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MULTILATERAL INVESTMENT FUND

COLOMBIA

**DIGITAL FINANCE ECOSYSTEM FOR
SMALL AND MEDIUM-SIZED ENTERPRISES**

(CO-T1461)

DONORS MEMORANDUM

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PROJECT SUMMARY

COLOMBIA

DIGITAL FINANCE ECOSYSTEM FOR

SMALL AND MEDIUM-SIZED ENTERPRISES

(CO-T1461)

Small and medium-sized enterprises (SMEs) play a crucial role in the growth of economies, as well as in the formalization and creation of jobs. They are key players in productive transformation, innovating and contributing to sustainable development. However, limited access to finance has been an ongoing problem that has worsened recently due to the introduction of reforms in financial regulation making it more burdensome to lend to entities seen as higher-risk. In line with the above, it is worrisome to note that, although capital markets function to channel excess liquidity into productive investment, serving as a source of financing for the country's entrepreneurs, none of the 55,000 SMEs in Colombia has accessed this financing channel. The reasons why such firms fail to utilize this financing mechanism include the procedures and complexity of the process, and the associated time frames and costs, the regular disclosure of relevant information, and others.

Recently, the global adoption of technological innovations to offer financial and other related services has been gaining ground. This trend has made it possible to generate and access more information on participants, scale down operating costs, and accelerate financial deepening. Thus, one of the most disruptive and highest-impact areas in the financial sector has been a financing model known as crowdfunding. This proposal involves the development and administration of a platform by the Colombian Securities Exchange (BVC) or the entity established to do so, which will match SMEs with investors through the issuance of securities (straight bonds and commercial paper) and leveraging technological innovations to lower operating costs and simplify access to finance for such participants. This solution proposes not only to provide flexible access to finance for SMEs but also to develop the emerging ingredients of a digital finance ecosystem based on the essential elements of the current public securities market—such as regulations governing order handling, transparency, and reliability.

The platform is expected to achieve financial sustainability by charging origination and administration fees to be discounted/charged to issuers at the time of issuance, and periodically over the life of the securities, respectively.

The project outcomes will include 340 SMEs that are able to obtain financing through the issuance of securities on the platform, and US\$65 million in funding raised through the platform over a period of five years.

ANNEXES

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ABBREVIATIONS

BVC	Bolsa de Valores de Colombia, S.A. [Colombian Securities Exchange]
DECEVAL	Depósito Centralizado de Valores, S.A. [Centralized Securities Depository]
iNNpulsa	iNNpulsa Colombia
IFD/CTI	Competitiveness, Technology, and Innovation Division
SMEs	Small and medium-sized enterprises

EXECUTIVE SUMMARY
COLOMBIA
DIGITAL FINANCE ECOSYSTEM FOR
SMALL AND MEDIUM-SIZED ENTERPRISES
(CO-T1461)

Country and geographic location:	Colombia (Bogotá, Medellín, Cali, Barranquilla, and Bucaramanga)		
Executing agency:	Bolsa de Valores de Colombia, S.A. [Colombian Securities Exchange]		
Focus area:	Knowledge Economy		
Coordination with other donors/IDB Group operations:	The project is aligned with the IDB Group strategy, as it offers a financing alternative tailored to the needs of SMEs, coordinating with the activities of the Connectivity, Markets and Finance Division (IFD/CMF) through its technical study and policy-based loan. It is also consistent with the Renewed Vision of IDB Invest, particularly its priority area of access to finance for small businesses.		
Project beneficiaries:	340 Colombian SMEs financed through the issuance of securities, and 1,600 investors leveraging their resources for a new productive investment alternative over a period of five years.		
Financing:	Nonreimbursable technical cooperation:	US\$ 100,000	3%
	Contingent recovery: ³	US\$ 900,000	26%
	TOTAL MIF CONTRIBUTION:	US\$ 1,000,000	
	Counterpart:	US\$ 2,460,000	71%
	Cofinancing:		0%
	TOTAL BUDGET:	US\$ 3,460,000	100%
Execution and disbursement period:	Nonreimbursable technical cooperation: 36 months for execution and 42 months for disbursements. The contingent recovery instrument has a reimbursement period of up to 75 months, running from the signature date of the respective instrument.		
Special contractual conditions:	Appointment of the project coordinator will be a condition precedent to the first disbursement of the nonreimbursable technical cooperation funding and the contingent recovery instrument.		
Environmental and social impact review:	This operation was prescreened and classified according to the requirements of the IDB Environment and Safeguards Compliance Policy (Operational Policy OP-703) on 31 October 2017. Given the limited impacts and risks, the proposed classification for the project is category "C."		
Unit with disbursement responsibility:	MIF staff at the Bank's Country Office in Colombia (MIF/CCO)		

³ Subject to the parameters described in paragraphs 4.2, 4.3, and 4.4

I. THE PROBLEM

A. Description of the problem

- 1.1 Small and medium-sized enterprises (SMEs) play a crucial role in growth and economic development, as well as in the formalization and creation of jobs. They are key players in productive transformation, innovating and contributing to sustainable development and other areas through investment in new technologies. In Latin America and the Caribbean, SMEs account for 67% of the labor force. However, SMEs are six times less productive than large companies and contribute much less to total GDP compared to their peers in developed markets.¹
- 1.2 According to IDB Invest² and the International Finance Corporation (IFC),³ the potential productivity and growth of SMEs in Latin America and the Caribbean is hampered in part by their limited options for suitable financing. There is an estimated deficit of between US\$210 billion and US\$250 billion in financing for SMEs. In effect, the inefficiency of the traditional financial ecosystems—banking and the capital market—financing for SMEs is not a problem exclusive to the region.⁴ It is a global reality, evidenced by the fact that 45% to 55% of SMEs have no access to finance, and less than 10% claim to be well served financially.
- 1.3 Nonetheless, in the OECD member countries, SMEs receive 25% of total lending, whereas in Latin America they receive only 12%. Financial institutions consider it difficult to meet the needs of SMEs; the volumes of individual loans are considered too small, and the transaction costs too high, to create sufficient value. In addition, SMEs represent a heterogeneous group of businesses in terms of industry, size, and business model, making it difficult to understand their needs and potential growth on the whole. In addition, these problems have worsened in recent years due to the introduction of reforms in financial regulation making it more burdensome to lend to entities seen as higher-risk.⁵
- 1.4 In Colombia, according to the 2016 Large-scale Survey of SMEs, only 45% of SMEs have sought loans from the financial system, and only 30% obtain loans with tenors longer than five years. SME's own funds and vendors are still the largest source of financing for the country's SMEs.
- 1.5 In relation to the option of financing through the issuance of securities, it is worrisome to note that, although capital markets function to channel excess liquidity into productive investment, no SME in Colombia has accessed this financing channel. The reasons why such firms fail to utilize this financing mechanism include: (i) limited culture of seeking financing directly from investors; (ii) procedures and complexity of the process, and the associated time frames and costs; and (iii) the firms' obligation to regularly disclose relevant information not only on their financial performance but on their formal structure and corporate governance as well.

¹ Harnessing the FinTech Revolution: How digital innovations are revitalizing MSME finance in Latin America and the Caribbean. IIC, Oliver Wyman, 2016.

² Ibid.

³ Closing the credit gap for formal and informal MSMEs, IFC, 2013.

⁴ "The future of FinTech: A paradigm shift in small business finance," World Economic Forum.

⁵ International Organization of Securities Commissions (IOSCO), SME Financing through capital markets, 2015

II. THE PROPOSED INNOVATION

A. Project description

- 2.1 The objective of the proposed project is to develop a digital finance ecosystem that facilitates access to finance for small and medium-sized enterprises (SMEs) in Colombia and stimulates the SME investment culture.
- 2.2 Globally, the adoption of technological innovations to offer financial and other related services is gaining more and more ground. This trend has made it possible to generate and access more information on participants, scale down operating costs, and accelerate financial deepening. Thus, one of the most disruptive and highest-impact areas in the financial sector has been a financing model known as crowdfunding.⁶
- 2.3 Crowdfunding is a mechanism for financing projects or ventures, through which monetary contributions are collected from a large number of individuals. There are various crowdfunding modalities: equity crowdfunding and peer-to-peer (P2P) lending, which are gaining importance, and securities crowdfunding (corporate bonds and commercial paper). While securities crowdfunding is less known, it is worth mentioning that developed economies like Italy, Spain, the United Kingdom, and Germany have recently moved toward a solution through the design of specific products to give SMEs access to the capital market.⁷
- 2.4 **Solution and model.** The crowdfunding models described above primarily involve three participants: (i) the originator, which proposes a project idea or project to be funded; (ii) individuals or groups, which back the idea by investing in it; and (iii) a mediator that performs the matchmaking between the parties. Considering the problems of financing for SMEs, the Colombian Securities Exchange (BVC) has set itself the task of developing an alternative solution for financing these firms, which combines the technological innovation of **securities crowdfunding**: access to a new financing alternative for SMEs, investor interest in this type of risk, strategic partnerships with entities allowing access to information on firms and investors, and the involvement of governmental agencies in developing specific regulations. All this is supported by the experience and ability of the BVC to administer trading systems and manage financial and institutional risks in the market.
- 2.5 The proposal is to design and implement a **platform** as a meeting point for SMEs and investors, to be administered by the BVC or the entity established to do so.⁸ This platform will be implemented by leveraging innovative technologies that lower operating costs and simplify access for participants to financing and investment alternatives. This solution proposes not only to provide flexible access to finance for SMEs but also to develop the characteristic conditions of a digital finance ecosystem in combination with the essential components of the current public securities market, such as regulation, transparency, and reliability. Going forward, this new digital

⁶ Alternativas de regulación del crowdfunding [Crowdfunding regulation alternatives]. Unidad de Proyección Normativa y Estudios de Regulación Financiera [Regulatory Projection and Financial Regulation Studies Unit] (URF). Ministry of Finance and Public Credit, 2016.

⁷ Examples include: SME Bonds (Stuttgart, Germany), Order Book for Retail Bond (LSE, England), and MARF (BME).

⁸ The BVC is weighing whether to set up an independent entity, such as a corporation, with the BVC itself as majority shareholder. The BVC board will determine whether to do so, once the MIF project is approved. If so, that corporation and the BVC will be jointly and severally liable for meeting all obligations to the MIF.

finance ecosystem is expected serve as a mechanism for all SMEs to access finance in the country and the Latin American region. This platform will provide access to a new source of finance that supplements, rather than replaces, the existing lines of credit for SMEs, which are limited or very costly to access as a result of the associated risk.

- 2.6 **Innovation.** An important aspect of the project is that, in anticipation of a disruption foreseen in the financial industry with the development of such new technologies as blockchain, the BVC with its vast experience and lengthy track record in the market wants to become an active part of the change. This is the primary motivation for developing the technology platform that is the subject of this proposal. Thus, the platform itself represents an opportunity for: (i) innovating in an underserved “missing middle” space between low risk/low return (banking system) and high risk/high return (venture capital); and (ii) expanding the portfolio investment and diversification options of those investors who hope to obtain a return consistent with greater uncertainty in terms of the recovery of their investment,
- 2.7 The project will also produce a sustainable plan for the platform by charging origination and administration fees, to be discounted/charged to the issuers at the time of issue and periodically over the life of the securities, respectively. Although this project is new in terms of the model proposed, some past MIF projects have sought to promote SME activity in the capital market,⁹ and their lessons learned have been incorporated into the proposed project.

Component I: Design and development of the product and platform (MIF: US\$420,000; Counterpart: US\$200,000).

- 2.8 The objective of this component is to develop the technology platform using the securities crowdfunding model to channel payments and information sent by issuers to their investors and the general public. The technological model of the platform and its respective functionalities will be developed. Rules will be set prior to launching the digital finance ecosystem, applicable to the platform, the ecosystem participants, and the transactions performed through the ecosystem.
- 2.9 Under this component, registration requirements and access policies will be defined for both SMEs and investors, including mechanisms to counter money laundering and terrorism financing, as well as benchmark scoring and risk rating. Ecosystem’s operators will participate in the development process, namely the Financial Superintendency of Colombia, the risk rating agencies, the Fondo Nacional de Garantías [National Guarantee Fund] (FNG), the Depósito Centralizado de Valores, S.A. [Centralized Securities Depository] (DECEVAL), and others.
- 2.10 Specific activities include: (i) the development of a risk analysis system necessary for the securities crowdfunding platform that includes the definition of requirements and policies to counter money laundering and terrorism financing; (ii) the development of software and adjustments with support related to the technology platform; and (iii) testing and technical and pre-production follow-up to get the

⁹ These include: Positioning of New Companies in the Capital Market (operation CO-M1017), successfully executed by the Colombian Securities Exchange (BVC), which in addition to demonstrating management capacity provided a meeting place for discussion and coordination among the different stewards of capital market development, and Support for Alternative Equity Markets (operation CR-M1015), which emphasizes the importance of incorporating financial sustainability in the new intervention mechanism.

platform up and running. The expected **outcomes** include: (i) a new product defined, the technology platform; and (ii) the platform operationally tested and launched.

Component II: SME and investor engagement with the platform (MIF: US\$380,000; Counterpart: US\$202,000)

- 2.11 The objective of this component is to train, educate, and engage the target SMEs and investors¹⁰ with the platform. This will be done by implementing the commercial marketing strategy and providing firms and investors with support for platform operation. There will be a senior management team responsible for building, maintaining, and developing the relationship with a group of partners essential to enlisting the initial SMEs. The main distribution channel for this is the country's major unions and business associations such as the chambers of commerce of Bogotá, Medellín, and Cali, the Confederación Colombiana de Cámaras de Comercio [Colombian Federation of Chambers of Commerce] (Confecámaras), Banco de Comercio Exterior de Colombia, S.A. (Bancóldex), iNNpulsa, and others.¹¹
- 2.12 Active efforts will also be made to enlist anchor investors, to ensure the necessary demand for the first issues handled through the platform, seeking partnerships with government agencies and private entities.
- 2.13 Specific activities include: (i) development and implementation of SME awareness and training events; and (ii) development and implementation of investor awareness and training events. The expected **outcomes** include: (i) 680 SMEs educated and trained; (ii) 340 SMEs registered with the platform; (iii) 4,000 investors educated and trained; and (iv) 1,600 investors engaged with the platform (30% institutional investors and 70% individual investors).¹²

Component III: Implementation of a pilot plan for the platform (MIF: US\$100,000; Counterpart: US\$1,017,000)

- 2.14 Once development of the platform is complete, after operational testing and final adjustments, the platform will be put into production on an incremental, pilot basis. The pilot plan to be implemented will span a period of 24 months, running from the platform launch date, and is intended to refine the model, ensuring that there will be no technical problems and that there will be sufficient incentives for the SMEs participating in the platform. The objective of this component is to ensure that a significant number of issues are placed by the end of the 24 months and that considerable resources are mobilized through the platform, so as to stimulate sufficient interest among both SMEs and investors. Upon completion of the pilot plan, a determination will be made as to the need for financing to mobilize sufficient resources to operate the platform in the long run and ensure its financial sustainability.

¹⁰ The issuing SMEs to be targeted by the platform are formally incorporated and registered firms with annual sales between US\$1 million and US\$15 million. According to BVC estimates, the concentration of firms will be distributed as follows: (i) 50% to SMEs with sales between US\$1 million and US\$5 million; (ii) 35% to SMEs with annual sales between US\$5 million and US\$10 million; and (iii) 15% to SMEs with annual sales between US\$10 million and US\$15 million. Unaccredited individual investors may participate if they report income of up to 10% of their total net worth; if they do not report income, they may invest up to US\$6,667.

¹¹ The Colombian Securities Exchange plans to collaborate with the chambers of commerce of Bogotá (2017), Medellín, and Cali (2018), and Barranquilla and Bucaramanga (2019).

¹² According to estimates. This estimate may vary depending on the applicable regulations, once they are issued.

- 2.15 In the assumed business model, the SMEs to be financed must bear the following costs: (i) compensation to investors, (ii) origination fee at the time of issuance; (iii) administration fee during the term of the issue; and (iv) fee to guarantee the issue if the SME defaults, to a fund specialized in providing coverage.
- 2.16 Specific activities include: (i) development of the technological environment for production; (ii) marketing through the development and implementation of product strategies, commercial management and communication, and promotion, as well as client services; and (iii) costs inherent to the process, such as securities registration and custody, benchmark scoring and risk rating, license to operate, and other inputs. The expected **outcomes** include: (i) US\$9 million mobilized through the platform; and (ii) 50 SMEs that obtain financing through the issuance of securities on the platform. Both of these outcomes are to be achieved over a period of 24 months.

B. Project results, measurement, monitoring, and evaluation

- 2.17 The main Results Matrix indicators are as follows (See Annex I): (i) average annual growth of SME assets of 10% in real terms; (ii) average annual growth of SME sales of 20% (CRF: 330101); (iii) 100 basis points reduction in the cost of borrowing (average among SMEs participating as issuers); and (iv) growth of employment with an annual average of 5% among the participating SMEs. The principal outcomes envisaged for year 5 are as follows (see Annex I): (i) 1,600 investors engaged with the platform; (ii) US\$65 million mobilized through the platform; and (iii) 340 SMEs financed through the issuance of securities on the platform.
- 2.18 Upon completion of Component II, an initial evaluation will be done on the project to determine whether financing is needed to ensure continuation of the platform's operation. According to the main Results Matrix indicators, this includes: (i) the number of SMEs registered with the platform; (ii) the number of investors engaged with the platform; (iii) the number of issues handled for the first time and the number of repeat issuers; and (iv) the amount of resources mobilized during the execution of Component II. The important question in the evaluation would be whether or not the securities crowdfunding model works, and what are the critical design elements to ensure the future viability of the platform and its operation.

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

A. Alignment with the IDB Group

- 3.1 The initiative is aligned with the IDB Group country strategy with Colombia in that it: (i) provides a financing alternative suited to the needs of SMEs with growth potential that are not being met by the traditional financial system. The platform is set up as a digital finance ecosystem for enterprise and innovation, promotes financial inclusion, and generates potential opportunities for inclusive economic growth, job creation, business activity, productivity, and the dissemination of knowledge in all segments of the economy; (ii) links a broad base of investors to the public securities market through new investment options; and (iii) complements the IDB-supported operation in Colombia to advance reforms in the country's financial system through policy-based loans. Some of the principal components of this support are advances in financial system regulation and supervision, greater financial inclusion, access to finance for micro, small, and medium-sized enterprises, and capital market development. The project is also consistent with the IDB Invest strategy, particularly its priority area of facilitating access to finance for SMEs in technology and

innovation, since the beneficiary SMEs of this project (issuers) that are successfully financed by the platform may become potential borrowers for IDB Invest.

- 3.2 The project is aligned with the MIF focus area of Knowledge Economy, as it contributes to the development of a financial sector ecosystem with the adoption of technologies, helping to invigorate an inclusive economy. In addition, the target segment to which this effort will be directed includes technology firms with social impact that could potentially be brought to scale.

B. Scalability

- 3.3 The project envisages the development of strategic partnerships with a number of different entities, to scale up the project's impact to the national level: Bancóldex, iNNpulsa, chambers of commerce, Confederación Colombiana de Cámaras de Comercio [Colombian Confederation of Chambers of Commerce] (Confecámaras), Asociación Colombiana de Pequeñas Industrias [Colombian Small Industries Association] (ACOPI), and others, providing access to information for firms and investors, and in turn serving as an distribution channel for information directed to those participants. In addition, active participation is expected from such entities as the Ministry of Finance and Public Credit; the Ministry of Commerce, Industry, and Tourism; the Ministry of Information and Telecommunications Technology; and the Financial Superintendency of Colombia, to ensure necessary updates and adjustment to regulations.
- 3.4 It should be noted that the Colombian Securities Exchange (BVC) is part of the Mercado Integrado Latinoamericano [Integrated Latin American Market] (MILA), along with the exchanges of Mexico, Lima, and Santiago, and participates actively as a member of stock market forums at the international level (International Federation of Stock Exchanges (IFSE)), which will help to successfully disseminate the experience of this project throughout the region. The introduction of new technologies and the lessons learned on the various fronts are seen as potentially reproducible throughout the stock exchange industry, and potentially by the financial system in general.

C. Project and institutional risks

- 3.5 The regulation of crowdfunding in Colombia is still under study, albeit at an advanced stage, on the part of the regulatory entities, specifically the Unidad de Proyección Normativa y Estudios de Regulación Financiera [Financial Regulation and Financial Studies Unit] (URF) of the Ministry of Finance and Public Credit, in coordination with the Financial Superintendency of Colombia. Importantly, on this point, the BVC has been participating actively in meetings with these agencies, to provide feedback on the documentation being developed. The regulation is expected to take shape before the end of 2017. That being said, the BVC will have to continue direct and ongoing communication with the URF.
- 3.6 Given that the credit risk is higher for SMEs than for BVC listed companies thus far, there is higher risk of default on payments. To mitigate this risk, the platform's risk management model call for a strict credit assessment to determine the potential risk of default on obligations; all potential SME issuers will have to go through this prior assessment phase.
- 3.7 Although as part of the risk model a maximum probability of loss will be established based on the probability of default by all participants, this does not mean defaults could not occur in the future. To mitigate this risk, investors will be encouraged to

carry a diversified portfolio in terms of risk/return. Although the platform has been designed to make the risk “bilateral” (i.e., between the SMEs and investors), potential defaults on payments to investors could potentially affect the reputation of the BVC. To mitigate this risk, consideration is being given to involving the Fondo Nacional de Garantías [National Guarantee Fund] (FNG), which could provide a guarantee covering up to 50% of the potential loss per issue.

- 3.8 Lastly, there is the risk that the amount of funding raised will fall short of projections, since this is an alternative mechanism never before implemented in the country. However, strategic partnerships, sound marketing strategies, and direct contact with the investor and firms are envisaged as a way of addressing this issue.

IV. INSTRUMENT AND PROPOSED BUDGET

- 4.1 The total project cost is US\$3,460,000. Of that amount, US\$100,000 will be contributed by the MIF as nonreimbursable resources, and \$900,000 as resources under the contingent recovery instrument. The executing agency—the Colombian Securities Exchange (BVC)—will provide the counterpart contribution of \$2,460,000 as nonreimbursable resources, with US\$1,039,000 of that amount in cash. The following table summarizes the project budget, an itemized version of which is attached as Annex II.¹¹ The term sheet for the contingent recovery instrument is available as Annex X in the project technical files.

	MIF		Counterpart	Total
Project components	Contingent recovery	Nonreimbursable	Nonreimbursable	
Component 1.	420,000		200,000	620,000
Component 2.	380,000		202,000	582,000
Component 3.	100,000		1,017,000	1,117,000
Project administration			1,041,000	1,041,000
Midterm and final evaluation		50,000		50,000
Ex post reviews		15,000		15,000
Contingencies		35,000		35,000
	900,000	100,000		
Grand Total	1,000,000		2,460,000	3,460,000

- 4.2 Subject to reaching the levels specified below, the executing agency will reimburse the Bank for the total amount of the reimbursable contribution disbursed by the MIF in equal quarterly installments, the last of which will be paid no later than 75 months after signature of the agreement. The amount of each installment will be determined by dividing: (a) the disbursed reimbursable contribution minus the discounts described below and payments made up to the corresponding quarter; by (b) the number of quarters remaining up to month 75, as follows:

If earnings accumulated by: (i) the business unit conducting the project within the organizational structure of the executing agency (see paragraph 2.5); and (ii) the entity established for the purpose (together, the “entities”) reach

the sum of US\$2,500,000 (the “Minimal Commercial Viability Level”)¹³ but do not reach the sum of US\$3,250,000 (“Medium Level”), the executing agency will repay an amount equal to 50% of the Disbursed Reimbursable Contribution;

If earnings accumulated by the entities reach the Medium Level, but do not reach US\$4,000,000 (“High Level”), the executing agency will repay the Bank 75% of the Disbursed Reimbursable Contribution; and

If the earnings accumulated by the entities reach the High Level, the executing agency will repay 100% of the Disbursed Reimbursable Contribution.

- 4.3 In the event that the Minimal Commercial Viability Level is reached within 36 months after signature of the agreement, 10% will be discounted from the Disbursed Reimbursable Contribution, so that the repayment obligation will be calculated based on 90% of the Disbursed Reimbursable Contribution.
- 4.4 Alternatively, if the executing agency repays the Bank 80% of the Disbursed Reimbursable Contribution within 60 months after signature of the agreement, the executing agency will be exempt from any other additional obligation (it will be considered to have paid the total Disbursed Reimbursable Contribution, which is equal to a discount of 20%).
- 4.5 Earnings will be calculated according to the audited accounting statements of the entities established to conduct the project, based on auditing good practices. Discounts will be adjusted to the date when the final installment is paid. Provision will be made for repaying the entire Disbursed Reimbursable Contribution when it has not been used in accordance with the agreement.

V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Description of the executing agency

- 5.1 The executing agency is Bolsa de Valores de Colombia, S.A. [Colombian Stock Exchange] (BVC). The origin of the BVC dates back to 1928 when the Bogotá Stock Exchange was established. As a result of the merger with the Medellín and Cali Stock Exchanges in 2001, the BVC has become the major player in the financial and exchange sector in trading services, technology, information, clearance, and settlement, contributing to growth of the capital market and the economy in general. In addition to being a multiproduct and multimarket exchange that offers trading platforms for shares, fixed-income, and derivatives, the BVC provides issuer listing and market services through its subsidiaries. It has a presence throughout the industry’s value chain, participates in the Cámara de Riesgo Central de Contraparte [Central Counterparty Risk Clearinghouse] (CRCC), the Cámara de Compensación de Divisas de Colombia [Foreign Exchange Clearinghouse of Colombia] (CCDC)

¹³ The following have been factored into the Minimal Commercial Viability Level: the share of total SME financing, the percentage of such financing represented in the SME portfolio, and comparison with the primary fixed-income issues on the principal market, such that the funding raised by the platform would reach an estimated US\$2 million in the first year, and US\$20 million in the third year. The minimal, medium and high commercial viability levels have been set according to this expected funding to be raised, the investment to be made initially, and the projected net cash flow including taxes, interest, amortization, and depreciation (EBITDA). Annex XI provides the details of the financial projection for the platform.

and in the Depósito Centralizado de Valores, S.A. [Centralized Securities Depository] (DECEVAL).

- 5.2 The BVC has extensive experience in the development and administration of markets and trading systems. Added to the above, it is in the process of corporate integration with DECEVAL, an institution that brings experience in the area of securities custody, administration, clearance, and settlement, which will allow for more efficient operating costs and access to the public securities market.

B. Structure and implementation mechanism

- 5.3 The BVC will establish an execution unit and the necessary structure to execute project activities. There will be a multidisciplinary team coordinated by the BVC projects area, supporting the project coordinator in the areas of regulation, risks and quality, accounting and financial management, technology, marketing, and communications.

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 **Results-based disbursements and fiduciary arrangements.** The BVC, as executing agency, will agree to the MIF's standard arrangements related to results-based disbursements, and the Bank's procurement¹² and financial management¹³ policies as specified in Annexes IV and V. The BVC is a private entity established by law with its own procurement procedures compatible with private sector processes; accordingly, Appendix 4 on Policies for the Selection of Consultants is applicable. Milestones have been set, based on the conclusion of each component. The BVC and the project team will agree to report to the MIF on progress made on every aspect of each component, as established in the schedule.
- 6.2 Budgetary execution will be reviewed with a breakdown of the use of funds received by the BVC from the MIF, through review of the project's financial statements as established in the audit schedule.
- 6.3 **Ex post supervision modality and frequency.** Disbursements and procurement processes will be subject to review on an annual basis, with no requirement for financial statements to be audited. These reviews will include: (i) funds received from the MIF, counterpart funds, and sources of the project's partners; (ii) all outlays made using funds from the MIF contribution, as well as the counterpart funds, through the cash flow statement; and (iii) the statement of expenditures or cumulative investments, showing the amounts expended and available balances by project component.

VII. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 7.1 **Access to information.** Certain information related to the line of business of the participating firms will be considered confidential under the Bank's Access to Information Policy. The knowledge products created to disseminate information on the project will have the necessary authorizations.