

ABSTRACT

SMALL BUSINESS DEVELOPMENT FOR THE TIJUANA IN-BOND ASSEMBLY INDUSTRY

The project calls for financing in the form of a US\$1.37 million grant, which would be supplemented with an equal amount in counterpart resources and a US\$4 million investment, together without another US\$8 million in funding from public and private investors.

The objective of the project is to promote the development of small businesses and startup companies that supply inputs for the in-bond assembly industry and/or for exports, in the context of regional development through cross-border integration. The specific objectives of the project are to: (i) strengthen local development in the Tijuana-San Diego area; (ii) give small businesses access to appropriate services; and (iii) launch a pilot investment facility.

The project calls for the implementation of three components. The first two will be financed with nonreimbursable funds, and the third will establish a financial investment facility.

1. **Support for local development.** Under the first component, project personnel will be trained to better execute the project and participate in local development. A participatory planning process will also be financed to incorporate the needs of small businesses into the strategic plans for the project area, and will result in a concrete plan of action. To sustain this economic integration process, the project will help establish an economic information system that will be put on a web site. Information from different sources will thus be compiled, supplemented, and standardized, to establish databases for the business community in Tijuana and Baja California and for local governments.
2. **Development of business services and assistance for startup companies.** The following activities will be carried out under this component: (a) boosting demand; in addition to the specific studies on the demand for services to be conducted under the project, a fund will be established to boost demand for business services on the part of small businesses; these incentives may finance no more than 50% of the cost of the services and only at the outset, provided no other subsidy is being given for that purpose; (b) establishing and improving business services; during project preparation, demand for a series of products was identified in the following areas: business training, support for startup companies, and ISO 9000. The project will finance training for trainers and the transfer to institutions in Tijuana of successful experiences in supporting new businesses and setting up business networks, based on experiences in California; (c) developing suppliers. This will be done with NAFIN support. At least three in-bond assembly companies will be identified as pilot cases and provided with an organizational plan to develop their chains of production.

3. **Investment financing facility for small businesses.** Under this component, a facility will be established with two investment instruments that will finance small businesses that export and/or supply inputs for in-bond assembly plants, in general, startup companies. The first instrument, called the Angel Fund, will be made up of private investors who will play an active part in investment decisions and oversight. The second, called the Institutional Fund, will have public investors, which generally prefer a more passive role. The two funds will invest in the same operations at a ratio of 1:2, respectively. This component is structured to contribute to the active role of private investors, like “angel investors”. The facility requires: (i) the participation of numerous private investors, entrepreneurs from the Tijuana-San Diego region interested in business development in the region and willing to dedicate time and invest financial resources; (ii) hiring professional services for due diligence, and the region's market has many professionals or entities with venture capital experience; (iii) the establishment of a mechanism to select and monitor the investments, based on the active participation of the private investors in the Angel Fund, who will act as partners and mentors. Due to the innovative nature of this component, only 20% of project resources may be used in a proposed first phase of execution. Based on the results of that phase, in terms of the participation of private investors and investment opportunities, the MIF will authorize new disbursements. **Eligible investment projects** will: (i) involve capitalization of a small export business and/or small in-bond assembly supplier established in Baja California, with emphasis on the Tijuana area; (ii) have a financially feasible project; (iii) have an investment commitment from a sponsor and from the Angel Fund; and (iv) be in compliance with labor and environmental regulations. The joint investment of the two trust funds may not exceed a 49% stake in the business, with a maximum amount of US\$1 million, although most operations will range from US\$300,000 to US\$500,000. The facility will primarily use financial instruments, such as quasi-equity or equity.