

SUMMARY OF THE PROJECT IN DESIGN * (*)

Monashees XI

PITCH ELIGIBILITY DATE	COUNTRY(IES)	
05/10/2024	Argentina; Brazil; Chile; Colombia; México; Uruguay	
ALIGNED WITH COUNTRY STRATEGY?		
Yes		
PARTNER(S)		
Monashees XI (Monashees Capital)		
PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT		
FI-2 (**)		
TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
	US 6,500,000	

DESCRIPTION

The problem: There is robust international evidence of the important role played by Venture Capital (VC) in innovation, employment, and economic growth. Research also indicates that startups that access external financing can grow up to 30% faster than those without such access. In this sense, the region's VC funds play a key role in providing access to "smart capital" to local entrepreneurs, adding increasingly strategic value, in addition to capital, in business areas (e.g., recruiting, fundraising, strategy, etc.).

After an expansion cycle, VC financing in Latin America and the Caribbean (LAC) collapsed at an annual rate of ~50% for two consecutive years, from a record-breaking \$16.0B in 2021 to \$4.0B in 2023, due to the global macroeconomic context of high interest rates and economic slowdown. Specifically, financing for early-stage entrepreneurs (seed, post-seed, Series A-B) decreased by 52% in 2023. The entrepreneurial ecosystem remains underdeveloped, with the venture capital invested in the region accounting for only 0.06% of its GDP, a percentage that, when compared to the global average (0.33%) or more advanced markets, such as the United States (0.63%) or Israel (1.32%), underscores a 5-to-20 times growth potential in investment opportunities as the ecosystem develops.

The solution: Monashees XI was assessed and selected in Q1 2024 among 37 managers that applied under the regionalization vertical (out of a total of 137 applicants and 85 funds that met the Minimum Eligibility Criteria), after carrying out an exhaustive analysis in the following areas: (1) management team, (2) financial track record, (3) investment thesis, (4) terms and governance of the fund, 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 more emerging ones to promote knowledge transfer and regional integration.

Investment Strategy of Monashees XI:

Geographical Focus: Monashees XI is a regional fund with an emphasis on backing startups identifying emerging technologies all over LAC. In previous funds, the fund manager has deployed investments in 5 countries in the region including Brazil, Argentina, Colombia, Chile and Mexico.

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**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.

Sectoral Focus: Monashees XI will seek to build a diversified portfolio investing in sectors with high growth potential and impact, with an emphasis on identifying emerging technologies all over LAC. The fund will have a sector-agnostic approach, but will mainly focus on the following key sectors of the economy: fintech, edtech, healthtech, retailtech and emerging tech. Emerging technologies include:

- **Artificial intelligence:** AI/ML as a cross-cutting theme across all sectors, helping improve efficiency and reduce costs. Main focus in supporting startups in the *application layer* building atop existing AI frameworks and leveraging proprietary data or unique product approaches, smart routing, and model selection. Opportunistic approach to companies in the *middle layer*, building developer tools to efficiently connect startups building applications with the intelligence layer (companies building and deploying LLMs).
- **Climate tech:** LAC's strategic geographic location positions it as a key player in this space. Key opportunities lie in businesses capitalizing on carbon credits in the region and using technology to bring transparency into that market, opportunities in the energy transition and mobility spaces, and startups in the resource management space, especially focused on efficiency and traceability, among others.

Value Creation: In addition to direct financing, Monashees provides value-add to its portfolio companies through an integrated approach combining a robust community network, innovative advisory services, and a people-centric strategy to propel founder success: i) deep relationships with entrepreneurs, co-investors, LPs and advisors, having earned a reputation as the region's premier local partner of choice for top global investors, which allows Monashees to mobilize capital from international investors into the region, helping investees find lead investors for later-stage rounds; ii) tailored executive guidance, particularly on people, strategy, product, technology, and company scaling, supported by an expanded system of experienced industry advisors; and iii) solid expertise in helping companies adapt emerging technologies to the LAC market.

The beneficiaries: Monashees XI seeks to invest in up to 30 early-stage technology startups tackling LAC's greatest structural challenges, with initial tickets ranging from US\$1M to US\$10M, mainly at seed and series A stages. The Fund has also set aside 30% of the capital as a follow-on reserve for investments in later stages in the companies with the highest growth and impact potential.

The partner: Monashees was founded in 2005 by Eric Acher and Fabio Igel to build a world-class VC platform inspired by Silicon Valley's best practices in Brazil and LAC. With a human-values-first approach, Monashees has been helping founders challenge the status quo and aim to improve people's lives through technology. Since inception, it has invested in over 148 companies (12 unicorns, 3 already exited) through 12 funds historically (10 early-stage funds and 2 expansion funds).

IDB Lab contribution: The IDB Lab team proposes an investment of up to US\$6.5 million in equity in Monashees XI fund.

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