Latin America's Startup Juggernaut

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Regardless of sector and industry, size of firm, nationality, age of enterprise and capitalization, COVID-19 has been an equal opportunity destroyer. Businesses have downsized or closed altogether; employees have been dismissed, furloughed or seen their hours reduced; and the financial and emotional toll on workers—white collar and blue collar alike—has been devastating.

One category of business—startups—has been hit particularly hard. Over 60% of these firms laid off employees or reduced salaries, and jobs and sales and marketing as well as R&D were cut by a third or more. Facing a severe capital crunch and revenue declines of one-third to 40%, many startups have been fighting for survival.

But from late 2021 through the present time, things have been looking up for startups; and these firms will be crucial for post-COVID recovery. As pointed out by Startup Genome and the Global Entrepreneurship Monitor, a decade of research has shown that most net job creation comes from young companies, especially those that scale. Additionally, startup jobs are cheaper to save than traditional jobs, and for the creation of net new jobs technology companies have huge job multipliers.

All this bodes well for Latin America, a region Crunchbase rates as "the world's fastest growing region for venture funding". To wit, $20 billion of venture capital went into 952 deals in 2021, a tenfold increase since 2015; and in January 2022 Latin American startups received $1.3 billion in investments, a 70% jump over the volume raised one year earlier. The region now has 25 "unicorns" (privately held startups valued at over $1 billion) including Brazilian fintech company Nubank, with a $40 billion valuation, that went public on the New York Stock Exchange last December. Within the region, late-stage deals--mainly with bigger rounds—comprised two-thirds of total venture deal funding in 2021 although early- and seed-stage deals also exhibited robust growth.

Illustrative is the Argentine digital banking startup Ualá that recently announced its launch in Colombia as it expands in Latin America and looks to tap into the region's millions of unbanked savers. With an initial investment of $80 million, the firm's investors include Chinese technology giant Tencent and Japan's SoftBank.

While technology firms dominate the startup landscape, it is the technology-enabled enterprises that have the greatest upside. To illustrate, one notes FastFarma, a $15 million funded pharmaceutical prescription delivery business similar to DoorDash. With offices in Bogotá, the firm is active now in Ecuador and Mexico. The agrotech startup NotCo is a Chilean venture that employs artificial intelligence technologies to develop foods that are traditionally of animal origin but now derived from plants and vegetables. (Jeff Bezos recently made a $30 million investment in the firm.) Then there is Rentbrella, an umbrella-sharing app launched in São Paulo that plans on expanding to 10 European countries. It has already gained a foothold in New York City and has raised $7 million already.
While Brazil, Colombia, Mexico are the leaders in raising venture capital, startups and later-stage companies proliferate throughout the region, including Central America—namely Costa Rica and Guatemala. And Uruguay, a country smaller than metropolitan San Diego, is one of the world's biggest exporters of software per person. The region as a whole has witnessed the emergence of strong technology hubs in São Paulo, Mexico City, Santiago, Buenos Aires and Medellín.

To be sure, as *The Economist* has noted, the pandemic accelerated Latin America's startup boom. Lockdowns allow individuals time to be creative and devote to their avocations when they are not working remotely while investors search for new, disruptive opportunities in which to inject their risk capital.

But there are other drivers that have sparked an increase in startups and entrepreneurship in general. To begin with, there has been an increase in the available sources of finance in recent years and a plethora of fintech platforms that both fledgling and established entrepreneurs can draw upon. The terms and conditions, too, are plentiful and accommodating to those seeking to launch their own enterprise. Secondly, the long running low interest rate environment combined with the increasing globalization of capital have fueled the cross-border distribution of financial resources from both venture capitalists and angel investors. Low borrowing costs and the prospect of high returns is a winning formula for driving entrepreneurship. Other factors are the accessibility and affordability of technology platforms, along with open-source software. These great "levelers" have democratized technology entrepreneurship so that those individuals with scarce resources in industrialized nations and those in less developed countries have the opportunity to create and launch startups. Finally, startups have been given an enormous boost by the scores of incubators, accelerators and co-working space that have sprouted up across the Hemisphere, From Wayra, Founder Institute and 500 Startups to Ruta N (Medellín), Grid Exponential (Buenos Aires), and Start-Up Chile (Santiago).

With a global economic turnaround underway as COVID dissipates and countries get a better handle on managing the pandemic, entrepreneurship will further accelerate. Startups and later stage firms in areas like fintech, edtech, healthtech and proptech will attract increasing levels of investment; and while all global regions will benefit, Latin America will be a standout.

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