

**PROJECT SUMMARY**  
**REGIONAL**  
**EQUITY INVESTMENT IN VALOR VENTURE FUND III: CROSS-BORDER STRATEGY**  
**LEVERAGING IMPACT**  
**(RG-Q0060))**

Early stage and high growth companies, in particular those that are able to leverage new business models with new technologies, have a large potential to generate positive impacts in terms of innovation, efficiency, employment creation, as well as in solving social and environmental problems. Startup companies and local entrepreneurs are generating innovative business models that taking advantage of available new technologies are tackling inefficiencies and market failures in key sectors, such as education, health, logistics/mobility, financial services, MSME enterprise services and thus generating not just growth, but more economic and social inclusion.

The Brazilian venture capital (VC) industry has become a key enabler of early stage companies by providing smart capital and other critical inputs to entrepreneurs, which has allowed the country to position itself at the forefront of the Region's innovation ecosystems, enabling the success of a growing number of early stage businesses and offering opportunities for innovations and inclusion. Entrepreneurs from Brazil and other Latin American and Caribbean (LAC) countries have benefited from investments by Brazilian VC funds. However, although the VC industry has been expanding, investments in startups from these funds represent only a fraction of the levels seen in the more advanced ecosystems; and therefore, despite the industry's positive trends, the potential of early stage businesses to innovate and contribute to economic dynamism and to release critical constraints for inclusion in the aforementioned sectors, remains largely untapped.

Through an investment in Valor Venture Fund III (VVF III), IDB Lab will partner with a leading fund manager in LAC (Valor Capital - "Valor"), with the objective of supporting the growth of about 25 best-in-class and highly innovative startups that by advancing innovative approaches and business models, enabled by technology, should be capable of generating positive transformation and scale in key sectors (such as financial services, health, education, logistics/mobility or SME services), where the investee companies will also have the potential to generate social gains in the form of improved and expanded access by vulnerable and underserved populations to vital products, services and opportunities. By the end of the Fund's lifetime, the project is expected to benefit 2.1 million people in vulnerable conditions through the invested companies.

This project will address key bottlenecks faced by tech-driven, early stage companies that show high-impact potential but often also higher risk-profiles, such as: (i) limited access to equity or equity-like financing; (ii) limited access to specialized mentorship and talent required by entrepreneurs with promising business models to address the multiple challenges they face in the early stages of their startup companies, and (iii) limited access to networks to grow and expand businesses first, locally and, if the startup gains traction, internationally. By leveraging the partnership between Valor and IDB Lab, and their connections and ability to access high-caliber networks, the project will also help to unlock the startups' alpha –the ability of companies to perform above their peers--, by enhancing the ability startups with successful and potentially inclusive business models, to connect

faster, at a more strategic level and across borders, with governmental bodies, industry experts, and sources of know-how.

IDB Lab will invest up to USD 4 million in Valor Venture Fund III. As investor, IDB Lab will add value by providing its regional expertise and contact network to support the expansion --both locally and across borders-- of the startups invested by VVF III, as well as by steering the Fund Manager to promote a new generation of good practices in its portfolio companies (in areas such as the responsible use data and artificial intelligence), and to enhance key impact metrics in their operations/monitoring. IDB Lab will also add value to the fund by: (i) Providing different fora for the Fund's team to share their expertise across the region, especially to less developed ecosystems. (ii) Engaging with Valor to create an Impact Index, with the goal to generate relevant information to shed a clearer light on the impact of tech-driven companies in the different sectors. (iii) Facilitating access to local and global alliances that IDB Lab has helped create or participates in, such as fAIr LAC for artificial intelligence, and LACCHAIN for blockchain, or the Finconecta platform for the fintech community. Valor can benefit from these initiatives while also mobilizing its own global networks of cutting-edge companies operating in these areas to improve the discussions, leading ultimately to an improved value added to the invested startups. (iv) Exploring synergies with other funds invested by IDB Lab with similar strategies (e.g. the Angel Ventures Pacific Alliance Fund, NXTPII, Alta Ventures, Cometa III and Magma II), which can be significant with respect to knowledge exchange, identification of potential investments, co-investments, and generation of exits.

In turn, the relationship with Valor is expected to bring important synergies that can add non-financial value to the work of IDB Lab in promoting innovation and inclusion in the entrepreneurial ecosystems in the region. As one of the leading venture capital fund managers in Brazil, Valor has direct and privileged relationships with many of the top and most innovative startups from the Region. Participation in their flagship fund will help IDB Lab to keep abreast of the state of the art of the new business models and innovations generated by tech-startups in LAC, but also grant it access to knowledge and lessons from Valor's portfolio companies that will generate learning opportunities, both of which are key for IDB Lab to maintain its position as an organization able to provide access to knowledge and networks. The Fund may also generate useful information on successful approaches and businesses models brought forward by the investee startups that may be relevant for public policy and which can feed the work of the IDB on specific sectors, such as health, education, financial services, and urban mobility.

This relationship will also bring to IDB Lab improved access, for business development and other purposes, to: (a) a network of global investors such as Softbank, Temasek, IFC, Credit Suisse and others that have started to get involved in VC investments through VVF III; (b) co-investment opportunities in break-away startups advancing innovative and inclusive models in a range of key sectors, such as education, health and financial services.

The project is aligned with IDB Lab's 2019-2021 Business Plan and has benefited from a close coordination with IDB Invest. This investment will make it easier for IDB Invest to explore synergies and potential scaling up opportunities of break-away portfolio companies in VVF III in the future.