

PROJECT SUMMARY

ACCESO IMPACT FUND: INNOVATIVE FINANCING FOR SMALL AND GROWING BUSINESSES (RG-L1158)

The objective of this project is to promote an innovative solution to address one of the main challenges faced by small and growing businesses (SGBs), understood as small businesses in a disruptive growth phase that have completed the early-stage startup phase, have a clear market niche, and in certain cases have obtained some type of support from accelerators or angel investors in the entrepreneurial ecosystem. Currently, a high percentage of SGBs in Central America are underserved by the financial system because the traditional investment and financing instruments available in the market are not designed to meet their needs.

A recent study by the International Labour Organization determined that on average 71% of small businesses in Latin America and the Caribbean did not introduce an innovation process (Guatemala 66.8% and Honduras 71%) and 58% did not place new and innovative products and services on the market due to borrowing restrictions, which directly affects the level of productivity and competitiveness of this segment.¹ The lack of financing is particularly severe for SGBs because it stunts their growth.

Accordingly, IDB Lab's investment thesis proposes the promotion of financing vehicles for nascent or early-stage emerging ecosystems such as those in Latin America and the Caribbean. IDB Lab is open to investing in fund administrators that operate in those ecosystems, ideally with relevant operational experience with early-stage investing and with solid experience in local markets. In this way, it aims to build local capacity, as well as to reduce financing gaps in countries, sectors, and business models where there is unmet early-stage investment demand from entrepreneurs.

Through its call for proposals for venture capital funds launched in February 2021, IDB Lab identified ACCESO, a fund promoted by two important stakeholders in the Central American entrepreneurial ecosystem (Alterna and IDC of Guatemala), to invest in SGBs that seek and have the potential to generate a social and environmental impact in the region.

ACCESO will not be a conventional venture capital fund since it aims to create a financing option offering liquidity and working capital through revenue-based loan (RBL) instruments. Its purpose will be for SGBs with social and environmental impact business models with an impact focus to have easy access to financing that is aligned with their growth and fundraising phase. The RBL financing instrument is gaining popularity and expanding rapidly in the United States, Europe, and other countries as a debt instrument to support early-stage and growing companies. However, it is not currently used by banks or significant financiers in Central America as a regular financing instrument. Thus, its introduction on a significant scale in that market will be innovative and, if as successful as expected, could have an important demonstration effect leading to greater future financing streams for this business segment (and in some cases even for other types of small and medium-sized enterprises).

ACCESO will pioneer the raising of capital from private investors in Central America for

¹ International Labour Organization (First Edition, 2020). *Entorno MiPYME. Medidas de apoyo ante la COVID-19.*

a fund with an impact focus, an element that is also new and highly innovative for the region. The solution proposed by ACCESO aims to enhance the scalability of impact models, such as the model developed through the Catalyzer fund. IDB Lab helped create that fund as a pilot initiative in 2018 through the project “Acceleration of Disruptive Ventures with Seed Capital” (document GU-T1273) with contingent recovery financing in the amount of US\$630,000. While it had a smaller scale, the experience will serve as the basis for this Fund.

Given the financing gaps identified in the region, ACCESO targets SGBs providing solutions that, in addition to demonstrating viable business models, generate an impact (reflected in indicators such as the increase in employment available to women; increase in the inclusion of small businesses and producers in local and international markets; greater access by vulnerable populations to basic healthcare services; better access to quality education for the unserved population; increased efficiency and better quality of small producers so that they can offer food products with a high nutritional value at competitive prices; and access to and conservation of natural resources). ACCESO will initially operate in Guatemala and Honduras and will later replicate that experience in the remaining countries of Central America.

The project proposes a senior loan from IDB Lab in the amount of US\$3 million to ACCESO to leverage the capital contributions that ACCESO receives from its investors and support its launch phase. Cofinancing will come from capital contributions from IDC Overseas Ltd. for US\$1.5 million and from other investors for US\$5.5 million, for a project total of US\$10 million.