

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	Regional
▪ TC Name:	Support to create a LAC-Korea Startup Fund
▪ TC Number:	RG-T3360
▪ Team Leader/Members:	TL: Gyoung Joo Choe (MIF/LEU), TM: Susana García-Robles (MIF/LEU), Hyungcheol Yoo (DSP/CAT); Minji Kim (INO/NFP), Paola Pedroza (ORP/REM), and George Rogers (GCL/FOM)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	September 2018
▪ Beneficiary:	Startups from IDB Borrowing Member Countries
▪ Executing Agency:	Multilateral Investment Fund ("IDB Lab")
▪ IDB funding requested:	\$ 650,000.00
▪ Local counterpart funding:	\$ 0.00
▪ Disbursement period:	24 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IDB Lab
▪ Unit of Disbursement Responsibility:	IDB Lab
• Donors providing funding	Korea Private Sector Development and Innovation Fund (KPS)
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and Innovation; Economic Integration

### II. Objective and Justification

- 2.1. **Objective:** The general objective of this TC is to explore the possibility of creating a Latin America and the Caribbean (LAC)-Korea startup fund. This fund would support start-ups and scale-ups in LAC attract additional investments and penetrate other markets beyond the LAC region, in particular Korea/Asia. It would also support Korean start-ups operating in LAC or looking to expand to LAC markets. The fund could have a mix of public and private seed capital, a model that has been very successful for establishing a sound and sustainable startup ecosystem in Korea since early 2000s. It is envisioned that this structure would encourage also an active participation of private Limited Partners (LPs) from LAC and Korea and strengthen cross-regional partnerships between accelerators and other relevant ecosystem actors that can help build a strong pipeline of promising startups. To this end, this project will support knowledge exchanges and dissemination activities highlighting previous successful experiences and current trends in startup and venture capital (VC) ecosystems in LAC and Korea, as well as network building activities among relevant stakeholders from both regions.

- 2.2. Recently, several LAC countries including Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru and Uruguay, have initiated startup support programs and made considerable progress in promoting startups (OECD, 2015).<sup>1</sup> An increasing number of young and dynamic entrepreneurs are starting businesses across the region (IDB, 2017).<sup>2</sup> From the developmental angle, startups are very important as they are not just using technology to create innovative solutions to development challenges but also essential parts of the structural transformation needed in countries to spur entrepreneurship and move to knowledge economies. However, there is still a significant gap between LAC and advanced countries in terms of startup supporting instruments and tools. Especially, there is still a financing gap at the early stage, which is considered one of the main bottlenecks faced by the entrepreneurs. Consequently, there are recommendations that development banks need to help channel more private capital towards productive investment in cooperation with funds, commercial banks, among others (OECD, 2016).<sup>3</sup>
- 2.3. According to the Latin American Private Equity and Venture Capital Association (LAVCA) data, VC Investments in Latin America surpassed US\$1b for the first time in 2017, doubling the amount committed to startups in 2016, driven by investments from global investors such as Didi, SoftBank, Sequoia Capital, General Atlantic, Accel Partners, Naspers, and others. Fundraising was up over 200% year over year, with VC fund managers closing US\$733m in the region, compared to US\$229m that was raised in 2016.<sup>4</sup> Despite growing investor interest in Latin American startups, the region still remains undercapitalized compared to other global emerging markets.
- 2.4. In the last decade, Korea has developed a dynamic and growing VC industry. In 2017, the aggregate investment amount in tech startups reached US\$ 2.1b, with an average annual increase of 10% since early 2000. Korea took the strategy of creating a government-backed public fund of funds (FoF) as seed capital to incentivize the creation of local VC funds with participation of investors from the private sector. This strategy resulted in a big success.<sup>5</sup> Back in 2007-8, in order to overcome the crisis of national default, Korea sought to boost the creation of startups as an engine for economic growth, but there were scarce financing mechanisms to support such initiative. Until then, Korean economy was fundamentally based on large conglomerates, a.k.a. 'chaebol', supported by debt investment, rather than small and medium size enterprises (SMEs) financed by equity investments. The public FoF was designed to facilitate the

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<sup>1</sup> OECD (2015), Entrepreneurship at a glance 2015, OECD Publishing, Paris.

<sup>2</sup> The Surfing Tsunami and Nxtp Labs (2017), Technolatinas: Latin America riding the technology tsunami, IDB, Washington D.C. According to the publication, in 2017, there were 123 Technolatinas in Latin America and the Caribbean, early stage tech-based companies worth over US\$ 25M.

<sup>3</sup> OECD (2016), Startup Latin America 2016: Building an innovative future, OECD Publishing, Paris.

<sup>4</sup> "Latin America's Breakout Year in Tech". Latin American Private Equity and Venture Capital Association (LAVCA), 2018.

<sup>5</sup> By 2017, the accumulated fund size amounted to USD 3B and the fund yields during 2013 and 2017 were approximately 9.2%. (From the website of Korea Venture Investment Corp. (KVIC) ([www.k-vic.co.kr](http://www.k-vic.co.kr)), a managing institution responsible for the fund.)

flow of public and private capital to support the creation of dynamic early-stage companies. In retrospect, the FoF achieved its policy goals for which it was established. It expanded the supply of financial support for local startups very quickly, enabled the rapid growth of the local VC industry itself, and moreover, enhanced the potential of success of the startups thanks to the smart capital provided by the VC funds and their professional teams. In particular, it is noteworthy that those results were also derived in a pro-market manner and through a sort of public-private partnership.

- 2.5. This Technical Cooperation project will include the following key components: (i) analysis of the current status and trends of the LAC startup and VC ecosystems, including the assessment of potential cross-regional business and investment opportunities in the early-stage space with Korea; (ii) support for the design of a VC fund which will be mutually beneficial for tech startups from LAC and Korea – i.e. by way of facilitating joint ventures/projects and supporting cross-regional expansion, and (iii) support to connect and forge collaborations between VC funds, accelerators and other key ecosystem actors from both regions, oriented to achieve a successful launch and operation of the LAC-Korea Startup Fund. Some of the key ecosystem actors to be actively involved in the project include: KVIC (Korea Venture Investment Corp.), Born2Global Center, KIC (Korea Innovation Center), Puente Labs, NXTP Labs, among others.<sup>6</sup>
- 2.6. **IDB Lab** and its track record in building the VC industry in the region. IDB Lab, an innovation lab for the IDB Group has been a pioneer in Venture Capital in Latin America, launching its investments in 1996 when the industry was practically nonexistent. IDB Lab's support has been instrumental in developing this industry in the region: over the course of its 20+ year history, IDB Lab has approved more than 80 VC & seed funds for more than USD 300 million, of which over USD 230 million has been disbursed to funds investing in over 700 companies in 21 countries. IDB Lab has also made an important contribution to developing local human capital in the industry, supporting more than 60 new VC and seed fund managers. IDB Lab's role as key investor in a numerous funds has helped attract significant volumes of investment into the region. IDB Lab will coordinate the execution of this Technical Cooperation project.

### III. Description of Activities and Outputs

- 3.1 Component I: Analysis of the current status and trends of the LAC startup and VC ecosystem.** This component will be composed of three key parts. 1) An in-depth review of the current status of LAC startup and VC ecosystem, including a mapping of relevant and most active actors by type (VC funds, accelerators, company builders, university programs, public sector-led initiatives, etc.), financing instruments used and track record. It will also include an analysis of the VC industry data (market size, growth rate, key sectors, top investment deals, latest exits, etc.). The maturity level of the overall regional financial

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<sup>6</sup> Through missions to Korea (July 30-August 1, 2018) and Silicon Valley (August 14-17, 2018), those institutions were contacted and the foundation for future interaction was already laid.

markets, and most common exit mechanisms in the region, will be studied as well. A key source of information for this sub-component will be the Latin American Private Equity and Venture Capital Association (LAVCA), and IDB Lab itself, through its broad network of local partners. 2) Combined with the analysis, the review will study the activities conducted so far by IDB Lab, with special focus on the lessons learned in supporting the entrepreneurial ecosystem and venture capital (equity) investments. These lessons will give useful insights for the design of the envisioned LAC-Korea Startup Fund. 3) Recommendation of countries/sectors/partners in LAC with the most potential to take advantage of synergies with Korea in the startup-VC space.

- 3.2 Component II: Analysis of the current status and trends of the Korean startup and VC ecosystem. Study of the Korean FoF model for startup promotion.** This component will analyze the current status of the Korean startup and VC ecosystem, including a mapping of relevant and most active actors by type (VC funds, accelerators, company builders, university programs, public sector-led initiatives, etc.), financing instruments used and track record. It will also include an analysis of the VC industry data (market size, growth rate, key sectors, top investment deals, latest exits, etc.). The maturity level of the country's financial market, and most common exit mechanisms in the region, will be studied as well. A closer look will be taken at the role of the Korea Venture Investment Corporation (KVIC), Korean government-backed FoF, which has been a key success factor for the dynamic startup ecosystem. Questions of this assessment should include: Under which circumstances, was it introduced? How is it structured and managed? What are the key features and performances like? Following the bigger picture, 'foreign VC investment fund' which the KVIC manages as of now is another sweet spot to be addressed, including its principal terms and conditions with recent cases – i.e. commitment in Angel Ventures Pacific Alliance Fund (managed by Angel Ventures, based in Mexico), and cooperation with the Singapore government. Along with the research, a study tour to Korea will be arranged, targeting relevant stakeholders in relation to the launch and operation of the potential LAC-Korea Startup Fund. The tour will include visits and meetings with the KVIC, several VCs invested by KVIC and their portfolio startups, to facilitate a better understanding and knowledge sharing.
- 3.3 Component III: Design of a LAC-Korea Startup Fund.** Based on the results of the component 1 and 2, a master plan for an IDB Lab backed startup fund dedicated to the support of LAC tech startups in collaboration with Korea will be developed. The following aspects, among others, will be analyzed for the preparation and its launch: i) funding source and structure – potential financed from the Bank's OC including Korean contributions and matched by other public/private VCs by nature of a FoF, ii) fund size<sup>7</sup> iii) investment sectors with the most potential for LAC startups seeking to expand to

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<sup>7</sup> When it comes to the fund size, the minimum of USD 20 or 50M is suggested (IDB, 2011) and the amplifier effects are reported to vary from 4 or 5 times to over 10 times in the cases of foreign countries including Korea. IDB (2011), Building a local venture capital industry in LAC, IDB, Washington D.C.

Korean/Asian markets, and vice versa,<sup>8</sup> iv) operation guides – including risk appetite, targeted value for money and evaluation etc., v) management – the qualification or eligibility of GP as well as its roles and responsibilities, etc. In particular, viable options in every aforementioned category should be presented, weighing their own strengths and weaknesses so as to serve decision makers substantially and effectively. In addition to the master plan, an action plan to support its implementation will be developed with detailed work plan and time frames.

- 3.4 **Component IV: Support to partnership building.** For the success of the fund, an active involvement with the VCs and accelerators in LAC and Korea will be key to develop potential pipeline for follow-ons and entrepreneurial outreach. Therefore, investor and entrepreneurs' events will be organized where investors (VCs, accelerators) and agencies from Korea, LAC and even US (i.e Silicon Valley) get together. At least two meetings are planned, one in Korea and one in LAC. The goal is to establish solid partnerships to support innovative startups from both regions who will become the main beneficiaries of the fund.<sup>9</sup>

#### IV. Indicative Budget

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<sup>8</sup> ICT, bio and cosmetics, game and software, media and entertainment are domains where Korea could contribute much.

<sup>9</sup> Current partnerships formed among accelerators from Korea and LAC such as Born2Global Center, KIC, Puente Labs, Ruta N (Colombia), Distrito Tecnológico (Argentina), etc. - will be expanded.

Activity/Component	IDB/Fund Funding	Counter Funding	Total Funding
<b>Component 1.- Analysis of the current status and trends of the of LAC startup and VC ecosystem</b>	<b>\$110,000</b>		<b>\$110,000</b>
i) In-depth review of the current status of LAC startup and VC ecosystem	\$60,000		\$60,000
ii) Assessment of IDB Lab's investment impact/lessons learned in LAC	\$20,000		\$20,000
iii) Recommendation for prospective investment countries/sectors including promising cooperative areas with Korea	\$30,000		\$30,000
<b>Component 2.- Analysis of the current status and trends of the Korean startup and VC ecosystem. Study of the Korean FoF model for startup promotion.</b>	<b>\$100,000</b>		<b>\$100,000</b>
i) Analysis of the current status of the Korean startup and VC ecosystem	\$30,000		\$30,000
ii) In-depth analysis of the KVIC's foreign investment cases and conditions	\$35,000		\$35,000
ii) Study Tour to Korea	\$35,000		\$35,000
<b>Component 3.- Design of a LAC-Korea startup fund</b>	<b>\$200,000</b>		<b>\$200,000</b>
i) Development of a master for a tailor-made startup fund	\$140,000		\$140,000
ii) Execution of the action plan to support implementation	\$60,000		\$60,000
<b>Component 4.- Support to partnership building</b>	<b>\$240,000</b>		<b>\$240,000</b>
i) Joint events for strengthening cooperation among participant: at least 2 events, in Korea and LAC (deal-flow creation, fundraising, etc.)	\$140,000		\$140,000
ii) Partnership building & overall project coordination	\$100,000		\$100,000
<b>Total</b>	<b>\$650,000</b>		<b>\$650,000</b>

## V. Executing Agency and Execution Structure

- 5.1 Given the regional character of the project and acknowledging that it needs a significant level of coordination between regional and Korean public/private sector stakeholders, the Bank will be the project's executing agency, through IDB Lab and in collaboration with related Korean institutions.

## VI. Project Risks and Issues

- 6.1 Implementation of a regional project implies a higher level of complexity, as well as risks related mainly to inter-institutional coordination. It is expected that these risks will be mitigated by having the IDB as the executing agency.

## VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".