

## SUMMARY OF THE PROJECT IN DESIGN \* (\*)

### 500 LatAm IV: Impulsando el crecimiento e impacto de startups tecnológicas de ecosistemas emergentes

<b>PITCH ELIGIBILITY DATE</b>	<b>COUNTRY(IES)</b>	
10/02/2023	Costa Rica; Dominican Republic; Ecuador; Guatemala; Peru; Uruguay	
<b>ALIGNED WITH COUNTRY STRATEGY?</b>		
Yes		
<b>PARTNER(S)</b>		
500 LatAm Seed IV		
<b>PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT</b>		
FI-3 (**)		
<b>TOTAL BUDGET</b>	<b>IDB Lab</b>	<b>LOCAL COUNTERPART AND COFINANCING</b>
	USD 2,000,000	
<b>DESCRIPTION</b>		

**The problem:** The entrepreneurial ecosystem remains underdeveloped, with venture capital investment in the region representing only 0.14% of its GDP. This percentage, when compared to more advanced economies like the United States (0.97%) or Israel (1.93%), highlights a growth potential of 7 to 14 times in investment opportunities in Latin America and the Caribbean (LAC) as the ecosystem evolves and achieves its maximum development capacity. In 2022, the venture capital sector reached \$7.9 billion (bn) in funding in LAC, making it the second-highest year for investment in the region's history. However, this represented a 51% decline compared to the record \$16.0 bn funded in 2021, due to the global macroeconomic context of rising interest rates and the subsequent global slowdown. The contraction was even more pronounced in the first half of 2023, with a 68% drop compared to the same period in 2022 (\$1.7 bn vs. \$5.6 bn).

Additionally, the fundraising process for emerging managers (managers who have raised fewer than four funds, as defined by the National Venture Capital Association of the United States - NVCA) is especially challenging in the current situation, particularly for those managers with an investment thesis that covers emerging or nascent ecosystems such as Central America, Ecuador, Peru, Uruguay, among others. According to LAVCA, in the first half of 2023, only 30 funds achieved closings for a total of \$1.8 bn (77% of the total raised concentrated in 2 fund managers). In comparison, in the first half of 2022, 47 funds achieved closings for \$2.0 bn. Even managers with a considerable track record are facing difficulties in achieving their target sizes and postponing closings. The current challenging scenario will impact the institutional capacity of these managers to establish themselves as key players in the local ecosystem that provide "smart capital" to new startups.

This is a crucial challenge, as venture capital funds provide value add to entrepreneurs in various business areas (recruitment, capital raising, strategy, etc.). In addition to providing funding, they help startups access new markets and geographies, leverage their growth potential, achieve economies of

\*The information mentioned in this document is indicative and may be altered throughout the project cycle prior to approval. This document does not guarantee approval of the project.

\*\*The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

scale, and increase their impact. As a result, startups are facing greater difficulties in finding lead investors and closing funding rounds, even when they have solid business fundamentals and highly capable founding teams, especially in the early stages (pre-seed and seed) and in more nascent ecosystems.

**The solution:** 500 LatAm's new strategy, 500 LatAm Seed IV, L.P., was selected for further due diligence in Q1 2023 from among 28 applicant managers who submitted proposals during 2022 within the "regionalization" vertical (out of a total of 93 applications and 65 funds that passed the second screening). This selection followed a comprehensive analysis in the following areas: 1) 500 LatAm team, 2) track record, 3) investment thesis, 4) terms and governance, and 5) potential for development impact and IDB Lab's additionality. Under this vertical, IDB Lab aims to direct its investments towards funds with a regional strategy that not only invest in startups from more developed ecosystems but also target emerging ecosystems like Ecuador, Peru, Uruguay, and Central America to promote knowledge transfer and regional integration.

### **Investment Strategy of 500 LatAm:**

**Geographical Focus:** 500 LatAm seeks to build a diversified portfolio focused on investing in startups based in LAC.

**Sectoral Focus:** 500 LatAm's strategy is to invest in dynamic and highly scalable early-stage ventures that aim to address structural problems in LAC through innovative use of technology, primarily in areas such as financial services, education, access to basic services, healthcare access, agribusiness, mobility, logistics, solutions for SMEs, e-commerce, and others. 500 LatAm believes that opportunities related to software-as-a-service (SaaS) applied to the aforementioned sectors will be particularly attractive.

**Value Creation:** In addition to providing capital, 500 LatAm provides support to all companies in its portfolio through its acceleration program to strengthen the business fundamentals of entrepreneurs and teach them best practices in customer acquisition, product development, talent management, fundraising, and more, in the pre-seed stages.

**The beneficiaries:** 500 LatAm plans to invest in approximately 60 technology startups at pre-seed stage that align with its investment thesis and are developing commercially viable and scalable solutions to address structural challenges in the region. 500 LatAm aims to be the first institutional investor of the entrepreneurs it supports, with initial tickets of \$300k in companies accepted into its acceleration program, as well as follow-on investments ranging from \$200k to \$500k in those with the highest growth and impact potential.

**The partner:** 500 LatAm, founded in 2012, is a leading early-stage venture capital investor based in CDMX, Mexico, focused on investing in promising founders in LAC. Since 2012, 500 LatAm has raised three funds with aggregate committed capital totaling \$25.7 million, has analyzed over 17,000 opportunities, and has invested in 288 companies, including three portfolio companies that achieved "unicorn" status with valuations of over \$1 bn (Konfio, Clip, Cabify). To date, 500 LatAm has had eight successful exits, six full exits and two partial exits, including through acquisitions, secondary sales, and IPOs. IDB Lab is a limited partner in 500 LatAm's predecessor fund, Luchadores III, L.P,

\*The information mentioned in this document is indicative and may be altered throughout the project cycle prior to approval. This document does not guarantee approval of the project.

\*\*The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

which has invested in over 100 startups, and that, when combined with 500 LatAm's other predecessor funds, have been responsible for creating over 10,000 jobs and products and services used by more than 2.6 million users<sup>[1]</sup>, including Talently (Edtech, Peru), Reliv (Healthtech, Ecuador), and AlterEstate (Proptech, Dominican Republic).

**The IDB Lab's contribution:** The IDB Lab team proposes an investment of up to \$2 million in equity in 500 LatAm Seed IV. 500 LatAm will seek to allocate these funds in Costa Rica, Dominican Republic, Ecuador, Guatemala, Peru, and Uruguay.

[1] All metrics based on internal data provided by 500 Luchadores Portfolio companies and third party research as of 30 June 2023 and have not been verified by 500 Global or external parties. Figures are aggregated across 500 Luchadores I, II and III funds. A full list of investments is available at [500.co/companies](https://500.co/companies)

\*The information mentioned in this document is indicative and may be altered throughout the project cycle prior to approval. This document does not guarantee approval of the project.

\*\*The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.