

PROJECT SUMMARY

THE CAPITAL TECH VC FUND (RG-M1130)

Early stage businesses (ESBs)¹ often play a critical role in development by generating new employment opportunities and by fostering innovation and technological change. Evidence shows that high-growth ESBs focusing on technology are a central pillar for innovation-driven economies and that they can become important engines of growth, with above-average contributions to their economies. These businesses, however, face complex challenges as they attempt to scale. Chief among them is limited access to flexible and long-term financing. In the case of Brazil, private equity markets have been developing rapidly, but they are still small relative to the overall size of the economy and compared to more developed countries. Furthermore, these capital markets have evolved skewed towards the upper segment, benefitting mostly established companies in need of growth capital or ready to be listed, and leaving ESBs largely underserved.

This project will contribute to fostering high-growth ESBs in Brazil by increasing their access to long-term financing. To this end, it will help structure the Capital Tech VC Fund (CT-VC), an investment vehicle that will provide equity and quasi-equity financing as well as hands-on advice to technology-based ESBs. The Fund will seek a capitalization of USD 30 MM, which will be invested in 12-15 companies in the form of seed and venture capital rounds. It will be administered by Invest Tech, a Brazilian management company with an established track-record through two previous funds.

The proposal is for the MIF to invest USD 5 MM in CT-VC and to provide up to USD 280,000 in non-reimbursable resources for evaluation, knowledge management, supervision, and training activities.

The MIF investment is expected to generate a financial return in the order of 20%. Economic and social benefits are also anticipated to be high, considering that the Fund will invest in high-growth ESBs rendering services in sectors with development spillovers, including healthcare, education, green technologies and agribusinesses. Portfolio companies are expected to achieve high rates of growth in the order of 20% a year and to create between 1,000 and 1,200 quality jobs in Brazil.

¹ For purposes of this document, early stage businesses are defined as those with annual revenues between USD 200,000 and USD 6 MM in need of seed or venture capital financing.