ADMINISTRATION AGREEMENT

between

THE INTER-AMERICAN DEVELOPMENT BANK

and

ARGIDIUS FOUNDATION

regarding

Project Specific Grant to the Inter-American Development Bank for Project No. GU-T1273 titled, "Acceleration of Disruptive Ventures with Seed Capital"

THIS ADMINISTRATION AGREEMENT is entered into between the Inter-American Development Bank (the "Bank") and Argidius Foundation (the "Donor") (hereinafter together referred to as the "Parties").

WHEREAS, the Bank is a public international organization, the purpose of which is to contribute to the acceleration of the process of economic and social development of its regional developing member countries in Latin America and the Caribbean, individually and collectively;

WHEREAS, the Multilateral Investment Fund II (the "MIF") was established by the Agreement Establishing the Multilateral Investment Fund II, dated April 9, 2005 with the purpose of supporting economic growth and poverty reduction in the regional developing member countries of the Bank and the developing member countries of the Caribbean Development Bank by encouraging increased private investment and advancing private sector development;

WHEREAS, the Bank is the administrator of the MIF, pursuant to the Agreement for the Administration of the Multilateral Investment Fund II, dated April 9, 2005;

WHEREAS, the Bank previously approved project No. RG-M1233/RG-X1172 titled "SGB Finance Challenge: Seed Capital that Works from Micro to Small" (the "Original Project"), a portion of which was financed by the Donor's project specific grant in the amount of EUR200,000.00 (two hundred thousand Euros) (the "Original Contribution") pursuant to an Administration Agreement entered into between the Parties as of May 8, 2013, as amended (the "Original Agreement");

WHEREAS, the Original Project has been completed and the Donor has instructed the Bank to use the Original Contribution remaining funds in the amount of US$107,165.84 (one hundred seven thousand one hundred sixty-five dollars of the United States of America and eighty-four cents) towards a similar, new Bank project;

WHEREAS, the Bank has approved Project No. GU-T1273 titled "Acceleration of Disruptive Ventures with Seed Capital" (the "Project"), as described in the attached project document and its accompanying memorandum (the "Project Document");

WHEREAS, the Donor has agreed to support the execution of the Project by providing a project specific grant to be administered by the Bank; and

WHEREAS, the Bank is prepared to administer the contribution funds to be made available by the Donor.

NOW, THEREFORE, the Parties hereby agree as follows:

1. The Donor will make available to the Bank a grant contribution in the amount of US$107,165.84 (one hundred seven thousand one hundred sixty-five dollars of the United States of America and eighty-four cents) (the "Contribution") to be administered by the Bank to co-finance the Project. For the avoidance of doubt, the Parties acknowledge that the

Contribution has previously been disbursed by the Donor to the Bank pursuant to the Original Agreement.

2. The Contribution will be solely for the purposes indicated in the Project Document. Any material deviations from the objectives and activities of the Project described in the Project Document will require the Donor's written approval.

3. Following the signature of this Administration Agreement by the Parties, the Bank will re-assign the Contribution from the Original Project to the Project and will hold and administer the Contribution in the same account (the "Account"). The Account is denominated in U.S. dollars and includes resources provided as grant funds by other donors for other Bank projects, including the Donor's Contribution set forth in Section 1 above. The Contribution will be administered in the Account without distinction from other donors' contributions.

4. The Bank will administer the Contribution in accordance with the provisions of this Administration Agreement and the Bank's applicable policies and procedures, including those applicable for third party resources administered by the Bank. The Bank will exercise the same care in the discharge of its functions, as described in this Administration Agreement, as it exercises with respect to the administration and management of resources from other donors, and will have no further liability to the Donor in respect thereof.

5. The Contribution will be accounted for separately from the Bank's assets and will be administered together with other contributions received by the Bank. The Bank may freely exchange the Contribution funds into other currencies as may facilitate their administration and disbursement. The Bank will not be responsible for foreign exchange risk in the receipt, conversion or administration of Contribution funds. Further, the Bank may at its discretion invest and reinvest the resources of the Contribution pending their disbursement in connection with the Project.

6. To assist in the defrayment of the administrative costs in relation to the Contribution, the Bank will charge and retain:

   (a) a non-refundable fee equal to five percent (5%) of the total Contribution amount at the time the Contribution is deposited by the Donor into the Account; and

   (b) any investment income generated by the Contribution pending its disbursement towards the Project.

   For the avoidance of doubt, the Parties acknowledge that the Bank has previously charged the non-refundable fee referred to in Section 6(a) above, pursuant to the Original Agreement. Furthermore, the Bank has retained and will continue to retain any investment income per Section 6(b) above.

7. The Bank's procurement policies and procedures will be applicable to the contracting of consulting services, as well as the procurement of non-consulting services, if applicable, carried out with the Contribution, as required by the different components of the Project. Further, the Donor accepts that:

(a) the resources of the Contribution will be completely untied; and

(b) the consultancy services financed with the Contribution may be provided and executed by consulting firms, specialized institutions or individuals from any Bank member country.

8. The Donor will not be responsible for the activities of any person or third-party engaged by the Bank as a result of this Administration Agreement, nor will the Donor be liable for any costs incurred by the Bank in terminating the engagement of any such person.

9. Promptly following the completion of the Project, the Bank will submit to the Donor a final Project report. The Donor may also request a non-audited financial expense report of the Contribution. In addition, the Donor may request an "agreed upon procedures" report issued by an external auditor selected by the Bank on the use of the Contribution resources. The cost of such auditor's report will be borne by the Donor and will not be deducted from the Contribution. The Donor will reimburse the Bank for the cost of this report promptly after receiving a written request from the Bank. The Bank will not provide audited financial statements for the Account.

10. The parties agree to obtain each other's prior written consent before using their respective names, logos or other symbols in any way or form in connection with this Administration Agreement or otherwise.

11. As soon as possible upon completion of the Project, the Bank will return to the Donor any remaining uncommitted Contribution funds, unless otherwise agreed to in writing by the Parties.

12. The Donor acknowledges that the Bank's commitment to use the Contribution as contemplated herein will be subject to the Bank's formalization of all internal approvals necessary for the Project and/or the Project Document.

13. The offices responsible for coordination of all matters and receiving any notice or request in writing in connection with this Administration Agreement or the Project are as follow:

(a) For the Bank:

i. All communications pertaining to donor relations and resource mobilization will be directed to:

Inter-American Development Bank
1300 New York Avenue, NW
Washington, D.C. 20577
UNITED STATES OF AMERICA
Attention: Bernardo Guillamon
Manager, Office of Outreach and Partnerships (ORP)
Tel.: +1 (202) 623-1583
Fax: +1 (202) 312-4072

E-mail: partnerships@iadb.org

ii. Day-to-day communications regarding the management of the Contribution and the implementation of this Administration Agreement will be directed to:

Inter-American Development Bank
1300 New York Avenue, NW
Washington, D.C. 20577
UNITED STATES OF AMERICA
Attention: Chief, Grants and Co-financing Management Unit
Office of Outreach and Partnerships (ORP/GCM)
Tel.: +1 (202) 623-2018
Fax: +1 (202) 623-3489
E-mail: orp-gcm@iadb.org

(b) For the Donor:

Argidius Foundation
Grafenauweg 10
6300 Zug
SWITZWERLAND
Attention: Nicholas Colloff, Director
Tel.: +41 41 729 69 23
Fax: +41 41 729 69 49
E-mail: n.colloff@argidius.com

14. This Administration Agreement will come into force on the date of its last signature by the Parties.

15. The Parties may amend any provision of this Administration Agreement in writing.

16. Subject to their respective policies and procedures with respect to the disclosure of information, the Parties may make this Administration Agreement publicly available.

17. Nothing in this Administration Agreement may be construed as creating an agency relationship between the Parties.

18. Nothing in this Administration Agreement may be construed as a waiver of the Bank's privileges and immunities, under international or any applicable law, including any privileges and immunities agreement.

19. The Parties will seek to settle amicably any disputes that may arise from or relate to this Administration Agreement.

IN WITNESS WHEREOF, the Inter-American Development Bank and Argidius Foundation, each acting through its duly authorized representative, have signed this Administration Agreement in the English language as of the dates indicated below.

INTER-AMERICAN DEVELOPMENT BANK	**ARGIDIUS FOUNDATION**
Bernardo Guillamon Manager Office of Outreach and Partnerships	Nicholas Colloff Director
Date: 24/09/18	Date: 14/09/18

GUATEMALA
ACCELERATION OF DISRUPTIVE VENTURES WITH SEED CAPITAL
(GU-T1273)

EXECUTIVE SUMMARY

Country and geographic location:	Guatemala		
Executing agency:	Asociación Alterna ("Alterna")		
Focus area:	Knowledge economy		
Coordination with other donors/Bank operations:	The project is coordinated with the activities of the IDB, which it supplements with a financial instrument for entrepreneurs who need resources to execute their business plans and is focused on social innovation via impact ventures. It is also consistent with the renewed vision of the Inter-American Investment Corporation (IIC), particularly its priority area of access to financing and technical assistance for small enterprises.		
Project beneficiaries:	Two hundred fifty entrepreneurs who will have received critical training, 100 of whom will have successfully completed the acceleration program; in the end, 20 emerging companies with high growth and social impact potential will receive seed capital financing.		
Financing:	Nonreimbursable technical-cooperation financing:	US$**748,400**	34%
	Contingent-recovery financing:[1]	US$**500,000**	23%
	TOTAL MIF CONTRIBUTION:	US$**1,248,400**	
	Counterpart:	US$**806,265**	37%
	Cofinancing:	US$**135,000**[2]	6%
	TOTAL BUDGET:	US$**2,189,665**	100%
Execution and disbursement period:	Nonreimbursable technical-cooperation financing: 36 months for execution and 42 months for disbursements. Contingent recovery instrument: to be disbursed within six months following signature of the instrument.		
Special contractual conditions:	Designating a project coordinator will be a condition precedent to the first disbursement of the nonreimbursable technical-cooperation financing and the contingent recovery instrument. In addition, the following will be conditions precedent to the sole disbursement under the contingent recovery instrument: (i) the establishment of a trust or the amendment of an existing trust, which will be the financial vehicle mentioned in this proposal; and (ii) the amendment of the agreement with Fundación Argidius (see paragraph 5.2).		

1 Subject to the parameters described in paragraphs 4.2, 4.3, and 4.4.

2 Figure rounded up to include expected contribution from Fundación Argidius.

Environmental and Social Impact Review:	This operation has been preclassified and classified in line with the requirements of the IDB Environment and Safeguards Compliance Policy (Operational Policy OP-703) on 21 March 2017. Given its limited impact and risk, this project is proposed as a category C operation.
Unit responsible for disbursements	MIF/CGU

I. THE PROBLEM

A. Description of the problem

1.1 Guatemala has one of the highest rates of need-driven entrepreneurship in Latin America, and there is little evidence of the development of opportunity-driven entrepreneurship with innovative components, whether in the business model and/or the planned products or services.[1] At the same time, the role of entrepreneurs seeking a social impact while ensuring their financial sustainability is increasingly seen as vital. To date, however, results in terms of the number and survival of impact ventures in Guatemala are limited. The major causes are:

(i) The entrepreneurial ecosystem is precarious and lacks connections, as shown by the structural disconnect between the generators of ideas and the entrepreneurs responsible for structuring and executing them around business models, as well as the misalignment of stimuli intended to fill gaps in entrepreneurial development, resulting in a failure to address the various stages of development and contexts;

(ii) The same ecosystemic weakness presents hinders the development of a culture of early stage "impact investment." As a result, there is no seed capital for disruptive ventures, particularly those with social elements. For these ventures to become formal small enterprises, much more investment is needed than what microfinance institutions can provide;

(iii) Entrepreneurs generally lack the collateral and credit history necessary to obtain traditional bank loans, and evaluating these applications carries a high fixed cost for banks;

(iv) Equity is not an attractive option for small business owners, as this requires them to dilute their ownership, while a lack of exit mechanisms discourages investors; and

(v) Currently, foreign investors do not consider investments below US$250,000 and financing between US$20,000 andUS$150,000 is virtually nonexistent.

1.2 These causes have created an entrepreneurial ecosystem incapable of providing coordinated, efficient, inclusive, and ongoing incentives, service, and support for entrepreneurs who seek a social impact in order to progress at each stage of development and build synergy between the various stakeholders. Notably, the lack of effective connections between intermediaries who provide technical assistance and those providing financing to small businesses in the very early stages—which are also quite limited—is considered the most critical bottleneck. This problem is even more severe for social enterprises that aim to provide basic products or services for the vulnerable population, which must be offered at affordable prices. Therefore, the majority of those enterprises have to identify a market of sufficient size by connecting with value chains delivering greater value added.

1.3 It is worth mentioning that in 2013, the MIF participated in the "*Small Growing Business Finance Challenge*" organized and sponsored by the Aspen Network of

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[1] GEM (Global Entrepreneurship Monitor) Global Report 2015-2016.

Development Entrepreneurs (ANDE) and Fundación Argidius, where it was selected as one of the winners and received €200,000 to implement a financial instrument to provide seed capital to entrepreneurs in Guatemala. The idea was to replicate the model that the MIF had successfully implemented in Uruguay (UR-M1019). The IDB approved the grant by Fundación Argidius as a Project Specific Grant (PSG) (RG-M1233) and managed it until the end of 2016. Banco G y T Continental de Guatemala was the executing agency for this project, and four companies in the early stages of development were the beneficiaries.

1.4 Many lessons were learned from this PSG project (RG-M1233) regarding seed capital financing for entrepreneurs in Guatemala, including: (i) the identification and gestation of ventures ready for financing is extremely difficult; (ii) a financial instrument needs to be tailored to the needs of recently created ventures, as their projected cash flow is highly uncertain; and (iii) less than 1% of the portfolio at commercial banks like Banco G y T qualifies as disruptive ventures with high potential for growth and major impact, even when the banks have extensive microfinance experience. It has also been recognized that entrepreneurs need to define how the seed capital will be used in their expansion plan, noting the importance of including this point in the support process from the very early stages of acceleration.

1.5 The proposed project is aligned with the MIF's new **Knowledge Economy** strategy, particularly when it comes to developing an ecosystem in a Guatemalan context. Efforts will be made to promote an impact investment culture, by creating an efficient mechanism to support ventures in need of seed capital. It is also worth noting that the project's design is inspired by the MIF's experience with several projects related to the Knowledge Economy ecosystem, including programs supporting organizations that promote social innovation.

II. PROPOSED INNOVATION

A. Project description

2.1 The objective of the proposed project (the "project") is to strengthen Guatemala's entrepreneurial and innovation ecosystem, with a focus on social impact, by generating and accelerating a dynamic and inclusive pipeline of new or recently created ventures, and stimulating the impact investment culture for small enterprises in early stages of growth.

2.2 **Solution and model.** The proposed model is known as an "**innovation circuit**," which, along with a new incubation and acceleration methodology (known as "cultivation"), includes the financial vehicle for seed capital.

2.3 A "circuit" is defined as a dynamic, multi-lane acceleration course, with various options for entry, targets, clear incentives, and continuous intersections for improvement. This concept was developed by the project's executing agency Alterna (see paragraph 5.1 for more details). This model provides a structured, efficient process for identifying, strengthening, channeling, and projecting various entrepreneur and impact venture profiles, with clear rules and advancement criteria. Specifically, this model stands out from other methodologies and incubation and acceleration models for the following reasons:

(i) **Inclusion.** Incubation and acceleration models in the region generally focus on urban business models with a high chance of short-term success, while excluding a large part of the business fabric in Guatemala's rural areas.

(ii) **Adaptation to entrepreneurs**. The "circuit" model aims to invest time in understanding the specific needs at each stage of development and for each entrepreneur profile. It also organizes the resources necessary for entrepreneurs to achieve their targets at each stage of the process.

(iii) **Continuity**. In traditional incubation and acceleration models, entrepreneurs move along a linear path, whereas a venture's trajectory, particularly in Guatemala's rural areas, is not linear. This new model seeks an iterative approach, which operates in cycles, depending on the needs of each entrepreneur.

(iv) **Adaptation to context**. The new model was built on the ground, by implementing business practices and principles in the field. This methodology has proven successful with over 500 Guatemalan entrepreneurs from a variety of sectors and territories.

2.4 **Innovation.** This project includes a comprehensive approach to developing a local ecosystem, which requires both an acceleration methodology that has been adapted to the context of Guatemala's rural reality—thereby ensuring improved business models—along with a small, long-term loan as seed capital for impact entrepreneurs. This includes a combined instrument for both fixed and variable repayment, with the latter based on the ventures' revenue to accommodate its needs during the early stages, when entrepreneurs have little collateral or credit history, and cash flow is not yet positive. This project also includes local actors, such as private impact investment groups, to take part in the social impact entrepreneurs' decision-making process.

Component I: Cultivation as a new model for incubation and acceleration (MIF: US$234,400; Counterpart: US$263,225).

2.5 This component's objective is to identify, select, and support entrepreneurs seeking social impact. The proposed model provides entrepreneurs with inclusive guidance to experiment and take action to attain specific, tangible results. This is achieved through activities including group and individual sessions, support from specialized mentors, and validation exercises. A best practices review will also be carried out for selection methodology, such as "peer selection",[2] in order to provide entrepreneurs from different levels, profiles, and geographical locations with collaborative access to the support and strengthening phases, while fostering mutual learning in a competitive environment.

2.6 Specific activities include: (i) organizing various introductory and innovation-specific sessions and workshops, such as design thinking and creative economy, run by innovation experts and always tailored to the capacities of the local entrepreneurs;

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[2] The adoption of innovative methodologies such as Village Capital will be analyzed and considered. Village Capital is an accelerator that is expanding globally. Peer selection is defined as an innovative method for selecting borrowers and investees, whereby the members of the acceleration group choose who will receive the loan.

(ii) developing entry level workshops in which entrepreneurs are able to enhance and validate their business models; (iii) developing intensive workshops to conduct an in-depth review of ventures' financial and business models; and (iv) training on relevant technical topics for businesses, such as intellectual property and technology. **Outcomes**: (i) 250 participating entrepreneurs and/or ventures will receive training in initial workshops, 100 of which will receive intensive training; and (ii) 30 ventures and/or enterprises will progress to the investment readiness stage.[3]

Component II: Seed capital financing (MIF: US$652,000; Counterpart: US$135,945)

2.7 This component aims to establish and fine-tune the methodology for selecting entrepreneurs to receive financing and form an inclusive and dynamic small business portfolio during their growth period. This will supplement the capitalization of the financial vehicle to provide seed capital financing to 20 early-stage ventures, which have been formally registered as corporations or sole proprietorships, and completed Component I, particularly the investment readiness stage.

2.8 This financial vehicle will use an appropriate instrument for financing social impact ventures in the early stages of development. Depending on details to be determined during implementation, the typical instrument granted under this financial vehicle will have the following features: (i) it is a loan of between US$5,000 and US$45,000, with an average of US$25,000; (ii) a fixed annual interest rate of 12%; (iii) a term of between 3 and 7 years, with an average of 5 years; (iv) a grace period of 2 to 12 months; (v) unsecured with no penalty for prepayment; (vi) the loan will be repaid based on the borrowing company's sales, or may combine the fixed and variable rates. This is an attempt to balance the diverse needs of early-stage businesses (which have a limited capacity to make fixed repayment installments when cash flow is not immediate) and the lender's transaction costs, using a standardized format.

2.9 Specific activities include: (i) the transfer of knowledge and best practices for the selection of ventures to receive financing, including methodologies such as peer selection;[4] (ii) adaptation and improvement of these selection methodologies; (iii) hiring a portfolio manager, who will be responsible for preparing the entrepreneurs to receive seed capital financing once they have completed investment readiness; (iv) the establishment of the financial vehicle for entrepreneurs and to manage the loan portfolio; and (v) technical assistance to the credit committees (and their members) for their establishment and management (see paragraph 5.6). The expected **outcomes** include: (i) 10 Alterna employees will be trained in product implementation and ongoing financial product development; (ii) 20 companies, which have completed the incubation and acceleration process,

[3] Promotion and identification of potential entrepreneurs will be an ongoing and wide-scale activity under Component III, as they must be encouraged to join the project. Given the features of the circuit model, entrepreneurs who do not qualify will have an opportunity to participate in the project again. Investment readiness includes not only full preparation of the business plan and business documents, but also the entrepreneurial attitude toward financing.

[4] This project considers that the executing agency will establish a credit committee and not only the adoption of this peer selection methodology, so long as the methodology can be gradually adjusted for screening.

will receive seed capital financing; and (iii) US$500,000 will be granted to selected ventures.[5]

Component III: Coordination of the entrepreneurial and innovation ecosystem (MIF: US$176,100; Counterpart; US$251,000)

2.10 The objective of this component is to strengthen the support network for social impact entrepreneurs, by boosting interaction and collaboration among the actors in Guatemala's ecosystem, thereby generating synergies and promoting learning. It is also expected that private investors will contribute to the impact investment industry maturation process by sharing their perspectives and advice with the entrepreneurs.

2.11 Specific activities include: (i) organizing local, regional, and international events, in coordination with the IDB and Government of Guatemala via the National Competitiveness Program (PRONACOM); (ii) hiring media and design experts, along with business development experts to raise stakeholders' awareness, particularly regarding the nature of investment they are seeking; and (iii) establishing a "matchmaking" platform between founders, mentors, and entrepreneurs, to build multidisciplinary teams. Expected **outcomes** include: (i) 30 contacts to be established between entrepreneurs and high-level mentors or cofounders; (ii) 15 active organizations in the ecosystem collaborating with the project; and (iii) 1,000 participants at entrepreneurial ecosystem coordination events.

B. Project results, measurement, monitoring, and evaluation

2.12 The main Results Matrix indicators are as follows (see Annex I): (i) 100 companies strengthened through the project will see sales grow at an average rate of over 20% per year (Corporate Results Framework: 330101); (ii) 50 companies will receive positive social impact evaluations;[6] and (iii) 50 companies strengthened by the project will receive third party financing.[7]

2.13 A new monitoring and evaluation system will be established, to collect and maintain relevant information (disaggregated by gender) on participating companies, including size variation, links to companies in their respective value chain, sales growth, forays into new export markets, business opportunities, and access to financing for innovation.

III. Alignment with the IDB Group, Scalability, and Project Risks

A. Alignment with the IDB Group

3.1 The country strategy (document GN-2689) includes a productivity pillar with high potential for generating a positive impact in the country. This pillar focuses on productive development—the incremental creation and consolidation of productive business—to be implemented with the support of the program under the IDB Violence Prevention Program (GU0163) of the Competitiveness, Technology, and Innovation Division (CTI); it is also consistent with the renewed vision of the Inter-

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[5] The resources of the financial vehicle will be used exclusively to grant loans, not for proposed technical cooperation activities.

[6] Several internationally recognized social impact measurement methodologies will be considered, for example, B Analytics and Global Impact Investment Rating System.

[7] This excludes the number of companies financed under Component II.

American Investment Corporation (IIC), particularly its priority area of access to financing and technical assistance for small enterprises. This pillar is also aligned with the National Entrepreneurship Policy, which was recently approved by the Ministry of the Economy (MINECO).

3.2 Through this project, the MIF will supplement CTI loan GU0163 by providing seed capital as a direct support for entrepreneurs in need of financial resources to execute the activities developed with support from the IDB and other programs. The entrepreneurs to be supported by this MIF project may come from that IDB program. However, it should be noted that not all business plans will be financed, but rather partnerships will be built so that the IDB program is one of the sources for the pipeline.

3.3 The project is aligned with the Social Entrepreneurship Program Regional Social Enterprise Loan Fund (RG-S1003 and RG-L1004), approved in 2016. Though the operation has a regional approach (Mexico, Central America, Colombia, and Ecuador), the Fund administrator, Pomona Impact,[8] and Alterna can build synergies and seek feedback in the lessons learned on acceleration and structuring instruments for disruptive social impact ventures.

B. Scalability

3.4 This program's design, particularly its various intersections, enables permeable learning and transfer of knowledge to the rest of the ecosystem, so scalability will develop organically. This transfer of capabilities may also take place through activities already led by Alterna in Central America, for example the Latin American Impact Investing Forum (FLII), or currently under way, for example with the IDB Entrepreneurship and Innovation Project/PRONACOM advisory council or the Innovation Technical Committee. These linkages may bring financing for prior and subsequent stages of the project's target ventures. Moreover, the Inter-American Investment Corporation (IIC) may consider subsequent financing for ventures that have consolidated their business plans with sufficient scale.

3.5 Other key factors for scaling include: (i) presenting iconic cases that have achieved advancement in enterprise development; (ii) disseminating knowledge to entrepreneurs, universities, and other training centers for innovation, promoting an entrepreneurial culture for younger generations; and (iii) attracting anchor firms to expand angel investor networks, currently in the initial gestation stage.

C. Project and institutional risk

3.6 There is a risk that entrepreneurs will confuse Alterna's role. This is mitigated by a clear separation of responsibilities. Alterna cannot prepare and then finance (or even charge) entrepreneurs, since that would create a conflict of interest. This could also undermine entrepreneurs' trust in Alterna. Therefore, Alterna's role should be that of intermediary between entrepreneurs and the financial vehicle, and the Credit Committee (see paragraph 5.6) should be clearly responsible for approving projects for financing.

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[8] A social venture impact investment management company, founded in 2011. The Pomona fund may finance the project's target beneficiary companies in their subsequent stage of growth.

3.7 Another risk is that some ventures may fail along the way and be unable to repay their loans. Therefore, the project will work with entrepreneurs from various sectors in different stages of business development in order to build a diverse pipeline, albeit with certain limits. Partial introduction of a mixed payment modality (fixed or variable depending on generation of revenue—where borrowing ventures pay a combination of fixed and variable interest to the financial vehicle) will also be considered so that "successful" companies can offset those that fall into default, while modest initial success is expected to stimulate more philanthropic capital from impact investors. According to a hypothetical financial calculation considering various scenarios, the internal rate of return varies between 2% and 4% (see Annex XII of the Technical File for more details).

3.8 Lastly, there is a risk that this project could remain an isolated effort and not enough entrepreneurs aspire to make an impact if there are not enough funds for a second round of investment. To mitigate this, an advisory council will be created, made up of ecosystem leaders (see paragraph 5.4), and including potential lenders throughout the duration of the project, especially on the Credit Committee, so that they are familiar with the pipeline from the early stages. Substantial outreach efforts will focus on exemplary cases, particularly with the local investment banking and commercial banking sectors.

IV. INSTRUMENT AND PROPOSED BUDGET

4.1 Total cost of the project is US$2,189,665, of which US$748,400 will be contributed by the MIF as nonreimbursable resources and US$500,000 as resources under the Contingent Recovery Instrument in order to capitalize the financial vehicle. The executing agency will contribute the counterpart, in the amount of US$806,265 as nonreimbursable resources, of which US$510,280 will be in cash. Fundación Argidius will contribute US$135,000 to the financial vehicle.[9] The following table summarizes the project budget, which is itemized in Annex II.

	MIF	Counterpart	Cofinancing	Total
Project Components				
Component 1: Cultivation	234,400	263,225		497,625
Component 2: Seed capital financing	152,000	945		152,945
Component 3: Ecosystem coordination	176,100	251,000		427,210
Project management	137,400	290,985		428,385
Midterm and final evaluations	20,000			20,000
Ex post reviews	7,500			7,500
Procurement strengthening	6,000			6,000
Contingencies	15,000			15,000
Total nonreimbursable technical-cooperation financing	**748,400**	**806,265**		**1,554,665**
% of Financing	**48.1%**	**51.9%**		**100%**

[9] Fundación Argidius has agreed to use the remaining resources from the previous PSG (RG-M1233), totaling US$81,294.52, for this project, and the existing trust will be used as the financial vehicle. The foundation has also agreed to contribute an additional €50,000.

Capitalization of Contingent Recovery Financial Vehicle (Component 2)	**500,000**		**135,000**[10]	**635,000**
Grand Total	**1,248,400**	**806,265**	**135,000**	**2,189,665**

4.2 The MIF and project executing agency Alterna, will sign a technical cooperation agreement stipulating the use of both the nonreimbursable technical-cooperation resources and the Contingent Recovery Instrument. The purpose of the MIF Contingent Recovery Instrument in the amount of US$500,000 is to capitalize the small lending facility in order to provide ventures supported by the project with seed capital (see Annex X for more details).

4.3 On the seventh anniversary of the Contingent Recovery Instrument's disbursement, if the asset value is positive, Alterna will have the obligation to reimburse the MIF for the lesser of the following amounts: (i) US$500,000 or (ii) the amount calculated by the financial vehicle asset valuation.

4.4 Alterna will make its reimbursement within a maximum of 3 years, which begins on the seventh anniversary of the Instrument's disbursement and ends on the tenth anniversary. The reimbursement will be divided into annual payments of equal amount.[11]

V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Executing agency description

5.1 Asociación Alterna is an inclusive entrepreneurship and social innovation center, established in Guatemala as a nonprofit organization. Since its founding in 2010, Alterna has created a pair of clean technology companies to serve rural populations, while innovating growth processes in the field of technology. In 2013 Alterna launched its entrepreneurship cultivation program, with an emphasis on social impact; through this, it has identified, supported, and strengthened over 500 entrepreneurs from a variety of profiles, helping them innovate, bring products to market, and obtain investment. Alterna also participates on the PRONACOM Advisory Council supported by the IDB (see paragraph 3.1), and is a FLII organizer for Central America, for which it has received recognition and collaboration from national and international partners. Alterna has won recognition as an Ashoka Fellow (2016), received the Stephan Schmidheiny Innovation Award (2014), and is part of the ANDE Steering Committee for Mexico and Central America.

5.2 Fundación Argidius and Banco G y T Continental are key partners and have agreed to use existing assets in the amount of approximately US$135,000 with a portfolio

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[10] This figure has been rounded up to reflect contributions committed to by Fundación Argidius. Additionally, repayment cash flow from the loan portfolio is expected in the amount of US$74,374.17.

[11] A discount of up to 20% will be considered for the reimbursement if Alterna chooses to reimburse the full amount in one lump sum.

for four ventures.[12] Additionally, Banco G y T may share lessons learned from past experiences and grant financing in subsequent stages to those companies that continue to grow following consolidation.

B. Structure and implementation mechanism

5.3 Alterna will establish an execution unit and the structure required to carry out the project's activities. The unit will operate with a technical team from its central office in Quetzaltenango, to include business development, communications, platform, and administration specialists, in coordination with its office in Guatemala City. Details on the execution unit structure can be found in Annex VI.

5.4 In order to maximize synergies among the national ecosystem actors, including the IDB itself through its loan GU0168, a project advisory council will be established with other public and private strategic partners, to include representatives from the IDB/MIF, MINECO, PRONACOM, the National Council for Science and Technology (CONCyT), and the National Secretariat for Science and Technology (SENACyT), along with other incubators, accelerators, and innovation centers as well as family offices and impact investors with whom Alterna has committed to strengthening its relationships. It should be noted that the advisory council does not play a decision-making role. It will meet three times per year in order to share information, good practices, and generate a broader and more inclusive pipeline of ventures requiring investment and nonfinancial services, depending on their stage of business development (see council regulations in Annex XIII).

5.5 Alterna will appoint a project coordinator, with administrative and financial/accounting support, who will report to the Alterna business development manager and be responsible for planning, organizing, and supervising all necessary activities. This manager will be responsible to the MIF for ensuring that objectives are fulfilled, and will periodically present Project Status Reports along with updated work, financial, and procurement plans.

5.6 A **Credit Committee** will be created to grant loans to companies under Component II. The Credit Committee will include: three experts selected by Alterna and approved by the MIF.[13] Alterna will serve as a nonvoting member of the Credit Committee and participate by proposing projects. The MIF may participate as a nonvoting observer.

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

6.1 **Results-based disbursements and fiduciary arrangements.** As executing agency, Alterna will agree to the MIF's standard arrangements regarding results-based disbursements, the Bank's procurement policies,[14] and financial

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[12] With the approval of the MIF manager, Fundación Argidius and the IDB will sign an amendment to the PSG agreement (or a new agreement, as applicable). The IDB, in its capacity as administrator of the PSG for Fundación Argidius, Banco G y T, and Alterna, will establish a trust (or amend an existing trust), which will be the financial vehicle mentioned in this proposal, one objective of which will be to specify the disbursement procedure for seed capital loans.

[13] Banco G y T will act as trustee of the trust, fulfilling administrative duties, and will not serve on the Credit Committee even though its affiliate Profesionales de Microfinanzas will be a trustor.

[14] Link to the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9).

management[15] laid out in Annexes IV and V. Alterna is a private entity, legally established with its own procurement procedures, which are compatible with those of the private sector. Therefore Appendix 4 of the Policies for the selection and contracting of consultants financed by the IDB is applicable.

6.2 **Mode and frequency of ex post supervision.** Annual reviews of disbursements and procurement where audited financial statements will not be required will include: (i) revenue received by the MIF, both from the counterpart and the project partners' sources; (ii) all expenditures made with funds from the MIF and counterpart contributions, via the cash flow statement; and (iii) an expenditure or cumulative investment statement indicating the amount spent and available balance per project component.

VII. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

7.1 Access to information. Certain information related to participating companies' business may be considered confidential under the Bank's Access to Information Policy. Knowledge products created with the aim of disseminating information on the project will include the express authorization of the enterprise's representative if any company-specific information will be disclosed.

[15] Link to the Financial Management Guidelines for IDB-financed Projects.

RESULTS MATRIX

Project objective	To strengthen the entrepreneurial and innovation ecosystem, with a focus on social impact, by sustainably generating and accelerating a dynamic and inclusive pipeline of new or recently created ventures, and stimulating the impact investment culture for small enterprises in early stages of growth.					
Outcome indicators	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Target**	**Notes**
Number of enterprises strengthened by the project with an average growth rate above 20% (CRF 330101)					*100*	
Number of enterprises with positive social impact evaluations					*50*	Evaluated using tools[1] such as GIIRS
Number of enterprises strengthened by the project receiving third party financing					*50*	
Component 1: Cultivation as a new model for incubation and acceleration	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Target**	**Notes**
Number of enterprises and ventures participating in entry workshops		*40*	*160*	*250*	*250*	
Number of enterprises and ventures participating in intensive workshops		*20*	*80*	*100*	*100*	
Number of enterprises and ventures completing the investment readiness stage		*2*	*15*	*30*	*30*	

[1] Although this will be determined more specifically during the execution period, there are plans to measure the number of products and/or services developed for and achieved by the vulnerable population, always considering the cost per product/service developed and delivered.

Component 2: Seed capital financing	Baseline	Year 1	Year 2	Year 3	Target	Notes
Number of Alterna employees trained in product implementation and continuous financial product development (CRF 110100)		10	10	10	10	
Number of enterprises having completed the incubation and acceleration process receiving seed capital financing (CRF 230400)		2	5	20	20	
Total value of financial support granted by the trust, in dollars (CRF 230700)		$20,000	$100,000	$500,000	$500,000	
Component 3: Coordination of the entrepreneurial and innovation ecosystem	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Target**	**Notes**
Number of contacts established between entrepreneurs and high-level mentors		5	15	30	30	
Number of active organizations within the entrepreneurial ecosystem collaborating with the project (references, etc.)		3	8	15	15	
Number of entrepreneurial ecosystem coordination event participants		200	500	1,000	1,000	

SUMMARY BUDGET

Acceleration of Disruptive Ventures with Seed Capital (GU-T1273)

Description	MIF	Alterna			Others	Total	%
		Cash	In kind	Total			
Component 1: Cultivation	**234,400**	263,225	0	**263,225**		**497,625**	22.7
Initial training	58,500	115,700	0	115,700		174,200	
Advanced training	100,800	107,525	0	107,525		208,325	
Investment readiness	75,100	40,000	0	40,000		115,100	
Component 2: Seed capital	**152,000**	945	0	**945**		**152,945**	7.0
Knowledge transfer	40,000	0	0	0		40,000	
Trust amendment	10,000	0	0	0		10,000	
Investment and portfolio management committee	102,000	945		945		102,945	
Component 3: Ecosystem	**176,100**	251,110	0	**251,000**		**427,210**	19.5
Events and communication strategy organization	0	134,585	0	134,585		134,585	
Matchmaking	0	38,800	0	38,800		38,800	
Business develoment	0	36,505	0	36,505		36,505	
Media visibility	126,000	41,220	0	41,220		167,220	
Entrepreneur monitoring	50,100	0	0	0		50,100	
Management	**137,400**	0	290,985	**290,985**		**428,385**	19.6
Project coordination	137,400	0	109,050	109,050		246,450	
Operating expenses	0	0	181,935	181,935		181,935	
Other	**48,500**	0	0	**0**		**48,500**	2.2
Audit	7,500	0	0	0		75,00	
Evaluations	20,000	0	0	0		20,000	
Procurement strengthening	6,000	0	0	0		6,000	
Contingencies	15,000	0	0	0		15,000	
Total	**748,400**	515,280	290,985	**806,265**		**1,554,665**	
	48.1%			51.9%			
Capitalization of the financial vehicle (component 2)	**500,000**				**135,000**	**635,000**	29.0
New capitalization	500,000				54,000		
Existing capitalization					81,000		
Grand Total	**1,248,400**			**806,265**	**135,000**	**2,189,665**	
	57.0%			36.8%	6.2%		

Inter-American Development Bank

Multilateral Investment Fund
Member of the IDB Group

MEMORANDUM

TO: Irene Arias Hofman, Manager
Multilateral Investment Fund, MIF

VIA: Susana Garcia-Robles, Unit Chief, Loan and Equity Operations
Multilateral Investment Fund, MIF

FROM: Nobuyuki Otsuka, Lead Specialist
Multilateral Investment Fund, MIF

DATE: June 18, 2018

SUBJECT: Request for the approval of the Administration Agreement with Argidius Foundation (GU-T1273)

We make reference to the project "Acceleration of Disruptive Ventures with Seed Capital" (GU-T1273) approved by the Donors Committee on May 17th, 2017 (the "Project"). The project's Donors' Memo indicated that the balance of the funds extended by Argidius Foundation under a PSG[1] would be used for the Project.

The purpose of this memo is to clarify that Argidius' resources for the Project[2] have been provided to and will be administered by the Bank through Project Specific Grant (PSG). A PSG is administered by the Bank according to the "Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGS)" (Document SC-114). As contemplated in that document, the commitments from funders will be established through administrative agreements. The 5% administrative fee will not be charged by the Bank

1 "SGB Finance Challenge: Seed Capital that Works from Micro to Small" (RG-M1233/RG-X1172).

2 When financing from the private sector (corporations, philanthropic foundations, NGOs) is proposed, the Project Team shall comply with the "Guidelines for Strategic Partnerships with the Private Sector and IDB Operational Procedures" (Document CC-6007-1, as may be amended from time to time).

since it has already been paid under project "SGB Finance Challenge: Seed Capital that Works from Micro to Small" (RG-M1233/RG-X1172).

The amount to be transferred from the referenced PSG (RG-M1233/RG-X1172) to the MIF project in Guatemala (GU-T1273) is US$107,165.84.

Vo. Bo. ______________________________ ________________

Irene Arias Hofman, Manager, MIF Date

cc: Maria Elena Nawar, GRU/MIF
Miguel Aldaz, ORP/REM
Andres Rubio, LEU/CGU
Juan Pedeflous, GCL/GCL