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MULTILATERAL INVESTMENT FUND

**MEXICO**

**ACCELERATING THE CROWDFUNDING ECOSYSTEM IN MEXICO TO PROMOTE  
ENTREPRENEURSHIP, INNOVATION AND ECONOMIC INCLUSION  
(ME-M1095)**

**DONORS MEMORANDUM**

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## PROJECT SUMMARY

### ACCELERATING THE CROWDFUNDING ECOSYSTEM IN MEXICO TO PROMOTE ENTREPRENEURSHIP, INNOVATION AND ECONOMIC INCLUSION

(ME-M1095)

Entrepreneurs and Micro, Small and Medium Enterprises (MSMEs) in countries such as Mexico face various challenges in their efforts to launch a new business, product or service, or expand operations. Substantial gaps in services exist throughout the business development cycle, including access to appropriate sources of financing, business skills, technological tools, and information. These difficulties are especially pronounced for a) social enterprises, which can be hindered by the desire to balance financial growth and positive social or environmental impacts, b) women-led or owned businesses, which traditionally face higher barriers to capital, and c) youth-led or owned businesses, which cannot count on long-standing market relationships or robust credit histories to acquire funding.

However, with the expanding reach of the internet and related digital technologies, the capacity to connect traditionally excluded entrepreneurs and MSMEs to potential funders does now exist. Online platforms have recently emerged to provide these services through a new social innovation known as Crowdfunding, which connects individuals with projects or businesses they may be interested in supporting. Through these platforms, entrepreneurs and MSMEs can create Crowdfunding campaigns to raise money for product development, operational expansion, or the launch of a new enterprise. Individuals and social programs may also launch Crowdfunding campaigns for independent initiatives; for example, a student may raise funds to cover the expenses of studying abroad, or a day care center in a poor neighborhood may raise funds to pay a staff member.

But Crowdfunding is not merely a new means of fundraising. By enabling users to post questions directly to the campaign webpage and engage in dialogue with the campaign owner, Crowdfunding platforms provide an interactive and transparent market access channel that generates feedback from supporters who want the campaign to succeed. With low barriers to entry (anyone with a bank account and internet access can donate or create a campaign) and the transfer of resource allocation decisions to groups of individuals, Crowdfunding democratizes access to financing and knowledge as well. In effect, this levels the playing field for entrepreneurs and MSMEs by allowing the market to determine which ideas, causes, or ventures are worth funding and which are not. At the same time, it allows non-traditional investors – namely those who do not have large amounts of money but want to support new ideas – to access new opportunities.

Despite this potential, the Crowdfunding ecosystem has been slow to emerge in Mexico due to inadequate capacities of Crowdfunders, entrepreneurs and MSME-owners to utilize digital technologies and Crowdfunding mechanisms effectively, as well as reticent public engagement in electronic payment systems stemming from deficient legal and regulatory structures needed to effectively govern online transactions and protect sensitive data.

The MIF's research study, [\*Crowdfunding in Mexico: The Power of Digital Technologies to Transform Innovation, Entrepreneurship & Economic Inclusion\*](#), provides a roadmap for the design and implementation of the proposed project. The project will bridge the gaps between entrepreneurs' and MSMEs' funding demands, market understanding, and sources of funding. To do so, it will first train entrepreneurs and MSMEs to use Crowdfunding platforms and technologies to improve their chances of successfully reaching campaign funding goals. Second, the project will educate Crowdfunders to better analyze campaigns and interact with campaign owners productively. At the same time, the project will support targeted beneficiary campaigns with matching funds to bolster confidence in Crowdfunding mechanisms and enhance socioeconomic impact. Third, the project will bolster the Crowdfunding ecosystem by providing Crowdfunding platforms with technical assistance to improve business models so that they may continue to provide services to entrepreneurs and MSMEs. Finally, the project will generate substantial knowledge about the behavior of different actors in the Crowdfunding ecosystem as well as Crowdfunding's impact on entrepreneurs and MSMEs in Mexico. A data collection and monitoring system will be established to analyze Crowdfunding activity and better inform future Crowdfunding interventions in the region.

The MIF's technical knowledge and experience, as well as its capacity to facilitate collaboration among key local stakeholders in public and private sectors and civil society, will be essential to the project's success. The project will be driven by collaboration of multiple stakeholders: Universidad Anáhuac<sup>1</sup> will be the executing agency, the Mexican Crowdfunding Association – created by 8 leading Crowdfunding sites – will facilitate the project, and key Mexican entities such as the National Entrepreneurship Institute (INADEM) and the Secretary of the Presidency's Division of Civic Innovation have expressed their support for the initiative. The project will benefit an estimate of 2,000 entrepreneurs and MSME-owners by connecting them with new financing channels and market information.

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<sup>1</sup> All references to "Universidad Anáhuac" in this document refer to the official name of the University's legal entity "Investigaciones y Estudios Superiores S.C." which will contract with the MIF for the execution of this project.

## **ANNEXES**

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ANNEX II	Budget Summary
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Draft Resolution

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## **ACRONYMS AND ABBREVIATIONS**

<b>AOP</b>	Annual Operating Plan
<b>DNA</b>	Diagnostic of Executing Agency Needs
<b>IADB</b>	Inter-American Development Bank
<b>MIF</b>	Multilateral Investment Fund
<b>MSME(s)</b>	Micro, Small and Medium Enterprise(s)
<b>OR</b>	Operating Regulations
<b>PCU</b>	Project Coordination Unit
<b>QED</b>	Quality for Effectiveness in Development
<b>TOR</b>	Terms of Reference

**PROJECT INFORMATION**

**ACCELERATING THE CROWDFUNDING ECOSYSTEM IN MEXICO TO PROMOTE ENTREPRENEURSHIP,  
INNOVATION AND ECONOMIC INCLUSION**

**(ME-M1095)**

<b>Country and Geographic Location:</b>	Mexico. Coordinated from Mexico City, D.F.	
<b>Executing Agency:</b>	Universidad Anáhuac. Investigaciones y Estudios Superiores, S.C.	
<b>Access Area:</b>	Access to Markets and Capabilities	
<b>Agenda/Topic:</b>	Value Chains	
<b>Direct Beneficiaries:</b>	2,000 entrepreneurs and MSMEs.	
<b>Indirect Beneficiaries:</b>	35,000 individual Crowdfunders contributing to Crowdfunding campaigns.	
<b>Financing:</b>	Technical Cooperation:	US\$ 1,250,000
	<b>TOTAL MIF FUNDING:</b>	US\$ 1,250,000
	Counterpart:	US\$ 1,500,000
	<b>TOTAL PROJECT BUDGET:</b>	US\$ 2,750,000
<b>Execution and Disbursement Period:</b>	36 months of execution and 42 months of disbursement.	
<b>Special Contractual Conditions:</b>	None.	
<b>Environmental and Social Impact Review:</b>	This operation was screened and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.	
<b>Unit with Disbursement Responsibility:</b>	COF/CME	

## 1. BACKGROUND AND JUSTIFICATION

### A. Diagnosis of the Problem to be addressed by the Project

- 1.1. Mexican entrepreneurs and MSMEs suffer from wide gaps in the availability of services needed throughout the business development cycle, including access to appropriate sources of financing, business skills, technological tools, and information. Entrepreneurs and MSMEs often have inadequate understanding of local markets and underdeveloped professional networks needed to calibrate production offerings according to consumer preferences and demand. Without the skills needed to access consumer and investment markets, as well as alternative sources of financing, entrepreneurs and MSMEs are deterred from launching a new business, product, or service, or expanding operations. In addition, individuals, NGOs, and other social service providers often struggle to attract funding from traditional philanthropic donors.
- 1.2. Similar to the difficulties MSMEs and entrepreneurs encounter in acquiring funding are the challenges that independent investors, creditors, and donors have in identifying attractive opportunities in the market. Many people are willing to provide personal resources to support Mexican entrepreneurs and MSMEs, particularly to those that are limited in their ability to access traditional sources of financing. But these individuals are often unaware of opportunities to support entrepreneurs and MSME's with their own resources. Additionally, they lack the means to efficiently transfer resources to enterprises, social projects, or individuals they wish to support due to geographic or temporal barriers.
- 1.3. In recent years, a number of virtual internet sites (platforms) have emerged to connect individuals with projects or businesses they may be interested in supporting. This process, known as Crowdfunding, leverages the collective power of many individuals (the crowd) through the internet and related digital technologies. The agglomeration of small amounts of resources from hundreds or even thousands of individuals (known as Crowdfunders) can be a significant catalyst for entrepreneurs and MSMEs. Although the rapid expansion of the internet and increased engagement in social media platforms now allows people to find and learn about projects and businesses in a cost-effective, efficient, and timely manner, entrepreneurs, investors and donors alike have been slow to adopt technological tools for these purposes.
- 1.4. There are four primary types of Crowdfunding: (i) donation, (ii) rewards, (iii) lending, and (iv) equity. Donation- and rewards-based Crowdfunding are considered Non-financial Crowdfunding. Donation-based Crowdfunding allows individuals to support philanthropic ventures or independent projects that are important to them. One form of rewards-based Crowdfunding is a "pre-sale" model, where a product or service is validated by market demand, as customers agree to purchase the proposed product/service in advance, thus funding the production costs up front. Rewards-based Crowdfunding also refers to online campaigns that solicit funds with the promise of a specific reward that is later delivered to Crowdfunders. For example, an individual may support the production of a band's new album in return for an advanced copy or signed paraphernalia.
- 1.5. Alternatively, lending- and equity-based Crowdfunding allow Crowdfunders to receive a financial return on their investments. Lending-based platforms allow individuals to lend to

other individuals, entrepreneurs or businesses at specified rates and terms (also known as “peer-to-peer” or “peer-to-business” lending). While equity Crowdfunding is currently limited to accredited investors in Mexico, the development of appropriate legal and regulatory frameworks could eventually allow a broader market to invest in these mechanisms in order to complement the financing provided by angel investors, accelerators, and seed capital and venture capital funds. Under the right conditions, this type of Crowdfunding could enable individual (unaccredited) investors to provide small sums of money directly to innovative entrepreneurs and MSMEs that other financiers may be unable or unwilling to invest in given the risk and early stage of development of such ventures.

- 1.6. Following the observed evolution of Crowdfunding ecosystems in other countries<sup>2</sup>, Crowdfunders in Mexico are likely to move along the continuum from donation to rewards to pre-sale campaigns, and further along to lending and ultimately equity-based campaigns. Unfortunately, the industry’s development has been slower in Mexico, in part due to reticent public engagement in electronic payment systems. Only 8.3% of adults made payments electronically in Mexico as of 2011, compared to over 64% in the U.S. and an average of 57% among high-income OECD countries.<sup>3</sup>
- 1.7. In addition, while Crowdfunding platforms can be quick to launch upon recognizing an opportunity in the market, not all of these ambitious ventures have thoroughly developed viable business models with long term goals and strategic planning. As a result, many startup platforms have failed in both developed and developing markets. This contributes to the fragility of the Crowdfunding ecosystem given that the notable failure of a sufficient number of platforms could further reduce confidence in the industry.
- 1.8. However, the transparency and objectivity of digital Crowdfunding processes allow Crowdfunders to contribute small amounts of resources to whichever campaigns they wish to support. In effect, this creates a more democratic funding mechanism. Funders decide to contribute to entrepreneurs, MSMEs, individuals, and/or charitable organizations based mainly on the quality of the campaign pitch and sometimes a degree of personal interest. Some lending-based Crowdfunding platforms have also developed innovative ways of evaluating the creditworthiness of borrowers, or allow borrowers a means to establish a credit history. The technologies that link Crowdfunders to campaign owners can inhibit potential discrimination of funding allocations based on race, sex, age, personal connections, or other biases.
- 1.9. The MIF’s recently published research study, *Crowdfunding in Mexico: The Power of Digital Technologies to Transform Innovation, Entrepreneurship & Economic Inclusion*, analyzes the aspects of the local ecosystem relevant to the development of Crowdfunding in Mexico and provides a strong foundation for the design and implementation of the project. The report concludes that, despite the presence of key conditions for Crowdfunding to serve entrepreneurs and MSMEs in Mexico, further efforts are needed to develop the nascent Crowdfunding ecosystem. Accordingly, the main problem that will be addressed by this

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<sup>2</sup> Such as the United States, Australia, the United Kingdom, Italy, and other European countries.

<sup>3</sup> World Bank. Global Financial Development Indicators. 2014.



project is the absence of a robust ecosystem that supports sustainable growth of the Crowdfunding industry in Mexico.

- 1.10. According to the aforementioned crowdfunding research, key constraints for the growth of MSME and startup of entrepreneurial ventures in Mexico include the following: (i) market imperfections; (ii) deficient skills among entrepreneurs; and (iii) limited scope of legal and regulatory frameworks governing electronic payment systems.
- 1.11. Market imperfections, including informational asymmetries, have traditionally prevented entrepreneurs and MSME owners from identifying existing sources of funding that present viable opportunities for their businesses (and vice versa). But advances in digital technologies and internet access today present cost-effective ways of bridging this gap if entrepreneurs and MSMEs are capable of utilizing these technologies. Unfortunately, many are not adequately trained to use these technologies effectively especially to assess market demand and develop desirable products and services for the market. Deficient financial and business management capacities further detract from their ability to launch or sustain a successful business. Finally, confidence in digital financial transactions remains low in the absence of comprehensive legal and regulatory frameworks needed to protect sensitive user information online. Current regulations do not inhibit donation, reward, or peer-to-peer lending activities, but (in practice) do not enforce strict sanctions on illicit online activity. Equity Crowdfunding is currently limited to accredited or institutional investors in Mexico. Little, if any, recourse is available to individuals whose funds or personal information is stolen or otherwise manipulated online.

## **B. Project Beneficiaries**

- 1.12. Crowdfunding is a democratic financing model that provides greater opportunities for women, youth, social enterprises and innovators that are often excluded from traditional financing. For new entrepreneurs, it provides a feedback loop to improve prototypes before moving to final production, as well as the ability to “pre-sell” innovative products to customers, thus minimizing commercial risk (i.e. miscalculating demand) while acquiring the initial funding needed to start production. Microenterprises can acquire working capital needed to maintain cash flows or offset an unexpected expense that might otherwise force closure of the business. Financial Crowdfunding can also help small and medium enterprises fill gaps in the business development cycle by providing access to affordable and patient debt and/or equity products, as well as the know-how of seasoned investors, needed to expand operations, launch new products/services, and generate employment.
- 1.13. The project’s direct beneficiaries will be 2,000 entrepreneurs and/or MSME owners who reach their Crowdfunding campaign goals.<sup>4</sup> These direct beneficiaries can be categorized into five different profiles: (i) innovative startup firms created by social entrepreneurs whose objective is to create for-profit enterprises that solve a social or environmental problem; (ii) business entrepreneurs and small and medium enterprises; (iii) women-led businesses; (iv) youth-led businesses<sup>5</sup>; and (v) philanthropic organizations.

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<sup>4</sup> Given the innovative nature of the proposed project, the MIF project design team has used conservative estimates for the number of expected beneficiaries. However, it is expected that the expansive reach of digital technologies could potentially benefit thousands more entrepreneurs and MSMEs over the life of the project.

<sup>5</sup> In the event a business is considered a social enterprise and is also women- and/or youth-led, these may be considered to serve direct beneficiaries in all applicable categories.

- 1.14. There is evidence in developed countries that Crowdfunding is closing the ‘funding gap’ for women; while only 8% of venture capital funds are invested in women-led businesses, women account for approximately 40% of successful Crowdfunding campaigns. Therefore, as the proposed project gets into execution, the project team will make sure there is a balance between women and men-led MSME participating in project activities.<sup>6</sup> One of the eligibility criteria to receive matching funds, for example, will be for the campaign-owner to report the ownership of the company that will be supported in order to monitor the balance or imbalance between women and men, and, if necessary, the execution team will adjust to correct the potential imbalance.
- 1.15. Other beneficiaries will include an estimated 35,000 individual Crowdfunders who provide their resources to entrepreneurs and/or MSMEs through financial and/or non-financial Crowdfunding campaigns. This group will consist of donors, individual lenders and investors, as well as other independent campaign supporters (sex disaggregated).

### **C. Contribution to the MIF Mandate, Access Framework and IDB Strategy**

- 1.16. The project contributes to achieving MIF’s mission to develop the private sector, particularly the support to entrepreneurs and MSMEs, by strengthening business skills, improving the regulatory framework, and providing access to markets and finance. The project will develop the industry’s ecosystem by helping emerging Crowdfunding platforms improve their business plans and by contributing to the sustainability of the newly formed Mexican Crowdfunding Association. Members of the Women’s Economic Empowerment Initiative are part of the project team and will support the execution of the project as needed. The project will also support the youth entrepreneurship agenda of the MIF helping youth entrepreneurs to launch their businesses. Women and youth beneficiaries will receive technical assistance and matching funds to complement funding acquired through Crowdfunding campaigns. This project also falls within the Early Stage Equity Group within MIF Access to Finance. This group, through its two agendas – Financing High Growth Firms and Ecosystems for Early Stage Entrepreneurs – has a long trajectory and experience in developing and financing the early stage entrepreneurial ecosystems and high growth potential entrepreneurs of the region.

## **2. PROJECT DESCRIPTION**

### **A. Objectives**

- 2.1. The expected impact of the project is to increase the growth of MSMEs in Mexico, with a special focus on groups that are most excluded from traditional financing. The expected result of the project is to support a sustainable Crowdfunding ecosystem in Mexico by improving access to non-traditional financing and market feedback. Beyond the project beneficiaries, Crowdfunding has the capacity to drive innovation, create jobs, diversify economic activity and contribute to greater income equality by democratizing access to funding and knowledge through digital technologies.

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<sup>6</sup> A women-led business is defined as an enterprise: (a) Which is controlled at least fifty one percent (51%) by women, and/or (b) where the Chief Executive Officer (CEO) and/or Chief Operations Officer (COO) or equivalent position(s) is a woman.

## **B. Description of Model/Solution/Intervention**

- 2.2. The project will test a collaborative intervention model designed to accelerate the development of a sustainable Crowdfunding ecosystem in Mexico. Based on recommendations of the “Crowdfunding in Mexico” report, the model will bridge the gaps between entrepreneurs’ and MSMEs’ funding demands, market understanding, and sources of funding. By strengthening the capacities of existing Crowdfunding platforms while creating an environment that fosters the emergence of new platforms, entrepreneurs and MSMEs will be better served by Crowdfunding platforms and gain access to a multitude of new business opportunities.
- 2.3. The project will provide technical assistance to local businesses and entrepreneurs (particularly social enterprises, women-led and youth-led businesses) that will improve their abilities to utilize digital technologies and manage business operations. It will pursue an inclusive outreach strategy that targets beneficiaries through small business associations, affiliate networks of project counterparts (such as INADEM’s “Red de Apoyo al Emprendedor”), and university students. The project will also develop training tools that will be accessible online in order to maximize project reach and ensure equitable training opportunities.
- 2.4. Trainings will also be offered to potential Crowdfunders in order to improve their abilities to identify and evaluate donation-, rewards-, and lending-based Crowdfunding opportunities, as well as relevant risks. Advanced trainings may also be offered for accredited investors to raise awareness of equity-based Crowdfunding platforms, current opportunities, limitations and risks. In addition, a special focus on relevant considerations for supporting social enterprises, women- and youth-owned or led businesses through financial and non-financial Crowdfunding will be incorporated into all trainings. Materials for Crowdfunders will also be available online to maximize access.
- 2.5. Additionally, the project will bolster the Crowdfunding ecosystem by consolidating the Mexican Crowdfunding Association (MCA), led by Mexico’s principal Crowdfunding platforms. The Association will receive technical assistance in engaging with key actors to facilitate dialogue to explore the parameters of a prudential framework that is conducive to accelerating the ecosystem’s development. This support will draw on recognized best practices in Crowdfunding from the experience of developed markets while ensuring local context is appropriately considered. The knowledge generated through piloting this new intervention model will be extraordinarily valuable in bridging existing knowledge gaps and in designing similar Crowdfunding initiatives in other countries.
- 2.6. The Crowdfunding report also stresses the need for collaboration among a diverse group of actors. The project has therefore sought support from private, public and civil society institutions. As an academic institution, Universidad Anáhuac is well positioned to coordinate activities and resources of various counterparts as project’s executing agency.<sup>7</sup> Universidad Anáhuac also has extensive experience in business incubation and acceleration programs, which will be leveraged to improve the sustainability of Crowdfunding platforms. The project also expects to receive technical and financial support from (i) the

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<sup>7</sup> All references to “Universidad Anáhuac” in this document refer to the official name of the University’s legal entity “Investigaciones y Estudios Superiores S.C.” which will contract with the MIF for the execution of this project.

National Entrepreneurship Institute (INADEM) of the Secretary of Economy, and (ii) the Secretary of the Presidency's Division of Citizen Participation and Civic Innovation; which has indicated willingness to fund collaborative efforts with expert researchers in the design and implementation of a robust data monitoring and analysis mechanism.<sup>8</sup>

### C. Components

#### **Component 1: Build capacities of local entrepreneurs and MSMEs to leverage Crowdfunding (MIF: US\$104,246; Counterpart: US\$197,231).**

- 2.7. The objective of this component is to enable local entrepreneurs and MSMEs to successfully utilize Crowdfunding as both an alternative source of financing and a means of accessing consumer and investment markets, especially for those with least access such as women, youth, social enterprises and highly innovative entrepreneurs. Entrepreneurs and MSMEs will receive training that improves their abilities to access funding through Crowdfunding platforms and online social networks. Moreover, Crowdfunding platforms themselves will participate in a targeted business incubation program conducted by Universidad Anáhuac in order to strengthen capacities to provide alternative funding opportunities to other entrepreneurs and MSMEs in Mexico.
- 2.8. The main activities under this component are: (i) Develop didactic tools to improve entrepreneurs' and business owners' abilities to use digital technologies and effectively manage Crowdfunding campaigns; (ii) Hold live training events to educate entrepreneurs and business owners in digital technologies and Crowdfunding; (iii) Create strategic linkages with local institutions working with youth and women's entrepreneurship (such as INADEM) to include Crowdfunding training in new or existing programs; and (iv) Design and implement targeted outreach campaigns to engage social enterprises, women and youth-led businesses, entrepreneurs and charitable organizations to participate in training workshops.

#### **Component 2: Build capacities of Crowdfunders to promote a sustainable flow of funding for viable Crowdfunding campaigns (MIF: US\$92,831; Counterpart: US\$426,669).**

- 2.9. The objective of component 2 is to strengthen the quality and quantity of funding made available through Crowdfunding by educating potential Crowdfunders on issues relevant to Crowdfunding and, thus, generating market confidence in associated technologies. The activities undertaken in component 2 will reduce the informational asymmetries that separate existing investors and potential Crowdfunders from desirable funding opportunities. By improving awareness of Crowdfunding mechanisms and success stories the component will generate confidence in the market and spur campaign funding as more attractive opportunities arise in conjunction with the activities in component 1. Finally, the

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<sup>8</sup> Nacional Financiera (NAFINSA) has expressed a sincere interest in supporting the project as well – coordination to define specific parameters of this potential contribution is ongoing at the time of submitting this proposal.

project will allocate concessionary matching funds to select campaigns in order to further bolster confidence in the ecosystem.<sup>9</sup>

- 2.10. Component 2 consists of the following activities: (i) Develop didactic tools to educate potential Crowdfunders in the use of digital technologies, the potential risks and benefits of Crowdfunding, and how to productively engage with campaign owners; (ii) Create promotional and informational materials to increase awareness and understanding of Crowdfunding mechanisms; (iii) Live events to disseminate relevant information and success stories; (iv) Define eligibility and selection criteria for recipients of campaign matching funds; (v) Identify qualified Crowdfunding campaigns and pledge funds to successful campaigns; and (v) Facilitate connections between Crowdfunding platforms and existing co-investment or guarantee mechanisms.

**Component 3: Crowdfunding ecosystem development and institutional strengthening (MIF: US\$350,883; Counterpart: US\$234,900).**

- 2.11. The objective of Component 3 is to develop the capacity of the Mexican Crowdfunding ecosystem to serve as an alternative financing and market access mechanism that supports entrepreneurs and MSMEs. It also aims to facilitate dialogue related to Crowdfunding among platforms and key public and private actors. This will require strengthening the Mexican Crowdfunding Association (MCA) and coordinating with other key counterparts – both public and private – to lead the industry forward. Component 3 will improve local stakeholders’ understanding of central regulatory issues related to the Crowdfunding sector, as a clear regulatory framework that allows flexibility for further innovation is essential for increasing market confidence among both investors and businesses. Combined with a well-defined roadmap for collaboration, organizational strengthening of the MCA itself will contribute to the long term sustainability of Crowdfunding industry. Establishing these parameters among platforms in Mexico will also serve as a foundation for future collaboration between other platforms throughout the region.
- 2.12. Component 3 consists of the following activities: (i) Define initial norms for self-regulation of Crowdfunding platforms and related activities under the existing Mexican legal framework; (ii) Support the MCA in promoting a multistakeholder dialogue that considers international best practices and lessons learned in Crowdfunding regulation to ensure adequate focus on consumer protection; (iii) Conduct business diagnostics of MCA Crowdfunding platforms and provide targeted technical assistance; (iv) Establish and promote industry-wide transparency and reporting standards; (v) Identify international best practices applicable to the Mexican context and provide relevant advisory services to local institutions; (vi) Facilitate development of an operational framework for the MCA; (vii) Establish membership criteria for MCA platforms; and (viii) Develop a sustainability plan for the MCA.

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<sup>9</sup> Matching funds are expected to be pledged to support up to 50% of the total campaign goals of target beneficiary groups, including youth and women-led entrepreneurs and MSMEs, innovation pioneers and social enterprises. Other specific eligibility and selection criteria (regarding both beneficiary and campaign characteristics) to receive matching funds will be developed by the project team and MIF support staff during the first phase of project execution. All matching funds will be provided by local counterpart contributions.

**Component 4: Creation and dissemination of knowledge (MIF US\$285,000; Counterpart US\$526,000).**

- 2.13. The objective of this component is the identification, gathering, and analysis of information pertaining to the Crowdfunding industry. Demonstrating the industry's tangible impact will facilitate relevant legislative processes and vindicate (or refute) the effectiveness of specific actions undertaken to develop the local ecosystem. Knowledge will be created through this component in part by designing and implementing a data monitoring system that aggregates and organizes transactional information so that it may be used for further analysis of the industry. The component will also support the creation of an industry website to provide a links to relevant knowledge products and useful resources.
- 2.14. The project will be the first in the developing world to accelerate the development of a national Crowdfunding ecosystem. Currently, knowledge related to the specific political, economic and social needs for sustainable Crowdfunding ecosystem development is primarily available for high-income countries (USA, Europe, Australia, Japan, Korea, among others). While there are some didactic materials on Crowdfunding available in developed countries, no such materials exist for populations in Latin America due to both language barriers and inapplicable legal and regulatory frameworks. As such, the knowledge created and disseminated through this component is vital to the effective design and implementation of future Crowdfunding interventions in the region and around the world. This component will establish a foundation for scaling project impact by replicating similar initiatives in other countries in the region.
- 2.15. The activities and products of this component are the following: (i) how-to guide providing strategic recommendations to accelerate the development of local Crowdfunding ecosystems in other LAC countries; (ii) design and implementation of a data collection and monitoring system that enables substantive research and analysis of the Crowdfunding industry in Mexico; (iii) Crowdfunding industry website that serves as a virtual information center providing access to educational resources, relevant news, and a forum for public dialogue; (iv) market research studies to analyze potential for Crowdfunding in other LAC countries; (v) case studies of entrepreneurs' successes who were funded through Crowdfunding campaigns; (vi) multimedia products, including video tutorials and an online Crowdfunding course; and (vii) regional conferences to disseminate lessons learned and explore opportunities for replication and scaling.
- 2.16. The audiences that have been identified as key to promoting the expansion of Crowdfunding in the region are: (i) entrepreneurs and MSMEs looking for alternatives to traditional sources of financing to launch a new business, expand operations or test market demand for a new product or service; (ii) social entrepreneurs, women- and youth-led enterprises; (iii) impact investors and institutional investors interested in expanding or diversifying their portfolios; (iv) business and technology incubators, and industry/business/entrepreneur associations; (v) universities, think tanks, research institutes and other academic institutions; and (vi) decision makers and government officials (initially in Mexico and later in other countries in the region) that can promote a legislative agenda that is supportive of the Crowdfunding ecosystem.

#### **D. Project Governance and Execution Mechanism**

- 2.17. Universidad Anáhuac will be the executing agency of the project from its headquarters in Mexico City. Universidad Anáhuac will coordinate with other local partners, including the National Entrepreneurship Institute (INADEM), the Mexican Crowdfunding Association (MCA), and the Secretary of the President of the Republic. Universidad Anáhuac will sign agreements with these local entities to support implementation of various Project activities.

#### **E. Sustainability**

- 2.18. The project will ensure sustainability by building capacities of both institutions and individuals to utilize digital technologies and by facilitating the development of a concrete regulatory framework that allows for fair and open competition under a uniform set of industry standards. The creation of a unique data collection and analysis system that draws on information generated by Crowdfunding platforms and campaigns will demonstrate the impact of relevant public policies. Moreover, the involvement of public agencies and the institutional strengthening of the Mexican Crowdfunding Association (MCA) will assure continued support for the ecosystem's development.
- 2.19. The MCA was recently formalized during the elaboration of this proposal, and currently consists of leading national platforms, including Prestadero, Crowdfunder.mx, Idea.me, Kubo Financiero, Fondadora, MiCochinito, and Vakita Capital. Supporting the Association will enable Crowdfunding platforms to present a united voice in advocating for the approval and enforcement of uniform industry standards that combat fraud and ensure accountability of all actors in the Crowdfunding ecosystem. Working together this group can achieve much more than they could on their own, as evidenced by legislative efforts in other countries; in the U.S., for example, the collaborative work of Crowdfunding platforms and other stakeholders facilitated the passage of Title II of the JOBS Act, addressing central Crowdfunding issues. Organizational strengthening, including establishing a sustainability plan that details a commercially viable revenue model, will allow MCA to maintain operations and continue to pursue the industry's development agenda after project execution has been completed. The Project will also help the MCA to articulate clear short term and long term goals and action plans to achieve these in order to ensure continuity.
- 2.20. Finally, Universidad Anáhuac will aim to include Crowdfunding education in their academic curricula and seminars through its Institute for Enterprise Development (IDEA) and its business accelerator (IDEARSE). INADEM will also incorporate Crowdfunding education in new and/or existing training programs benefitting entrepreneurs and businesses throughout the country. Integrating Crowdfunding education into existing programs offered by prominent local institutions will promote continued awareness of Crowdfunding as an alternative financing and entrepreneurial funding mechanism, which will support growing engagement and ecosystem development in the future. Before the project ends, a sustainability workshop will be held with all key stakeholders to identify specific actions needed to ensure the continuity of the project's activities once project funding has been fully expended. The anticipated actions will be assumed by actors willing and able to implement them going forward.

## **F. Experience and Lessons Learned from MIF or other Institutions**

- 2.21. Although this project is the first of its kind, the MIF's research study, *Crowdfunding in Mexico*, provides a detailed analysis of the Mexican environment related to Crowdfunding. The project's design draws on the recommendations put forth in the study, which are based on the aforementioned analysis. Specifically, the study presents the following (annotated) conclusions:
- Negative experiences associated with Crowdfunding at an early stage could be detrimental to its future development. In addition, the general distrust for internet applications in Mexico make public education and promotion of early success stories integral to the broader adoption of Crowdfunding.
  - There is a substantial need for accessible funding amongst entrepreneurs and MSMEs in Mexico. Online Crowdfunding holds enormous potential to serve these funding needs and promote the development of the entrepreneurial ecosystem. However, businesses will need to improve technological literacy and their understanding of how to use Crowdfunding effectively, as well as relevant risks.
  - At present, it appears that small and medium sized enterprises in the formal sector will be best equipped to utilize financial Crowdfunding. As the crowdfunding ecosystem develops, opportunities for micro-enterprises will continue to emerge and incentives to join the formal economy will improve. Regardless, individuals and entrepreneurs will continue to be able to make use of donation-, reward-, and lending-based Crowdfunding opportunities for various purposes. Supporting the quality of non-financial Crowdfunding platforms and campaigns should ultimately generate added momentum for financial Crowdfunding as the ecosystem evolves.
  - Mexico currently finds itself in a unique position to accelerate the development of the Crowdfunding ecosystem. Although the Crowdfunding industry is still in its infancy, the basic conditions are in place to enable entrepreneurs and small businesses to access financing that meets their needs through online platforms.
- 2.22. MIF also benefits from experience in developing the ecosystem in other social innovation programs in the region, in particular, in the construction of Crowdsourcing communities (in the case of Chile with over 300,000 members), and through projects with Compartamos con Colombia and ANSPE (CO-M1091), as well as Un Techo-Socialab (CH-M1046). The Ecosystems for Early Stage Entrepreneurs agenda has experience and lessons learned in supporting nascent industry associations such as the VC/PE associations in Brazil, Colombia, Mexico, and the region at large; as well as using these associations to advocate for regulatory changes to improve ecosystems for early stage entrepreneurs. One important lesson learned is that support for these associations is key in the initial stages of their implementation to help them become sustainable in the mid- to long-term. The MIF has also invested in a Mexican Crowdfunding platform, Kubo Financiero, through Alta Ventures, a local venture capital fund. Additionally, the MIF has partnered with Music Securities – a Japanese Crowdfunding firm – to provide funding to MFIs in Peru (PE-M1095). Finally, lessons learned in the development of regulations in the microfinance industry will help guide support for MCA in their development of a rational and feasible



regulatory framework proposal for Crowdfunding, with particular focus on consumer protection, responsible pricing, and other related principles.<sup>10</sup>

## **G. MIF Additionality**

- 2.23. Non-Financial Additionality. MIF is well positioned to facilitate collaboration among a diverse group of actors that will accelerate the development of the Crowdfunding ecosystem in Mexico. Without MIF support, independent actors will not take it upon themselves to coordinate. MIF has substantial experience working with private, public, and civil society actors in Mexico, which will need to coordinate effectively to develop an enabling ecosystem for Crowdfunding. The knowledge generated through the Crowdfunding in Mexico research study will contribute to the MIF's credibility in the Crowdfunding arena and allow it to support the development of a clear roadmap for collaboration among relevant actors.
- 2.24. Financial Additionality. The project requires MIF financing due to insufficient alternatives for support of the Crowdfunding sector. As a technology based industry, it has evolved rapidly, making it difficult for the supporting ecosystem to keep pace. The sector requires timely financial support to generate confidence in Crowdfunding without which it may be exposed to excessive risk and ultimately die out. MIF financial support will attract additional matching investments from other sponsors and project counterparts for Crowdfunding campaigns that lack alternative financing options. The MIF will finance technical assistance activities, generation of knowledge products and promotional events. MIF support for these activities will contribute to greater recognition of and interest in Crowdfunding to augment project impact.

## **H. Project Results**

- 2.25. The project expects to see a number of changes in the behavior of entrepreneurs and MSMEs. Educational and promotional activities, as well as the development and dissemination of relevant didactic materials, will result in greater use of Crowdfunding platforms by both entrepreneurs and Crowdfunders. Trainings accessed through both live events and online will engage 3,000 entrepreneurs or MSME owners who will improve their abilities to design and manage Crowdfunding campaigns by adopting recognized best practices. In addition, 1,500 businesses will access credit, investment or other financial products through financial Crowdfunding campaigns, while another 500 will receive funding through donation- or rewards-based Crowdfunding campaigns. An estimated 300 new businesses will be created through successful Crowdfunding campaigns (financial or non-financial) during the life of the project. Educational and promotional activities are also expected to facilitate support from approximately 35,000 individual Crowdfunders who have adopted this new practice, resulting in approximately \$20 million total value of Crowdfunding campaigns (financial and non-financial) for firms or entrepreneurs that meet campaign goals.

## **I. Project Impact**

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<sup>10</sup> For example, principles such as those espoused by the [Smart Campaign](#) may be relevant to this aspect of the project.

- 2.26. Bolstering the Crowdfunding ecosystem in Mexico will allow Crowdfunding platforms to better serve entrepreneurs and MSMEs as well as Crowdfunders, while competing on a level playing field. As such, it is expected that the project will facilitate the creation of some 700 new jobs associated with the implementation of projects/businesses funded through successful Crowdfunding campaigns. With increased awareness of Crowdfunding opportunities through workshops, forums, industry website, and other tools, the project is expected to generate an estimated \$3 million in financial returns (interest, dividends, royalties, etc.) for Crowdfunders through Mexican Crowdfunding platforms.<sup>11</sup> Crowdfunding opportunities will allow also businesses and entrepreneurs to mount more sustainable ventures by better gauging consumer demand and receiving substantive feedback from supporters, investors, and/or customers so that more firms will be in operation at least 1 year after successful completion of a Crowdfunding campaign.

**J. Systemic Impact**

- 2.27. Moreover, the project will have a systemic impact by facilitating the emergence of the Crowdfunding market in Mexico, which may lead to replication efforts in other countries in the region. Lessons learned and best practices generated through this project will make subsequent efforts to accelerate Crowdfunding ecosystem development in other countries more likely to succeed. The design and implementation of a data collection and monitoring system will allow time-series data to measure the social and economic impacts of Crowdfunding campaigns.

**3. MONITORING AND EVALUATION STRATEGY**

- 3.1. Needs Assessment and Landscape Study: A market study and needs assessment will be conducted at the outset of the project to establish relevant economic and social indicators for the beneficiary population, which will shape relevant monitoring and evaluation mechanisms. This study will build upon the *Crowdfunding in Mexico* study by developing specific metrics and monitoring mechanisms that track the Crowdfunding industry's development over time.
- 3.2. Baselines and Data Collection: Universidad Anáhuac will work with external consultants and the Division of Civic Innovation's National Digital Strategy for the Office of the President of the Republic (Mexico) to create a unique model that collects reliable data and ensures quality analysis of the Mexican Crowdfunding ecosystem. The team will identify information currently available (from platforms, campaigns, Crowdfunders, etc.) as well as that which is required/desired for rigorous evaluation. These will include industry-specific indicators (number of platforms, volume of funding, campaign success rates, etc.) as well as broader economic and social ones (jobs created, income generated, ratio of youth and women supported, social outcomes supported, etc.).
- 3.3. Baseline data for relevant metrics such as current sales, sales growth rates, years in operation, number of employees, industry segment, number of products and/or services offered, and cost of alternative financing options (if applicable) will be collected from

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<sup>11</sup> Returns based on estimated 15% average return on \$20 million channeled through financial Crowdfunding platforms according to data from current lending-based Crowdfunding portfolios. The vast majority of financial returns generated through this project is expected to come from lending-based Crowdfunding campaigns, as equity-based campaigns are limited to accredited investors and typically require longer-term investments of approximately 7-10 years before exiting.

beneficiary MSMEs at the first instance of the intervention, or when they launch a Crowdfunding campaign. Baseline data will also be collected from Crowdfunders for relevant metrics such as estimated returns on alternative capital allocation, average size of Crowdfunding campaign contributions/investments, and frequency of contribution/investment in Crowdfunding campaigns. Crowdfunding platforms will be capable of generating these data points through online registries. Subsequent data collection on the MSMEs and entrepreneurs launching Crowdfunding campaigns will be undertaken through bi-annual surveys.

- 3.4. A data collection system will be designed with defined sources and types of information to be collected as well as frequency of reporting. The system will leverage the capacity of digital technologies used to engage in Crowdfunding activities in order to collect relevant information from Crowdfunders, campaign owners and Crowdfunding platforms themselves in an efficient and reliable manner. The data collection system will also consider how to incorporate an independent auditing mechanism to verify accuracy while maintaining strict confidentiality of personal and proprietary information. Physical and virtual surveys will be used to gather information from training participants and other key actors. Digital surveys will also be designed to gather information from Crowdfunders and campaign owners through Crowdfunding platforms. These surveys will complement existing data registries maintained by Crowdfunding platforms in order to avoid redundancies in data gathering. Moreover, data collection mechanisms will be standardized to ensure cross-platform comparisons and analyses can be made easily. This information and analysis is ultimately expected to help Crowdfunding platforms themselves by improving their understanding of user behavior and client needs. It may also serve to support marketing efforts that demonstrate successful Crowdfunding experiences on the platform.
- 3.5. Evaluations: A formative mid-term evaluation will be conducted approximately two years from the project's launch or once approximately 50% of project funds have been disbursed. The mid-term evaluation will assess any early observable impacts on MSMEs and entrepreneurs and identify opportunities to improve project results and impact, if needed. It will, to the extent possible, assess any observable outcomes on businesses, but its focus will be in finding efficiency in the project's administration – whether the project is being administered on time, on budget, providing deliverables of acceptable quality, and whether it is on course to deliver the anticipated development results and impact, with the understanding that results and impact are expected to increase more in later stages of the project's execution.
- 3.6. A final evaluation will also be conducted upon conclusion of the project to measure relevant results and impacts, as well as an assessment of the sustainability of the intervention, possible spillover effects, and its potential for replication in other countries. The questions that will be asked by the evaluations may include the following, among others: (i) How much interest or other financial return was generated for Crowdfunders? (ii) To what degree did Crowdfunding platforms help entrepreneurs or business owners improve product prototypes or gauge market demand? (iii) Did Crowdfunding help businesses more effectively utilize social media and other virtual technologies? (iv) How many entrepreneurs or business owners successfully reached their campaign funding goals? (v) How many Crowdfunders (sex disaggregated) participated in financial and non-

financial Crowdfunding campaigns? (vi) What was the average size of a successfully funded campaign? (v) How many jobs were created as a result of successfully funded campaigns? (vi) How much did sales increase for existing MSMEs after a successful Crowdfunding campaign? and (vii) How many new ventures funded through Crowdfunding continued operating 1 year after completing a successful campaign? The evaluation report should also address issues on how to reach broader systemic impact, meaning how to strengthen a supporting ecosystem involving policy-makers, regulators, academics, impact investors, social entrepreneurs, business associations, business leaders, etc.

#### 4. COST AND FINANCING

- 4.1. The project has a total cost of US\$2,750,000 of which US\$1,250,000 will be provided by the MIF, and US\$1,500,000 by the counterparts. The execution period will be 36 months and the disbursement period will be 42 months.

Components	MIF	COUNTERPART	TOTAL
<b>Component I: Build capacities of local entrepreneurs and MSMEs to leverage Crowdfunding</b>	104,246	197,231	301,477
<b>Component II: Build capacities of Crowdfunders to promote a sustainable flow of funding for viable Crowdfunding campaigns</b>	92,831	426,669	519,500
<b>Component III: Crowdfunding ecosystem development and institutional strengthening</b>	350,883	234,900	585,783
<b>Component IV: Creation and dissemination of knowledge</b>	285,000	526,000	811,000
Executing agency / Administrative	165,178	115,200	280,378
Ex post reviews	25,000	-	25,000
Base line, monitoring and evaluation	105,000	-	105,000
Contingencies	34,162	-	34,162
<b>Sub-Total</b>	<b>1,162,300</b>	<b>1,500,000</b>	<b>2,662,300</b>
% of Financing	43.66%	56.34%	
Agenda Account	25,000	-	25,000
Impact evaluation account (5%)	62,700	-	62,700
<b>Grand Total</b>	<b>1,250,000</b>	<b>1,500,000</b>	<b>2,750,000</b>

#### 5. EXECUTING AGENCY

- 5.1. The project and its resources will be administered by Universidad Anáhuac, which is incorporated under the name “Investigaciones y Estudios Superiores S.C.”. The MIF will enter into agreements with “Investigaciones y Estudios Superiores S.C.” The team members working in the university’s Centro IDEARSE, a business accelerator within the school’s Economics and Business faculty, will lead the project’s execution. Universidad Anáhuac is one of Mexico’s premier private tertiary educational institutions with the key skills needed to implement the project. First, it is able to coordinate effectively among a diverse group of collaborators from the public and private sectors and civil society. Universidad Anáhuac also has an abundance of experience working with the private sector in Mexico, particularly on improving strategies for corporate social responsibility, which has helped it to cultivate relationships with a strong network of major businesses that may support the project with additional resources. Furthermore, Universidad Anáhuac has an expansive network of over 30,000 students across 9 campuses nationwide. The direct ties to this network will allow the project to disseminate information and collaborate with a

large target audience of youth who are highly immersed in Crowdfunding technologies and who maintain vibrant social media networks, thus allowing for greater project impact. Despite its broad reach, Universidad Anáhuac is based in Mexico City, which will allow it to coordinate with other project counterparts, such as INADEM and Secretary of the Presidency, Crowdfunding platforms (including representatives of the newly established Mexican Crowdfunding Association), MIF-COF, and other key public and private sector actors (potentially including NAFINSA). Finally, Universidad Anáhuac is a known counterpart, having collaborated on two prior MIF projects (TC9803190 & ME-M1003) that were successfully completed in 2001 and 2008.

- 5.2. Project implementation will be supported by a group of key actors in Mexico (hereafter “counterparts”). The National Entrepreneurship Institute (INADEM) – a division of the Secretary of Economy – will be a key strategic counterpart that is expected to provide technical and financial assistance. INADEM’s goals are closely aligned with the project, as Crowdfunding presents new opportunities for Mexico’s entrepreneurs to gain access to new markets and skills. INADEM was a key counterpart for the March 2014 conference in Mexico City, where the Crowdfunding in Mexico report was initially presented. INADEM is also leading efforts to determine the potential support from NAFINSA. In addition, the Mexican Crowdfunding Association (MCA), comprised of Mexico’s leading Crowdfunding platforms, will be integral to the project’s success. The MCA will consolidate the voices of the Crowdfunding industry in order to promote its interests more effectively. The project will support the MCA’s organizational strengthening to help it craft a strategy that galvanizes the development of the national Crowdfunding ecosystem. The MCA will also contribute to the promotion of Crowdfunding through direct participation in seminars and trainings of local entrepreneurs and public sector leaders. Lastly, the Division of Citizen Participation and Civic Innovation – under the Secretary of the Presidency of the Republic – will collaborate by elaborating a comprehensive monitoring strategy that defines appropriate data collection methods for public and private entities involved in Crowdfunding in order to more fully analyze the industry’s socioeconomic impact.
- 5.3. For the implementation of the activities 3.6 and 4.3 of the project, Universidad Anáhuac will hire Crowdfund Capital Advisors (CCA) as a consulting firm for an amount of US\$227,000 from MIF contribution.<sup>12</sup> In accordance with the Bank’s Policies for the Selection and Contracting of Consultants (GN-2350-9), such hiring will be considered a single source selection covered under paragraph 3.10.d of the policies, which mentions an experience of exceptional value for the services as a reason for the direct contracting. To this end, there is a specific need and exceptional value in the knowledge and expertise that Crowdfund Capital Advisors demonstrated through its participation in the drafting and advocacy of Title II and Title III of the US JOBS Act, which define the parameters for accredited and non-accredited Crowdfunding investment in the United States, respectively. Outside the U.S., CCA has provided technical assistance to leaders in government agencies, large private sector firms, entrepreneurs, Crowdfunding platforms, and development institutions. CCA is also one of the most widely recognized authorities in Crowdfunding

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<sup>12</sup> MIF supervision specialists (both in Mexico and in HQ in Washington DC) will need to approve the contract of the Anáhuac with Crowdfund Capital Advisors as well as the different products provided by the consultants in order to assure that they are relevant to the replication of the model in other countries in the region.

research and analysis, as demonstrated, for example, by their seminal report on *Crowdfunding's Potential for the Developing World* (World Bank, 2013). Given the severely limited number of firms with the specific experience, professional capacities, and industry knowledge needed to effectively facilitate the implementation of the aforementioned activities, as well as the exceptional value these are expected to add to the project, the project team considers the projected costs of these services to be reasonable and justified.<sup>13</sup>

- 5.4. Universidad Anáhuac will sign collaboration agreements for the implementation of the project with counterparts corresponding to specific roles and responsibilities of each party regarding execution of specific activities. As mentioned above, primary counterparts that are expected that will support the project include INADEM and the Division of Citizen Participation and Civic Innovation – under the Secretary of the Presidency of the Republic (collaborating on activities in component 4), and MCA (collaborating on activities in component 3).<sup>14</sup>
- 5.5. The majority of the activities will be implemented from Mexico City, Mexico, where the project execution unit will be based (with the exception of regional conferences and the regional studies). Universidad Anáhuac will retain responsibility for providing comprehensive progress reports on Project implementation and Project resources to MIF, but it will be able to channel resources and implement activities through local counterpart organizations as well. MIF will need to approve the agreements between Universidad Anáhuac and the local entities as a condition prior to the effective start of project operations.

## 6. PROJECT RISKS

- 6.1. The first risk identified is that the possible failure of businesses financed through Crowdfunding and/or the loss of Crowdfunders' investments or loans could undermine confidence in Crowdfunding mechanisms, including those used for extra-financial purposes such as market feedback for product development. These risks will be mitigated by emphasizing financial and market risks to both campaign owners and Crowdfunders in trainings and other promotional materials. Maintaining transparency regarding potential risks and improving capacities of Crowdfunding participants (on both the capital supply and funding demand side) to identify and evaluate these risks will reduce the probability and impact of these risks substantially.
- 6.2. The second risk identified is the potential for fraud through Crowdfunding platform which makes it imperative to support key actors in the analysis of a regulatory framework that effectively deters fraudulent activity. To avoid these risks the project will: (i) Establish and promote industry-wide transparency and reporting standards; (ii) Create a list of any

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<sup>13</sup> To ensure the appropriate balance of incentives to produce quality and timely deliverables, CCA will be contracted through separate contracts and each subsequent contract will be offered upon satisfactory completion of the terms specified in the previous contract.

<sup>14</sup> Secretaria de la Presidencia has already signed a letter of intent demonstrating its commitment to support the project and while the letter from INADEM remains pending at this time, communications between INADEM and the MIF project team as well as Universidad Anáhuac have indicated that this support will be concreted very soon.

people and organizations attempting to use Crowdfunding mechanisms for illicit purposes, which would be publicly available and would prohibit these from using Crowdfunding in the future; (iii) Facilitate dialogue surrounding best practices for developing an industry regulatory framework that focuses on consumer protection; and (iv) Promote development of enhanced cybersecurity mechanisms.

- 6.3. Finally, there is a risk that confidence in electronic payment systems and/or Crowdfunding mechanisms declines or does not improve enough to generate funding for strong campaigns. This risk is mitigated by the project's direct efforts to bolster confidence in these systems through publicity campaigns and the creation of educational materials that help Crowdfunders identify and assess possible risks.

## **7. ENVIRONMENTAL AND SOCIAL EFFECTS**

- 7.1. No negative social or environmental effects should be anticipated for this project. On the contrary, the promotion of Crowdfunding will engender greater economic inclusion of traditionally marginalized groups through the neutrality and impartiality of the internet.

## **8. COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS**

- 8.1. **Disbursement by Results and Fiduciary Arrangements.** The Executing Agency will adhere to the standard MIF disbursement by results, procurement and financial management arrangements specified in Annex 8.

## **9. INFORMATION DISCLOSURE AND INTELLECTUAL PROPERTY**

- 9.1. **Information Disclosure.** The information included in this document is classified as public in accordance with the Bank's Access to Information Policy (GN-1831-33). The project will seek to make public as much information as possibly to facilitate transparency in the market and promote the expansion of Crowdfunding in the region.
- 9.2. **Intellectual Property.** Any material produced with the resources of this Project will be the intellectual property of the Bank. Nevertheless, and in respect to the online system that will be developed under activity 4.2 "Design and implementation of a data collection and monitoring system that enables substantive research and analysis of the Crowdfunding industry in Mexico" that will be created chiefly with funding from the Division of Citizen Participation and Civic Innovation – under the Secretary of the Presidency of the Republic, such system will be property of the Government of Mexico under the "datos.gov.mx" program. Regarding this material, the Division of Citizen Participation and Civic Innovation will facilitate the IDB, or IDB partners, access to the relevant information that may be necessary to replicate or disseminate the data collection and monitoring system for Crowdfunding in other countries of the region.