

RESUMEN DEL PROYECTO EN DISEÑO * (*)

YA Fund Ventures 1

FECHA DE ELEGIBILIDAD DEL PITCH		PAIS(ES)
10/15/2021		Brasil, Colombia, Panama, Trinidad y Tobago
SOCIO(S)		
Black RockS		
CLASIFICACIÓN PRELIMINAR DEL IMPACTO MEDIO AMBIENTAL Y SOCIAL		
C (**)		
PRESUPUESTO TOTAL	BID Lab	CONTRAPARTE LOCAL Y COFINANCIACIÓN
US 0	US 3,000,000	US 0
DESCRIPCIÓN		

The problem “Diversity is both an issue of fairness and, some say, a driver of innovation and performance .”

IDB Lab has invested in more than eighty (80) venture capital funds in the Region since the nineties. None of these funds were led by a black or indigenous person, nor had black or indigenous partners. And a minor percentage of these funds were led by women – approximately 10%.

This lack of racial and gender diversity reflects in the profiles of the investees of our venture capital funds. The vast majority of our VC funds investees are companies/startups led by white males. Most lack in terms of diversity within their own teams and/or are not aware of the gender-ethno-racial profile of their own clients.

On the other hand, women, blacks, indigenous entrepreneurs, here called the “invisible entrepreneurs/innovators” are ironically the majority or almost majority in some LAC countries. In Brazil, 52% of the population and 51% of formal entrepreneurs are black or brown. In Colombia, 55% of the entrepreneurs are female and 10% of the population is black. In Panama, 9.2% of the population is black and 12.2% of the population is indigenous. In Peru 45% of the population is indigenous and 40% of entrepreneurs are female. Indigenous and Afro-descendants make up 40% of LAC’s population, and most endure crippling poverty and segregation in deteriorating rural and urban communities far from mass transit, employment, services, and education. However, these groups, some of them being “majorities” are invisible for most VC funds and markets of the region. If these groups are so significant in terms of the labor force, consumers, and a number of entrepreneurs, why aren’t our funds managing to source and financing diverse founders? They may be missing the opportunity to reach high financial returns and promote greater and more inclusive innovation.

As we have seen in the case of women entrepreneurship and gender lens investing studies bias and references that are intrinsic to investment decision making. When women pitch to investment committees fully comprised of men, two things happen: (a) women tend to feel intimidated and even uncomfortable with the idea of selling part of their companies to men; and (b) women entrepreneurs

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**The IDB categorizes all projects into one of four 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, B13, is a catch-all category not related to severity of impacts; it covers non-investment lending and flexible lending instruments for which ex-ante impact classification may not be feasible, such as Financial Intermediary operations or Policy Based Loans.

tend to be asked different questions than those asked men, for example, more questions focused on risk rather than on growth; (c) during the scouting phase male investors tend to relate to men entrepreneurs and invest in their companies.

Our theory is that the same things happen to other “invisible” types of entrepreneurs for different reasons related to systemic bias. Being “invisible” means being underrepresented, unknown, and, by default, excluded by our innovation ecosystems. This exclusion does not happen on purpose. It happens due to bias, underrepresentation, and lack of knowledge and understanding. As a result, we have some serious consequences: (i) there is currently a gap of US\$ 93B of a credit gap to women-led Small and Medium enterprises in the region and their companies tend to be 3 times smaller than male businesses on average; (ii) 32% of black entrepreneurs in Brazil say they have been denied access to capital without an explanation; and (iii) although indigenous people -(that are the most excluded Invisibles of the region)- excel in tech-driven business very few of them dare to open a tech-driven business given their lack of access to services.

Scouting/sourcing in VC markets is typically done thru venture partners ‘connections; incubators and accelerators – all are mostly comprised of white elite men. Naturally, these typical sourcing/scouting channels are not effective when it comes to sourcing potential companies led by women, blacks, indigenous entrepreneurs. The networks simply do not connect due to lack of knowledge, systemic bias, etc. For example, 76% of the entrepreneurship ecosystem actors have a perception that rarely (or never) has access to pitches from black entrepreneurs.

Experience shows that diversity from within the GP firms tend to go around this sourcing/ lack of connections issue and result in more diverse portfolios. This has been the experience with funds that have GP firms comprised by men and women. They have delivered more diverse portfolios and even, on average, higher returns.

Diversity from within also attracts more diverse investors. Women, black, and indigenous impact investors around the world are looking for opportunities to allocate their capital in a way that they know will result in the social and financial returns expected for their groups.

For the LAC innovation ecosystem, Diversity is a must-have, not a good-to-have. From a development standpoint, it makes no sense to unlock all this potential from the invisible/underrepresented entrepreneurs, fund management professionals, and investors, and IDB Lab is uniquely positioned to unlock the potential of these “invisible” groups and tackle this innovative innovation for inclusion proposition.

The creation of a Diversity-focused Fund could not only solve the problem of access to opportunities which has been neglected to minority and underrepresented groups, but it also presents an opportunity for IDB Lab to foster more profitable investments with higher financial return potential. Companies with a diversified executive team are 14% more likely to outperform their industry peers and companies which are perceived by their employees as gender diverse are 93% more likely to financially outperform their industry peers. Thus, using a Venture Capital fund to increase investments in diverse teams is also an opportunity for IDB Lab to increase its ROI.

The solution BID Lab call for proposals for VC funds. In February 2021 BID Lab launched a renewed mechanism for receiving proposals, in line with the growth and evolution of the VC industry in the region, with the goal of expanding its reach of interested fund managers, while adopting a more

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transparent and systematic approach to the selection process. Diversity was one of the four verticals that form part of the BID Lab's investment plan for venture capital funds. Under this vertical, IDB Lab seeks a strategy that, promotes a Diverse GP group and an investment thesis focused on diversity.

YA Fund 1 GP group was placed second in the competition with a close rating – only missing to Regional experience and track record (which turned out not to be accurate due to the misrepresentation). YA GP group comes from Black RockS, an afro tech accelerator/hub financed by Banco BTG Pactual in Brazil.

Stage and Ticket sizes: Pre-seed to Serie A. Initial tickets from USD100k to USD250k. Maximum size USD 1M. Up to 25% of the fund's invertible capital will be reserved for follow-on investments in those companies with the greatest growth potential.

Geography. YA FUND will adopt a regional focus where there is an Afro-Descendant diaspora. In these markets, given the nascent nature of entrepreneurs, YA will focus mainly on startups in pre-seed and seed, with first tickets for investments between USD 1000K-USD250K. YA Fund will seek to lead but not be the only investor in rounds.

Sectoral approach. Given the focus on afro descendants women and indigenous founders, the Fund will be agnostic. However, most of its pipeline companies are in the following sectors: fintech, e-commerce, HR tech and mediaTech.

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Number of investees: up to 20 companies.

It is time to start the first LAC VC fund led by a diverse team of professionals with the objective to foster and develop: (i) tech-driven companies owned by women, blacks, indigenous entrepreneurs in the region and; and (ii) companies that have a high impact in these communities.

YA Ventures is a first-time fund management firm that comprises mostly well-connected and top-notch black professionals with a long track record in investing, developing and promoting companies led by invisible entrepreneurs. They have experience and connections with investors and stakeholders from LAC and the USA. Together with IDB Lab, YA Ventures are proposing to launch the YAV1 Fund, a US\$ 20M fund, with the aim of offering equity and quasi-equity investments to companies focused on Pre-Seed, Seed up to Series A.

The beneficiaries Beneficiaries will be:

- Up to 20 tech-driven companies (Pre-Seed, Seed, Series A) with at least one black founder.
- The LAC innovation ecosystem will have the opportunity to embrace, support and co-invest with a diverse GP firm and fund, and get the opportunity to break the silos and the bias that exist between the ecosystem and these groups of entrepreneurs and investors.

The fund contributes to the following sustainable development goals (SGGs):

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Goal 10: Reduced Inequalities – reduced inequalities within and among countries

Goal 5: Gender Equality – achieve gender equality and empower all women and girls

Goal 17: Partnerships for the goals

Goal 9: Industry, innovation and infrastructure

Goal 8: Decent work and economic growth

Goal 11: Sustainable cities and communities

Goal 4: Equality education

Goal 12: Responsible consumption and production

The partner The project will be led by a GP firm composed of the shareholders of YA Ventures.

YA Venture was born with the disruptive experience of the startup ecosystem, coupled with deep knowledge about the black population and its power. YA in Yoruba means to break, transform, split, just as YÁ is to lend, invest, and to become something. These components make YA Venture a great potential for transformative investment. YA Ventures has a team that has experience with accelerating and investing in underrepresented founders. Collectively they have worked with more than 150 technical startups and more than 50 investments in Brazil and the USA. The company is led by a Brazilian Afro-descendant woman, Maitê Lourenço, who is well known and respected by the Afro-descendant and Woman entrepreneurs and VC markets in the region.

The IDB Lab's contribution IDB Lab's contribution is expected to be up to US\$ 3M (Instrument: Equity). IDB Lab's role as a regional connector (IDB Lab + GDI) will be critical for both the fund and the companies invested by the fund, given the extensive network of funds, entrepreneurs, and contacts of IDB Lab in the region. Lastly, BID Lab will provide the Manager with access to platforms such as i) FAIRLAC, for the ethical and responsible adoption of artificial intelligence (AI) at the level of companies of the type; ii) tools and standards developed by LACChain, the global blockchain alliance for Latin America and the Caribbean; and iii) WeXchange, for connection with potential investment opportunities co-led by women.

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