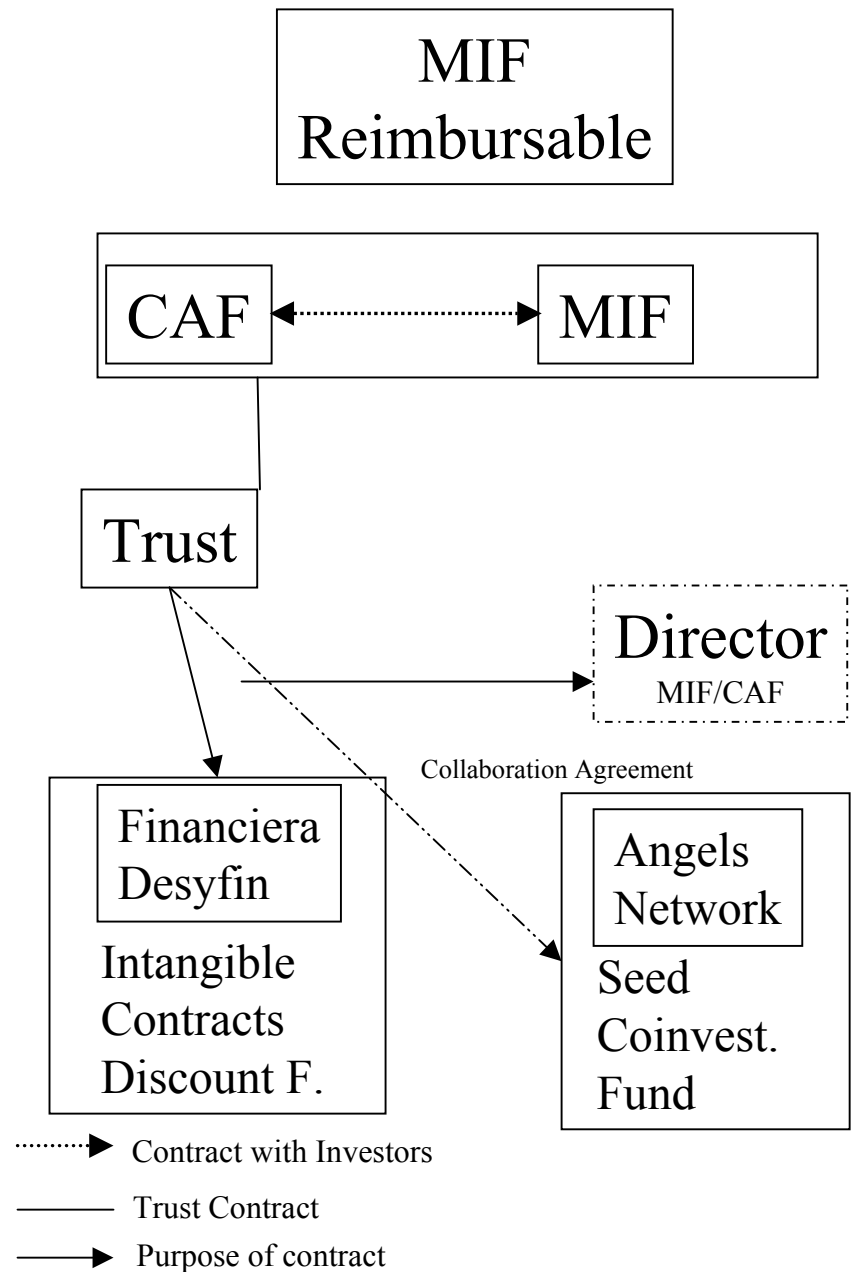
Governance – Program for the Promotion of Dynamic Entrepreneurship (CR-M1003)



Contractual Relationships



—————> Cooperation agreement
 - - - - -> Partnership agreement



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

RESOLUTION MIF/DE-___/05

Costa Rica. Nonreimbursable Technical Cooperation ATN/ME-____-CR to Parque-Tec,
Nonreimbursable Technical Cooperation ATN/ME-____-CR to Cámara de
Tecnologías de Información y Comunicación (CAMTIC), Nonreimbursable
Technical Cooperation ATN/ME-____-CR to Fundación Mesoamérica,
Equity Investment EQ/ME-____-CR and Nonreimbursable
Technical Cooperation ATN/ME-____-CR for a Program
for the Promotion of Dynamic Entrepreneurship
in Costa Rica

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 program referred to in the Donors Memorandum document MIF/AT-____, in order to:

- (a) provide technical cooperation to Parque-Tec for the execution of Component I - Incubation of New Business Ventures in Costa Rica;
- (b) provide technical cooperation to Cámara de Tecnologías de Información y Comunicación (CAMTIC) for the execution of Component II - Acceleration and Internationalization of Business Ventures in Costa Rica;
- (c) provide technical cooperation to Fundación Mesoamérica for the execution of Component III - Academy and Network of Investment “Angels” in Costa Rica;
- (d) carry out an equity investment and finance a technical assistance for the execution of Component IV - New Financing Mechanisms for the Entrepreneur in Costa Rica.

2. That up to US\$952,200 is authorized for the purposes indicated in paragraph 1(a), chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That up to US\$953,900 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.

4. That up to US\$860,500 is authorized for the purposes indicated in paragraph 1(c), chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

5. That up to US\$1,460,000 is authorized for the purposes indicated in paragraph 1(d); of this amount, up to US\$1,400,000 will be subject to reimbursement and will be chargeable to the Small Enterprise Fund of the Small Enterprise Development Facility of the Multilateral Investment Fund; and up to US\$60,000 will have a non-reimbursable character and will be chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

(Adopted on ____ 2005)