PROJECT SUMMARY

The venture capital (VC) industry has shown steady progress since 2000 in LAC. Investments reached US$1.9 billion in 2018, almost double than the year before.

LAC ecosystems are critical for leveraging technological progress in the region and bringing innovations, thereby offering more cost-effective services based on these technologies to citizens. However, about 70% of early stage startups in Latin America and the Caribbean do not survive. In addition to the risks inherent in innovative businesses, startups often have limited access to funding sources, given the funding instruments available to startups and early stage companies.

The typical instrument available is equity investment by VC funds, which provides mentoring and strategic business support in addition to capital. However, this instrument is not always enough to finance the company's growth. In more mature markets, the so-called venture debt is often used as a complement to equity rounds (seed, A or B) to finance startups' growth and needs without causing their founders to over-dilute. In the region, the founder's dilution level can reach 70% to 90% after these rounds, just when they reach a critical maturity level of the company.

Venture debt is a non-convertible debt for startups backed by VC funds that lack sufficient collateral or cash generation to get traditional debt, whose founders want to avoid excessive dilution and who seek access to more flexible equipment purchase or growth financing. Venture debt is generally less expensive than equity when properly structured and can be an attractive financing option for the following reasons: (a) it does not imply dilution of founders and investors; (b) it does not require participation in startup governance; and (c) the due diligence process is typically less exhaustive compared to that of the equity option.

This operation will be a fully focused Venture Debt Fund for LAC, managed by LAC professionals that will tailor venture debt products for LAC startups. It will promote the access of early stage impact startups to new financing products to enable them to grow with the right capital structure and realize their potential for social and environmental impact. IDB Lab will be the anchor investor of the LAC Venture Debt Fund at its first close, investing US$5 million.

The Fund will position itself within a fast-growing ecosystem in the region, taking advantage of a recent boom in the growth of small and growing businesses that are innovating with products and services. The Fund will seek a triple bottom line of financial, social and environmental benefits: (i) financial impact through an attractive return on investment and Internal Rate of Return (IRR) to investors and the management team; (ii) social impact through generating employment and income for investee companies and their suppliers, as well as social impacts in poor and vulnerable communities or end-users of the services or products produced by the companies; and (iii) environmental benefits through the development and/or use of ecological inputs, products or processes that help to reduce the use of non-renewable energy and water contamination, promote recycling and reuse, gender equality, employ sustainable production practices.