

## **EXECUTIVE SUMMARY**

### **EXECUTING AGENCY:**

A fund (Fondo Guanajuato- the "Fund") to be established as an Investment Corporation (Sociedad de Inversiones) incorporated in Mexico. The Fund, expected to be US\$10-12 million, is sponsored by the State Government of Guanajuato. The Fund will have an operating life of ten years.

### **OBJECTIVE:**

The objective of the project is to support the development of small businesses in the state of Guanajuato, particularly for the growth of early-stage firms. The project is an experiment with novel approaches to economic development, combining development objectives with the discipline of venture capital, thereby producing attractive returns while making a tangible impact on the local economy. The project will not only address the need for equity financing for small and/or early-stage firms, but also respond to the increasing interest in how venture capital could address the needs of the local private sector in Mexico and further explore the transferability of venture capital practices to regional development.

### **COST AND FINANCING:**

MIF (Small Enterprise Investment Facility III-b): US\$ 4,000,000\*  
Co-financing:

State Government of Guanajuato	US\$ 3,000,000*
NAFIN (Nacional Financiera)	US\$ 2,300,000
Other Private Investors	US\$ 700,000 - \$2,700,000

\*maximum capital commitment

Total	US\$10,000,000-\$12,000,000
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### **TERMS:**

US\$4,000,000 is MIF's maximum capital commitment. MIF's investment will not be more than 40% of the total fund size. The local private investors have so far expressed their interests in investing up to US\$1,700,000. The targeted fund size at the first closing is US\$10 million, while the minimum fund size is US\$8 million, thereby the MIF's minimum subscription at the first closing will be US\$3,200,000.

### **PROJECT DESCRIPTION:**

The project consists of the establishment of an investment fund to support small businesses, particularly early-stage enterprises in the State of Guanajuato. The project is highly experimental and presents the first case of a local government-sponsored finance vehicle, trying to build risk-return characteristics different from those of a traditional venture capital portfolio. The Fund is initially targeted at US\$ 10 million and will be open for other investors during the first 18 months with an estimated target of US\$12 million. The Fund will seek investments averaging US\$250,000-350,000 in approximately 80 companies over its 10-year life. Investments will be in the form of equity, quasi-equity and various debt instruments, in such a way as to reduce the Fund's risk, generate a moderate operating income, accommodate the growth and working capital needs of business, and limit the Fund's ownership to a maximum of 50%. The equity investment agreements will include the sale of the Fund's share to the owners,

third parties or employees. Exit will typically occur in the fifth to sixth year of investment

**MANAGEMENT:**

The Fund will be managed by an investment management company to be constituted under Mexican law and its major partner will be the Chicago-based Shorebank Advisory Services ("SAS"), an affiliate of the Shorebank Corporation, the first community development bank in the United States. For up to the first 36 months of the Fund's operations, SAS will play a lead role in performing due diligence, completing investment proposals and deal structuring and overseeing closing and monitoring of investments. During this time frame, SAS will be responsible for incorporation and closing of the Fund, assembling staff, developing policies and procedures, and putting in place initial logistical support and administrative infrastructure. Furthermore, SAS will provide know-how for managing a community development venture capital-type fund, and transfer management functions to local staff as quickly as prudent. SAS will work to develop local staff and train the individual who will eventually assume the role of managing director. In essence, SAS would be the manager for the start-up phase of the Fund, until the local manager, its director and staff, are fully trained to work independently.

**ENVIRONMENTAL  
/SOCIAL REVIEW:**

The Project Document was approved by the Environment and Social Impact Review Committee on November 2, 1998.

**EXCEPTIONS TO  
BANK POLICY:**

None.