

Argidius ANDE Finance Challenge - Round 1 Winners

The Argidius Foundation and ANDE launched the Argidius-ANDE Finance Challenge in 2012, as the first of its kind competition designed to support scalable models to provide finance for small and growing businesses that require \$20,000 - \$250,000 in early stage capital. The goal of the challenge was to accelerate the development of solutions in a number of emerging markets, ideally establishing models that could be replicated. The following organizations selected to advance to the first round pilot phase were: George Mason University, Investisseurs & Partenaires (I&P), the Inter-American Development Bank, the Center for Science, Technology and Society at Santa Clara University and SCOPE*insight*. Each proposed solution focused on a different approach to unlocking capital.

Creating Bridges for Growth

George Mason University

Country Focus: Honduras

The main source of funds in the range of \$20,000-\$250,000 for small and medium-sized enterprises in Honduras is bank loans, once family sources of funding are used up. However, commercial banks are not willing to lend to such firms without either: (1) physical collateral such as land or machinery; or (2) a loan guarantee from some entity that has enough funds available to pay back the loan. The solution is to create bridges that will serve this SME market segment by mobilizing bank funding through non-traditional means and at the same time creating social venture funds. George Mason will work with the PYME (SME) division of BAC Honduras in creating the bridge for funding to firms that have been successful and growing clients of MFIs (micro-finance institutions). It will promote openness to more innovative forms of financing within that bank, which has been one of the most innovative in trying to serve the SMEs. We will couple this initiative with a second bridge, namely a social venture fund that involves putting together a group of 8-10 investors interested in taking part-ownership in selected companies in our relatively small category of businesses. The venture fund will have a minimum investment commitment of \$US 25,000 and will seek to fund four or five companies in the first year, followed by at least ten companies after that. We will partner with an existing local MFI network (Katalysis) for operational support and oversight for funded projects, and use the "prestamistas no bancarias" legal status to minimize restrictions in providing funds to growing small businesses.



I&P Sahel Enterprises (IPSE)

I&P

Country Focus: Burkina Faso and Mali

I&P SAHEL ENTREPRISES (IPSE) will create a local equity investment vehicle dedicated to small SMEs in Burkina Faso and Mali. It will be based in Ouagadougou and managed by a local African investment team. Based on a



successful model in Niger, the team will be trained and supported by I&P, hence benefiting from a transfer of know-how and from I&P's experience. It will target equity/quasi-equity 5-years investments for amounts ranging EUR20,000 - EUR200,000. The investment methodology will include a strong mentoring/coaching of entrepreneurs and technical assistance. This vehicle will have financial profitability objectives. I&P will be the main financial sponsor of the project (EUR1-3M) alongside with others.

Seed Capital That Works “From Micro to Small”
Multilateral Investment Fund of the Inter-American Development Bank
Country Focus: Guatemala

A fund of US\$640,000 will provide a convertible loan for 10 startups in Guatemala. The fund will finance startups between US\$20,000 and US\$50,000 provided as a dollar denominated, unsecured loan of 7-year tenor, with 10% annual rate, an option to be converted into equity whenever new investors take equity in the startups or at the end of 7th year, while repayment is quarterly, based on pre-determined percentage from 3% to 10% on the firms' revenue. The viability of this instrument has been proven in Uruguay, and the project will transfer such know-how to a local commercial bank, adopting a mechanism that can mitigate information asymmetries. Prosperitas Capital Partners, a venture capital fund management company based in Montevideo, Uruguay, will partner to manage this fund. In partnering with Banco G&T Continental in Guatemala, the proposed facility will help demonstrate how the local bank's know-how can be leveraged, with the hopes that other banks and MFIs will then be motivated to invest in the segment “from micro to small”. The MIF's role of facilitating “match-making” and filling in the existing knowledge gap by helping transfer the know-how from a small venture capital fund manager in Uruguay to a commercial bank that has been able to downscale and implement microfinance quite successfully.



Demand-Dividend Investment Vehicle: Modeling, Testing, and Mobilizing a New Capital Investment Instrument for Early-Phased Global Social Entrepreneurs
Center for Science, Technology and Society – Santa Clara University
Country Focus: Guatemala, Nicaragua, Honduras, Mali, Burkina Faso

Financing for SGBs in developing economies is constrained by the low level of return from investments already made to date. Achieving reliable and repeated returns will make not only serve to re-cycle old capital to new investments but also improve investor confidence to commit new capital to what is now seen as difficult or 'frontier' markets. So far, debt and equity mechanisms have failed to offset the risks inherent in these markets with sufficient reward to encourage new investment. A successful pilot of our Demand Dividend structure in targeted economies seeks to improve investor confidence and provide suitable reward. The proposed Demand-Dividend Investment Vehicle will provide a new tool that improves the ability of impact capital providers to invest in early-phase SGBs – one that has a higher risk tolerance than loans and more liquidity than equity. Key features are: medium term debt structure, payable from free cash flow, cap on return multiple, abeyance period, and protective and governance provisions. This form of financing is ideal for SGBs who are spring-loaded for growth. CSTS has begun work on a financing model designed to allow a more reliable and rapid return of investment capital to impact investors and encourage new flows of capital support to SGBs in target countries. The work will include final design, a regression analysis on existing enterprises, and the creation of flexible term sheets, as well as the field-oriented phase -- preparing to test the new instrument with between four and six enterprises beginning in early 2013.



Creating a Mainstream Market for Agricultural Finance by Profiling Producer Organizations
SCOPEinsight
Country Focus: Central America

The majority of small and growing producer organizations are ignored by financial institutions because they are perceived as too risky and not profitable due to the small loan sizes. *SCOPEinsight* has developed a system of profiling the producer organizations on their professionalism and creditworthiness to serve as an efficient tool for pre-selection, pipeline generation, and turn-key due diligence of viable business prospects for banks. *SCOPEinsight* will



profile 250 agricultural producer organizations (POs) in Central America (Guatemala, Honduras, Nicaragua and El Salvador), based on the SCOPE methodology. These assessments lead to a Profile and an Assessment Report. Profiling will be catalytic to create transparency towards the producer organizations themselves, their capacity development partners, and towards banks and other potential business partners