

REQUEST FOR EXPRESSIONS OF INTEREST

Fund Manager

LAC Venture Debt Fund

The opportunity

Venture Capital (VC) industry in Latin America and in the Caribbean (LAC) has shown an outstanding progress since in 2000s. In the last few years, the industry has witnessed and benefited from the growth and development of local innovation ecosystems that have also nurtured venture capital funds with unforeseen opportunities.

The growth in venture capital investments in the region has reached over USD 1.1 billion¹ in 2017, for the first time in history. The emergence of rapid-growing and high-impact startups (known as “unicorns”) can be attributed in a large part to the strengthening of national and regional innovation ecosystems, which have been growing for the past two decades, resulting in the multiplication and consolidation of key actors in recent years – such as accelerators, bootcamps, incubators, venture capital funds, co-working spaces, and tech centers.

Still, approximately 70% of Latin American startups go bankrupt. There are many reasons for this, among them: i) the lack of overall inflow of private capital to emerging markets, and ii) the type of capital made available for startups and early- and growth-stage companies in the region. VC-backed equity is the preferred, and often the only, source of financing available at a reasonable cost for early-stage firms seeking growth. However, equity may not be the best financing gap solution in markets that are not mature in terms of acquisitions of early-stage firms, or when the entrepreneur/startup has already been through a Series A and B rounds of fundraising. When startups reach this point, the level of founder’s dilution can reach up to 70%-90%.

Venture Debt² (VD) may be one viable option for early-stage startups that fit this profile. However, few local fund managers are specialized in this type of product in Latin America and almost none has a regional approach to it.

The proposed fund

IDB Lab wants to promote new financial products to be offered to VC-backed startups that can enhance their ability to avoid excessive dilution of founders in order to obtain access to additional financing after Rounds A and/or B. The potential new fund would provide smart financing to 20-30

¹ “Unicorns and IPOs: Latin America’s Record Start to 2018” LAVCA, available [here](#)

² *Venture debt* is a form of non-convertible debt financing for venture equity-backed companies that lack the assets or cash flow for traditional debt financing, or that want greater flexibility. A complement to equity financing, venture debt is generally structured as a three-year term loan (or series of loans), often with warrants for company stock. Typically, venture debt is senior debt that is secured by a company’s assets or by specific equipment. Overall, venture debt is a form of “risk capital” that is less costly than equity when structured appropriately. When structured appropriately, venture debt can be an attractive financing option for the following reasons: (i) it results in less equity dilution for entrepreneurs and investors; (ii) it does not require a valuation to be set for the business; (iii) venture lenders do not require board seats; and (iv) the due diligence process is typically less exhaustive compared to equity.

VC-backed start-up and scale-up companies of Latin American and Caribbean countries, taking advantage of the synergies that are taking place within the IDB Lab network of countries, partners and collaborators.

The IDB Lab will be one of the Fund's anchor investors in its first closing.

The IDB lab, as lead sponsor of the LAC Venture Debt Fund, along with interested co-investors, seeks to identify a dedicated Fund Manager with proven expertise with tech startups that have received several rounds of financing, need more funding and want to avoid further dilution.

General Partner: The General Partner of the Fund (GP) will be a management company, preferably from a LAC member country, or with proven experience with startup financing and presence in countries in the region. The GP should have a track record as a fund manager and will be selected by a group of experts from the IDBG. The GP will be responsible for making all financial decisions for the Fund. The GP should have a mixed team with representatives from LAC countries, in order to ensure knowledge of local and international regulations.

Size of the Fund: The Fund should have at least ~US\$30 mm in commitments to start operating. The fund's final size will be analyzed according to the strategy presented by fund managers. The Fund will be capitalized only with equity commitments and will not be leveraged with debt.

Country and company diversification: The Fund will invest in VC-backed start-up and scale-up companies operating in LAC countries³, promoting gender equality, economic and social impact, and global vision among investees.

Indicative Financing Strategy: The Fund will provide debt to VC-backed startups in different sectors, with preference to the ones that provide services and/or products to low-income and/or vulnerable populations (impact). Some indicative sectors of interest are: education, health, agriculture, finance, affordable housing, renewable energy and e-commerce. See Annex for specific policies with respect to restrictions on some sectors.

With respect to the Fund's final size, its financing strategy, tenor and amount of debt to be provided, the IDB Lab wants to understand the analysis and justification by the applicants, instead of setting the Fund's parameters in this RFP.

Measurement of and reporting on impact: The GP must be able to deliver on impact results. The impact generated by financed companies should be measured and reported by the GP. The following aspects shall be considered as possible impact indicators, among others: gender equality, profitability, jobs created, access to social services (health, education, etc.), access to finance, level of income of clients and/or beneficiaries, environmental impact, among others.

This Request for Expressions of Interest seeks proposals from management firms willing to act as Fund Manager / GP. The Fund Manager/GP will be expected to undertake the legal and operational organization of the Fund.

The Fund Manager is expected to develop and finalize the Fund's business plan and propose the Fund's final structure and investment strategy to the lead sponsors. The Fund Manager will be

³ Fund must be active and sourcing investees in at least three LAC countries.

responsible for leading and finalizing the fundraising efforts initiated by the lead sponsors, including the preparation of a private placement memorandum.

CRITERIA FOR THE SELECTION OF THE FUND MANAGER

There are certain *minimum requirements* that the candidates who wish to participate in the selection process must fully comply with. The Requirements include the following: (i) compliance with all relevant laws and regulations; (ii) qualified Management Team with track record as a fund manager; (iii) preferably from any LAC country, or with proven experience in the region; (iv) proven expertise in eligible sector-related projects and/or companies; (v) proven active experience in the structuring and management of similar financial vehicles; (vi) in case the candidates are managing other similar funds in the capital raising , investment or divestment phases, explanation of how the candidate plans to manage the proposed Fund vis-à-vis other funds under management to avoid conflict of interests; (vii) demonstrated ability to cover the costs associated with the development and creation of the Fund prior to the initial closing; and (viii) demonstrated ability to source deals from LAC countries.

The *assessment criteria* that will be applied for the selection of the management team will comprise both qualitative and quantitative attributes that are considered key indications of the most suitable candidate to act as the fund manager. The assessment criteria will consist of an evaluation of the requirements described above as well as other aspects including, without limitation, the candidate's institutional profile, integrity, the track record of the proposed management team, the proposed financing structure, and experience in structured financing schemes. The creation of local capacity is important, including a strong preference for teams that incorporate diversity and local professionals (from LAC countries) into the management team through a local office. The attributes of the fund management team will be looked at holistically and selected on a consensual basis by a committee of professionals from IDB Lab. Additional points will be given to Fund Managers that also invest their own resources into the Fund.

Expected responsibilities, among other tasks, of the Fund Manager include the following:

- Deliver the fundraising and define the business model of the Fund;
- Finalize the terms and conditions of the Fund with investors, including the terms of the proposed venture debt products offered to investee companies;
- Manage the assets of the Fund;
- Administer all corporate matters;
- Manage accounting and treasury functions, prepare investor reports and coordinate with external auditors;
- Develop the pipeline, analyze risk, structure, negotiate and document financing agreements with qualifying portfolio companies;
- Explore available hedging mechanisms in order to manage foreign exchange risk as needed;
- Coordinate the meetings of the Credit Committee, and the Advisory Committee (these Committees are expected to be a part of the Fund's governments);
- Disburse, collect and supervise outstanding investments;
- Administer the cash flow of the Fund; and
- Monitor and report to the Credit Committee and to the investors on the status of the portfolio.

EXPRESSIONS OF INTEREST

The IDB Lab invites eligible firms or consortia to indicate their interest in managing this Fund. Interested firms or consortia must provide an Expression of Interest indicating the name and address of the firm, or in the case of consortia, of the consortium members, and the firm/consortium's credentials in the above skill sets.

Expressions of Interest must include the names, key qualifications, relevant experience and demonstrated commitment of the key managers and personnel. Details should also be provided regarding current capacity (the number of team members fully dedicated to the Fund) and the need to augment human resources to undertake the incremental work-load that the administration of the Fund would require, including how such need would be addressed on a short-term basis.

The Request for Expressions of Interest (REI) will have a two-step submission process. The REI will be formally announced on March 15th. A first submission of the Expression of Interest with up to 10 pages maximum, including annexes, is expected by **April 15th, 2019 by 5 p.m.** eastern daylight time (EDT). This paper should indicate:

- A brief description of the firm/consortia.
- Management team, bios, residence, nationality and time commitment to the Fund.
- Financing strategy, pipeline list, and proposed fund structure.
- Cost structure of management firm/consortia, estimated annual budget to manage the Fund, proposed fees and compensation structure, and estimated pre-operating costs and how covered.
- Fundraising: potential investors to be approached.
- A general description on your proposed structure to manage the Fund, including general terms.

Qualifying finalists will be notified after April 15th, 2019 and may be required to provide more extensive information and documentation and invited to make a 2-hour presentation during the following two weeks. Selected finalists must be available to visit IDB Lab in Washington D.C. during the process, and to receive an onsite due diligence team from the IDB Lab investment officers later in the process.

The lead sponsors and potential investors will not be liable for any costs incurred in connection with the submission of an Expression of Interest, or any of the follow up activities prior to the engagement of the Fund manager.

Confidentiality. While applicants may desire to attach confidentiality requirements to some of the information presented in the Expression of Interest, participants making submissions of Expression of Interest or sending follow-up information must understand that information received will be subject to information disclosure requirements of the lead sponsors, and potential investors; for instance, under the Freedom of Information Act of the United States, and the IDB information disclosure policy. The lead sponsors and potential investors will not treat as confidential, or proprietary, any general ideas, strategies and concepts contained within any Expression of Interest or any follow-up documentation submitted.

The Expressions of Interest should be e-mailed to: venturedebt@iadb.org and must be received by **April 15th 2019, 5 p.m. eastern daylight time.**

This Request for Expressions of Interest is not an offer or a contract. In addition, it does not constitute an invitation to invest, solicitation to invest, nor a commitment to invest, including by IDB Lab or any other potential investor in the Fund.

IDB Lab or any other potential investors are not advisers, administrators, underwriters or guarantors of the Fund described herein, and their potential roles are limited, respectively, to acting as prospective Limited Partners (IDB Lab along with prospective investors), which is subject to: (a) the Fund being established with the criteria of and key terms to be determined in the Fund's documentation; (b) a due diligence review to determine compliance with each institution's policies and procedures; (c) obtaining internal approvals, including an approval from the IDB Lab Donors Committee, and approval committees of the other investors; and (d) execution and delivery of documentation in form and substance satisfactory to IDB Lab and other investors, in their sole discretion.

No representation or warranty, expressed or implied, is made, or responsibility of any kind accepted by, IDB Lab or other investors with respect to the completeness or accuracy of information included herein. Neither IDB Lab or any other investors is under any obligation to consider, shortlist, or select any of the firms/consortia or persons who submit Expressions of Interest or other documentation.

ANNEX 1

PROHIBITED ACTIVITIES (exclusion list)

1. Activities involving child labor, any form of forced labor and / or labor exploitation.
2. Discriminatory practices by gender, age, ethnic origin, color, marital status, sexual orientation, political opinion, religion or limitations on the right of association and collective bargaining.
3. Production or trade of products or activities considered illegal.
4. The production and distribution of anti-democratic material or any business related to pornography and / or prostitution.
5. Manufacture or trafficking of arms and ammunition.
6. Gambling, casinos and other similar activities.
7. Production or activities that impinge on land owned by indigenous people.
8. Failure of comply with Colombian labor law and fundamental principles and rights covered by the conventions of the International Labor Organization (ILO).
9. Trade of endangered or regulated species by the Convention of International Trade of Endangered Species and Wild Fauna and Flora (CITES), or products derived from them.
10. Production or trade of wood and forest products from forests without a proper sustainable management plan.
11. Projects to be develop in areas of protection and conservation.
12. Fishing with drift nets in the marine environment using nets of more than 2.5 km in length.
13. Production or trade of substances that deplete the ozone and that are subject to gradual elimination.
14. The manufacture or sale of radioactive materials (including radioactive waste), except for medical uses.
15. The production, trade or use of asbestos fibers non-agglomerated (asbestos), except for chrysotile asbestos fibers that have safety requirements.
16. The manufacture or sale of products containing polychlorinated biphenyls.
17. Production or trade in pharmaceutical products subject to elimination.
18. The production and trade of chemical pesticides or herbicides and organic pollutants subject to gradual elimination or ban.

BUSINESS PRACTICES

The General Partner prospectus shall request prospectus companies, a written commitment to:

1. Ensure its best efforts to comply with the environmental policy.
2. Have health and safety conditions for employees and contractors.
3. Promote environment protection and an efficient use of natural resources.
4. Have the same condition for all employees in hiring, advancement, compensation and working conditions, regardless of race, gender, color, language, disability, political beliefs, age, religion, social origin or nationality.
5. In accordance with the principles of the International Labor Organization (ILO), enable procedures for consultation and partnerships that provide employees an opportunity to express their views freely, individually and / or collectively, to the administration.
6. Consider the impact of the operation on local communities and strive to ensure that potential harms of occupational health and safety issues are properly evaluated, treated and monitored.
7. Maintain high standards of integrity and honesty in their business and operate in accordance with the country host law (or the country where the investment is made) and good practices (including those designed to fight extortion, bribery and financial crimes).
8. Promote the use of quantified goals for occupational health and safety, environmental and social problems as well as the continuous improvement of the business.
9. Design and operate its business in accordance with local law.
10. Adopt the following minimum employment standards in accordance with internationally accepted good practices:
 - Do not use forced labor of any kind;

- *Do not employ children under fifteen (15) years;*
 - *Provide compensation that meet or exceed the industry or the legal minimum and are sufficient to meet basic needs.*
- 11. Record, reporting and review your financial and tax information.*
 - 12. Ensure that no payment will be received or made (in the form of compensation, gift, contribution or otherwise) to induce improper or preferential treatment to the company, its management, shareholders, employees or any member of the group of companies to which it belongs.*
 - 13. Comply with local regulations on industrial safety and occupational health.*
 - 14. Incorporate environmental and social aspects in its internal and external communication strategy.*