Ex-Ante Evaluation (for Private Sector Investment Finance)

Private Sector Investment Finance Division 2
Private Sector Partnership and Finance Department
Japan International Cooperation Agency

1. Name of the Project

(1) Region: Latin America and the Caribbean
(2) Project Name: Project for Supporting the Growth of Startups
(3) Investee Name: Dalus Capital Fund III, LP (DCF III)
(4) Signing Date: November 15, 2024

2. Background and Necessity of the Project

(1) Current Status and Issues of the Private Sector Development and the Priority of the Project in Latin America and the Caribbean

Latin America has a relatively high GDP per capita, US$10,770, among developing regions (reference: Southeast Asia US$6,070) (IMF, 2024) and many countries in the region are growing above middle-income countries in OECD income categories. However, many development challenges persist, such as economic disparity, low labor productivity, poor access to finance, gender disparity, high informal sector share and vulnerability to climate change. For example, with respect to economic disparity, 17 countries of the world's top 30 GINI coefficients are from Latin America (World Population Review, 2024). GDP growth in Latin American countries has been driven by expanding domestic demand, which is supported by an increasing labor force, but labor productivity is not growing and the potential for economic growth is not being fully exploited (OECD, 2021). In terms of access to finance, the bank account holding rate in upper-middle income countries is 84%, while in Latin America the rate is low in many countries, notably Mexico (49%) (World Bank, 2022), and the finance gap for small and micro enterprises is US$1.8 trillion (IDB, 2023). In addition, the gender index (SIGI) is lower than in other developed countries, with only 15% of all board members and 11% of all managers in corporates being women (IDB, 2021). Furthermore, in recent years, natural disasters such as rising sea temperatures due to global warming and the El Niño phenomenon and crop failures caused by the drying up of the Amazon River have hampered the region's development.

Startups rapidly developing innovative business with digital and other technologies have been playing a major role in addressing these social challenges that have not been solved by the public and traditional private sectors. For example, In Mexico, bank account ownership rate is low and 55% of workers are engaged in the informal sector so that 40% of economic activities are paid in cash (S&P, 2023). This situation has led to untransparency of corporate management and lower financial inclusion for small and micro enterprises than large informal sectors. Under these circumstances, Clip, a fintech company that became the second unicorn in Mexico, has been contributing to improvement of business productivity and financial inclusion in micro and small enterprises (MSEs) by providing a digital payment platform with low implementation costs to MSEs that used to accept only cash payments, promoting management visibility and efficiency.

Under the background, many Latin American countries have implemented policies to promote startups. Mexico's National Development Plan (2019-2024) has positioned the promotion of innovation and startups as a priority area for economic development. In Colombia, the National Development Plan (2022-2026) identifies the promotion of a knowledge-centralized economy and the utilization of innovative technologies such as digitalization to transform industries that contribute to combating climate change as key economic policies, and states that it is necessary to increase productivity and promote sustainable growth of start-ups and small and medium-sized enterprises that contribute to these sectors. The policy also states that it is necessary to improve productivity and promote sustainable growth of startups and small and micro enterprises that contribute to this field.

However, the value of investment to startups in the region is 0.19%, lower than the United States'0.97% and India's 0.80% (Endeavor and Glisco Partners, 2022). The amount of investment in startups has been declining since 2022 due to the macroeconomic situation, and that in 2023 recorded a quarter of that in 2021 and half of that in 2022. Many companies in the early stages are facing a longer funding period by deterioration of the investment environment. In addition, there is a tendency for investment to be concentrated in certain countries within the region, with Brazil accounting for 54% of the total investment in 2023 (LAVCA, 2024). Also, less than 1% of the total investment in Latin America in 2022 was raised by female founders, indicating a gender gap in the field (Endeavor and Glisco Partners, 2023). There are also challenges from a technical perspective; for example, in Mexico, entrepreneurs do not have access to various types of public support, such as training and professional placement after dismantling of the National Enterprise Agency (INADEM) in 2019 (JETRO, 2023).

In order for startups to be born and grow, it is important to build a startup ecosystem ("SE"). Through the Project, JICA will invest in a venture capital fund managed by Dalus Group, LLC ("Dalus"), which has consistently contributed to the development of SE in Latin America, particularly in Mexico, not only by investing but also by fostering entrepreneurs and operating startup-related industry associations. Through the investment, JICA aims to improve financial access of startups and promote the building of SE in Latin America and the Caribbean.

（2） Japan's and JICA's Cooperation Policies for the Private Sector in Latin America and the Caribbean and the Positioning of this Project

Japan's Country Development Cooperation Policy for Mexico (June 2021) positions the support for SMEs and income improvement in rural areas as one of the priority areas. Japan’s Country Development Cooperation for Colombia (2021) also mentions that Japan will commit to foster the diversification and digitalization of existing industry, the development of new industries and the improvement of productivity through the development of transportation and communication infrastructure as well as supporting funds to support intellectual production activities and quality improvement by the private sector. In addition, JICA's Global Agenda ("Private Sector Development”) focuses support for entrepreneurs to create innovation of business models and industries that contribute to solving social issues. The Project will contribute to "talent and human resources" and "venture/angel funding" among the SE components, mentioned in Cluster Business Strategy: Next Innovation with Japan. This project is consistent with these policies and analysis.

In addition, this project is expected to have synergy effects with technical cooperation "Advisor for Empowerment of Startups and Innovation in Mexico" (2023-2026), and to complement the "Transformational Start Up’s Business Acceleration for SDGs Agenda" (TSUBASA), which supports the entry of Japanese start-ups into the Latin America and Caribbean region.

3. Project Description

（1） Project Objectives
The Project aims to improve startups’ finance access and promote the startup ecosystem building by investing in a venture capital fund that contributes to solving social issues in Mexico and the other countries in Latin America and the Caribbean, thereby contributing to the development of the startup ecosystem and the improvement of social issues in the region.

（2） Target Area: Latin America and the Caribbean (hereafter referred as “Latin America”)

（3） Project Components: Investment in startups in Latin America through an investment in DCF III, which Dalus manages as a fund manager.

（4） Estimated Project Cost: $67.7 million

（5） Project Implementation Structure:
Investee: Dalus Capital Fund III, LP (DCF III)

（6） Collaboration and Sharing of Roles with Other Donors: Collaboration with existing cooperation is expected as mentioned above. JICA co-invests in DCF III with U.S. DFC and IDB Lab .

（7） Environmental and Social Considerations
1 Category classification: C
2 Reason for Categorization: The Project is likely to have minimal adverse impact on the environment under the JICA Guidelines for Environmental and Social Considerations (January, 2022).

（8） Cross-Sectoral Issues:N/A

（9） Gender Classification: GI(S) (Gender Activity Integration Case)
<Details of Activities/Reason for Categorization> The Project aims to address gender-based issues in Latin America, such as the small number of women managers and directors in companies and women founders’ difficulty in raising capital, by actively investing in women entrepreneurs and female management teams in startups. The Project will monitor indicators related to gender equality. JICA also plans to apply for the 2X Challenge because more than 30% of the Fund's investment committee members are women and more than 30% of the investment amount will be invested in companies that meet the criteria for the 2X Challenge.

（１０） Other notes: N/A

4. Targeted Outcomes

（1） Quantitative effects

１）Outcomes (Operational and Effectiveness Indicators)

Indicator	standard value (Actual value in April 2024)	Target value (2031) (One year before the end of the fund)
Number of companies invested in	8	19
Total fund investment (Millions of U.S. dollars)	9.9	53.5
Number of direct beneficiaries	124,026	Set at the time of investment decision
Number of jobs created	1,317	Set at the time of investment decision

*The actual and target numbers of direct beneficiaries and jobs created will be updated as the total number of beneficiaries and that of employees of the portfolio companies at the time the investments are decided.

*For reference, (1) the number of board members sent to investee companies and the number of lead investments, (2) the number that Dalus plays as a panelist at startup-related events and the number of events held, (3) the number of female management at investees and (4) the number of female employees at investees will be monitored as the related indicators of promoting SE and gender diversity.

２） Qualitative Effects

Developing SE and improving social issues (including the promotion of gender equality in startups)

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Project

（1） Evaluation results of similar projects

In the JICA’s past fund investments etc., the following lessons were learned: ①the importance of JICA's monitoring of fund performance, ②confirmation of basic investment terms for investees, and ③appropriate portfolio diversification.

（2） Lessons Learned for the Project

With regard to ①, as a result of JICA’s due diligence of the frequency and content of reporting, we confirmed that the fund provides a business overview of the investee on a quarterly basis and that detailed information on the performance of the investee is available in the fund's investor reports. In response to ②, JICA confirmed that the fund has a track record and attitude of negotiating various investment terms as a lead investor. Regarding ③, the fund has a strategy of multi-country/sector investments, which mitigates the single country/sector exposure risk.

7. Evaluation Results

As described above, the Project is in line with the development issues and policies of the Latin America and Caribbean region as well as Japan's cooperation policy. The Project also has an appropriate project plan with a good prospect of achievement. Therefore, the necessity of the project is recognized and it is highly significant to support this project through Private Sector Investment Finance.

8. Plan for Future Evaluation

(1) Indicators to be Used

As described in 4.

(2) Future Evaluation Schedule

Ex-post evaluation is scheduled for 2031.

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