

SUMMARY OF THE PROJECT IN DESIGN * (*)

Valor Venture Fund (VVF) V: Scaling Cross-Border Opportunities for LAC Entrepreneurs

PITCH ELIGIBILITY DATE		COUNTRY(IES)
01/16/2025		Argentina; Brazil; Chile; Colombia; México
ALIGNED WITH COUNTRY STRATEGY?		
Yes		
PARTNER(S)		
Valor Capital Group		
PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT		
FI-2 (**)		
TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
	US 3,000,000	
DESCRIPTION		

The problem The potential of venture capital and its contraction in Latin America. There is robust international evidence on 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 economic 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 IDB Lab Call for Proposals for VC Funds. In February 2021, IDB Lab launched a renewed mechanism for receiving proposals, aligned with the growth and evolution of the VC industry in the region, with the goal of expanding the scope of interested fund managers, while adopting a more transparent and systematic approach to the selection process. "Funds with regionalization strategies" is one of the three verticals that are part of IDB Lab's investment thesis for VC funds. Under this vertical, IDB Lab seeks funds with a regional strategy that, in addition to targeting more developed startup ecosystems, include nascent or emerging ecosystems to promote regional integration and knowledge transfer. These funds are led by experienced managers with solid early-stage track record showing clearly aligned theses and robust regional networks. Valor Venture Fund V ("VVF V"), administered by Valor Capital ("Valor"), one of the top VC fund

*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.

managers in the region, was selected in Q4 2024 among 37 funds that applied under the regionalization vertical (out of a total of 137 applicants and 85 funds that passed to the second screening), after carrying out an exhaustive analysis in the following areas: (1) management team, (2) financial track record, (3) investment thesis of the fund, (4) terms and governance of the fund, and (5) potential for development impact and additionality from and for IDB Lab.

An investment in VVF V has the potential to support the following strategic aspects for IDB Lab:

1) Alignment of Valor's mission and track record with IDB Lab's portfolio approach. Valor was founded in 2010 by Cliff and Scott Sobel with a mission to create significant social and economic impact in Latin America through venture capital investments, emphasizing on a cross-border approach.

2) Social and environmental impact track record. Valor's investment strategy has resulted in market-leading impact KPIs by their portfolio companies, including:

- Over 1 M SME merchants supported with financial and non-financial services.
- Over 6 M healthcare patients impacted by services and insurance coverage.
- Over 5 M students served by education technology companies.
- Over 500 MW of solar energy capacity installed.
- Over 50 K direct and indirect jobs created.

3) Access to co-investment opportunities led by proven founders in the region. Investment in VVF V is also strategic in terms of enhanced access to co-investment opportunities for IDB Lab and IDB Invest, in fund portfolio companies with clear evidence of traction, potential for scale and impact, clear benefits for underserved populations, accelerating the digitalization of MSMEs, or positive environmental impact.

4) Blockchain and AI as key cross-cutting technologies of target portfolio companies. Valor believes that future disruptions will arise from two key sectors—Fintech and Software—and two transformative technologies: Blockchain and artificial intelligence (AI). The Manager anticipates that these sectors and technologies will increasingly converge, with the new Fund's investments focused on the intersection of these four trends.

5) Knowledge transfer to nascent/emerging ecosystems. As one of the key aspects valued by IDB Lab is the ability of a regional fund manager to foster knowledge transfers to emerging ecosystem actors, and to promote greater regional integration, since the beginning of its partnership with IDB Lab in 2019, Valor team has been highly collaborative and active in sharing knowledge in several IDB Lab hosted events. One of the most seasoned managers in the region such as Valor could play an increasing role in building capacity of first-time fund managers that are part of IDB Lab portfolio.

The beneficiaries The investment's main beneficiaries will be up to 30 startups, entrepreneurs, individuals or companies served by the beneficiary startups, local economies and society in general.

The partner Valor is one of the largest and most active VC firms in LAC with a platform positioned to invest in different stages and geographies and to support its portfolio throughout its life cycle. Currently its team, distributed across Brazil, Mexico and the US, in addition to its 8 Partners, is comprised of 22 professionals distributed in five teams: Investment (14 members for venture & growth); Investment Relations; Community Relations; Finance (3); and People and management.

*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.

The IDB Lab Contribution IDB Lab would make an equity investment in Valor Venture Fund V (Valor V or the Fund) for up to \$3,000,000.

*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.