Source of Capital

Venture Capital

Type Of Entity	Venture Capital (VC) Funds
Investment Stage	Early stage, typically comes after “seed” or “angel investing” stage (when an entity is “pre-revenue”); VC funds typically invest when an enterprise is already generating some revenue.
Impact	Catalyze enterprise growth, often for new technologies or new business models
Instrument	Equity, convertible debt, some mezzanine instruments such as subordinated debt some
Supplier Of Concessional Capital	YES **NO**

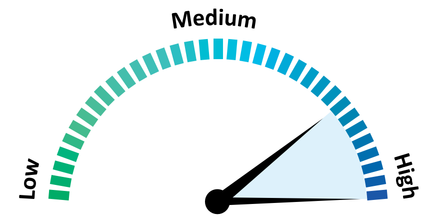
Description

Venture capital is a subset of private equity that provides early-stage capital to new or emerging companies.

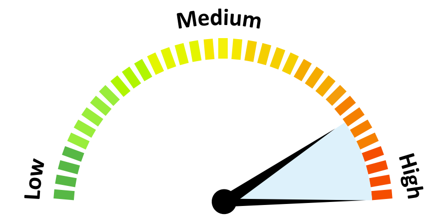
Like PE funds, VC funds are typically structured as partnerships where investors are protected (called “limited partners” with limited liability) and a general partner managing the fund and selecting investments. Limited partners are often institutional investors, larger asset managers, family offices, some corporate venture arms or high net-worth individuals (HNWI) providing capital for the fund. VC funds acquire relatively large equity stakes in early stage, “start-up” enterprises and influence over operational, investment and strategic decisions.

Start-ups face high uncertainty and VC investments have high rates of failure.

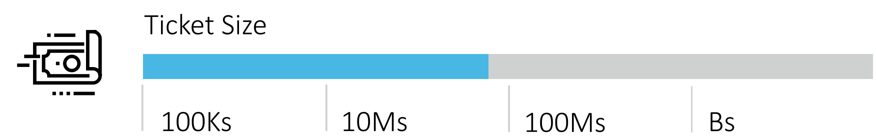
VC funds take on high risk because start-up enterprises have limited operating history, are too small to raise capital in the public markets or from other institutional equity investors; and often have not reached sufficient revenues to be fully financially sustainable, and thus unable to secure debt financing. Enterprises in which VC funds invest are often building businesses around innovative technology or business models. Much like PE funds, VC financing takes high risk with the aim of generating a high return through an exit, such as an IPO, or private or strategic sale to a larger player in the industry or a new entrant to the industry. The venture capital model is not as widely deployed in developing economies as it is hampered by limited pipelines, smaller ticket sizes, and the prevailing perception that fewer exit opportunities exist, in some cases due to a limited private sector. One critical element required to enhance VC activity and early-stage investing is the presence of an eco-system of local/regional investors. VC investing is frequently a “club-investing” style, where several VCs come together to take risk jointly in a start-up enterprise. If there are insufficient co-investors in a market, it significantly limits the ability for VC funds to fuel the segment of the market occupied by start-ups and early-stage enterprises. However, investments and ecosystem-building support by development partners, philanthropies, DFIs and local investors have helped accelerate start-up activity in developing economies.



Relative Return Requirement



Relative Risk Appetite



Recommended Actions By Key Source Of Capital

Some suggestions for what Venture Capital Funds can do more of to enhance Just Financing outcomes include:

- Prioritize equity investments in emerging technologies that support low-carbon, climate resilient outcomes, particularly for application in developing economies.
- Ensure equity investments in start-up enterprises are consistent with and reflect Just Financing Principles, and use influence with start-ups to enable them to integrate Just Financing Principles
- Engage with philanthropic and donor capital providers to build out the availability of “seed/angle investing” capital to generate a pipeline of climate-related investments for the VC segment, particularly for developing economies.
- Engage with Limited Partners (e.g., philanthropy, DFIs, institutional investors, etc.) to ensure KPIs or other metrics of P/E Fund success includes climate and Just Financing outcomes.