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STARTUP ECOSYSTEM IN PERU

FLANDERS INVESTMENT & TRADE MARKET SURVEY

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STARTUP ECOSYSTEM IN PERU

FIT LIMA

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1. OVERVIEW

The entrepreneurial “boom” experienced in recent years in Latin America has allowed thousands of startups to exist today. Although in 2010 there was no innovation promoting ecosystem or assigned state budget in Peru, today the outlook is different and the country is already on the journey to become a leading country within the region¹.

According to Mr. Gonzalo Villarán, head of the Development and Knowledge Management Unit of Innóvate Perú², an important evolution started when the Startup Peru Contest was launched. From 2014 to 2019, the State supported 502 startups, which involved a total investment of PEN 85.3 million³ (EUR 19.3 million) and generated 3,000 jobs and sales of PEN 175 million (EUR 40 million).

At the level of private investment contributions, Mr. Luis Narro, executive director of the Peruvian Seed and Venture Capital Association (PECAP), notices that the jump has also been notable. They went from offering startups USD 1 million in five years (2011-2015) to USD 42.4 million for 92 transactions in four years (2016-2019). In the first semester of 2020, there was a greater amount invested compared to the same period of 2019; however, the figures regarding the number of transactions have decreased because investments are concentrated in more consolidated startups, with clear expansion plans, to mitigate the current risk of the market, states Ms. Desirée Alayza, senior manager and leader of Seed by EY⁴.

AMOUNT INVESTED IN PERUVIAN STARTUPS (in USD million)

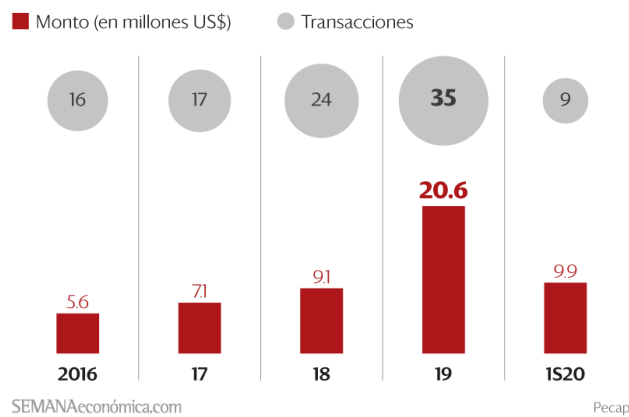


Image 1: extracted from Semana Económica

¹ Information extracted from El Comercio, <https://elcomercio.pe/economia/dia-1/startups-avances-suenos-y-desafios-para-la-innovacion-en-el-pais-noticia/?ref=ecr>

² Innóvate Perú is the National Innovation Program for Competitiveness and Productivity of the Ministry of Production. It was created in 2014 and seeks to increase business productivity by strengthening the actors of the innovation ecosystem (companies, entrepreneurs and support entities) and facilitating the interrelation between them. <https://www.innovateperu.gob.pe/>

³ USD/PEN exchange rate is 3.6 Peruvian Soles per US Dollar

⁴ Information extracted from Semana Económica, <https://semanaeconomica.com/sectores-empresas/tecnologia/startups-una-nueva-etapa>

After a favorable 2020 for the Peruvian startup ecosystem, 2021 will be - despite the crisis - an equal or even more dynamic year. According to Mr. Greg Mitchell, managing partner at Angel Ventures Peru (AVP)⁵, investors are optimistic for 2021 for three reasons: new talent, startups with a more regional DNA and the arrival of more funds from abroad.

Mr. Javier Salinas, director of the Center for Entrepreneurship and Innovation at Universidad del Pacífico, remarks that the promotion of COFIDE's⁶ venture capital fund of funds will be another relevant factor for the growth of startups in 2021. The promotion of this fund of funds will be the first specific support to promote investment in venture capital and an important step in the development of the venture capital market.

Regarding the arrival of more funds from abroad: according to a report published by the Peruvian Seed and Venture Capital Association (PECAP)⁷, venture capital funds remain the main investors, being a sign of maturation of Peruvian startups.

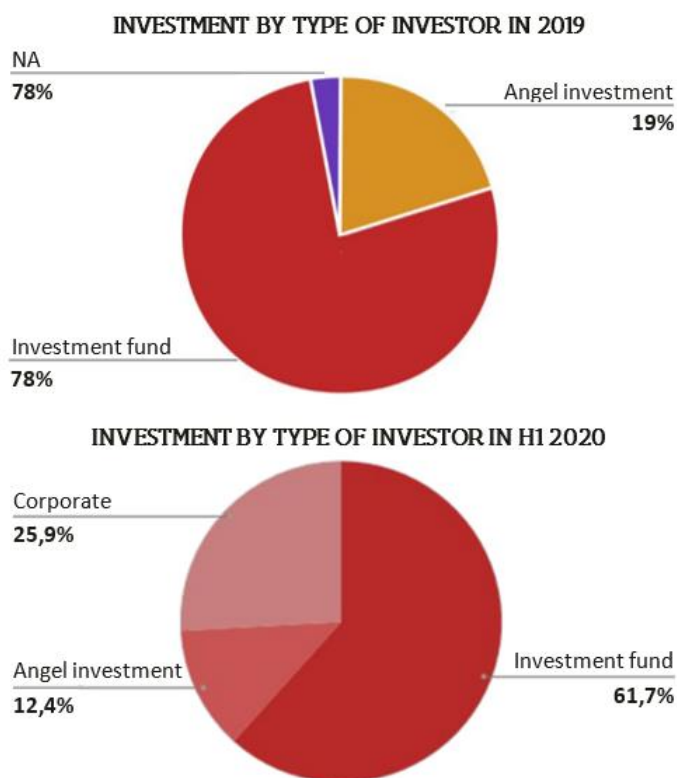


Image 2: extracted from PECAP

⁵ Angels Ventures Peru is a venture capital company that manages co-investment syndicate vehicles and facilitates direct investments by angel investors who are part of AV Network. It operates in Peru since 2014, <http://www.angelventures.vc/>

⁶ COFIDE is Peru's development bank that promotes infrastructure and productive investment through financing, <https://www.cofide.com.pe/>

⁷ Information extracted from PECAP, https://16b4b2e1-5518-44c9-afd7-596f76c777cc.filesusr.com/ugd/71bb4f_e25dbbf0512f442e82cife154edbc04.pdf

The aforementioned report shows that Ed-Tech/Educational Technology is the most attractive sector with 37.9% of the invested amount in the first half of 2020. In addition, e-commerce, logistics and fintech are sectors that are experiencing accelerated digitization processes.

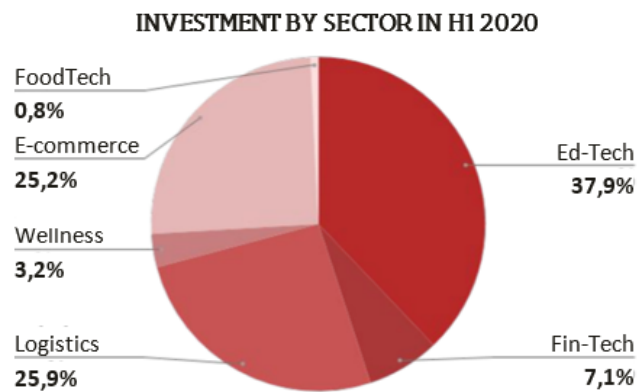
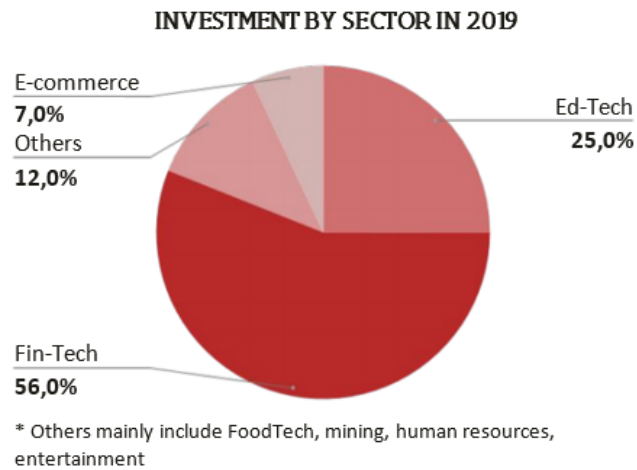


Image 3: extracted from PECAP

Ms. Debbie Jaffe, executive director of Endeavor⁸ in Peru, highlights that the Peruvian entrepreneurial ecosystem has evolved a lot and that there is now supply and demand. Now there are entrepreneurs looking for investors, something that did not happen before⁹. She also states that there is an evolution of the entrepreneur into an investor. In the last 5 years they have seen a path in the entrepreneur: start out as an entrepreneur, become a mentor and later become an investor. At Endeavor, they have cases of Peruvian entrepreneurs who have been completing this cycle in the last 2 to 3 years.

⁸ Endeavor is a non-profit organization that selects, mentors and accelerates High-Impact Entrepreneurs, <https://endeavor.org.pe/>

⁹ Information extracted from El Comercio, <https://elcomercio.pe/economia/dia-1/startups-avances-suenos-y-desafios-para-la-innovacion-en-el-pais-noticia/?ref=ecr>



Even though the figures show that considerable progress has been made, there are still many pending challenges for consolidation. In Mr. Villarán's words, the entrepreneurial ecosystem is a systemic process that grows little by little.

According to Mr. Julio Vela, director of the Center for Innovation and Entrepreneurial Development (CIDE) of the Pontifical Catholic University of Peru (PUCP), the Peruvian entrepreneurial ecosystem could have advanced much more with all the resources available today. As Mr. Vela explains, we are still far from the ecosystem to which we should aspire, for example, to have a unicorn prospect. For that, he says, it is necessary to have support policies from the State that help promote more entrepreneurship that incorporate innovation.

Mr. Villarán states that a legal framework that promotes innovation goes hand in hand with training in entrepreneurial culture, which starts from the schools. That disruptive unicorn mentality will not arise spontaneously, but will be the result of a long-term joint effort that was forged from the desk.

PERUVIAN STARTUP ACQUISITIONS (EXITS)

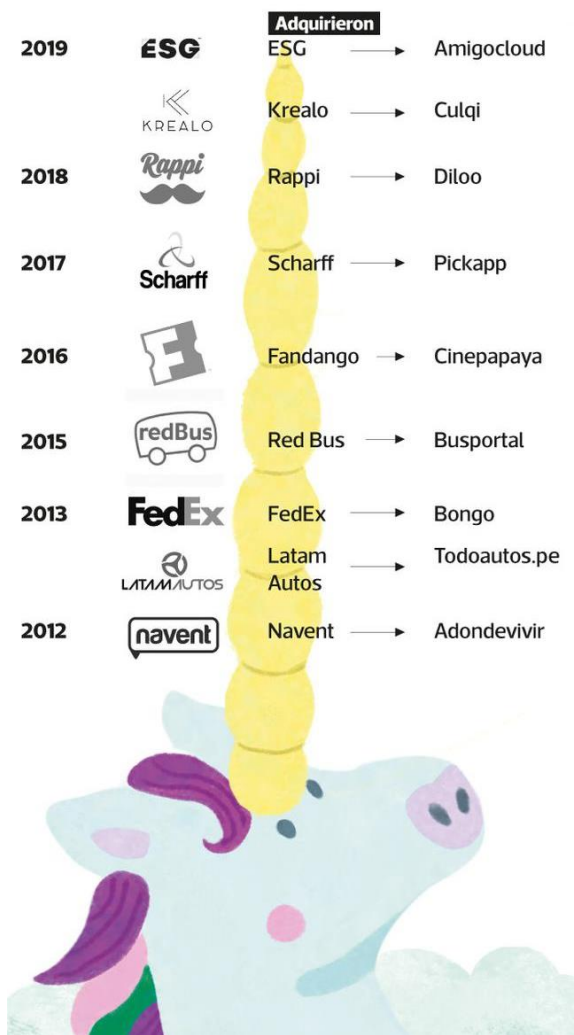


Image 2: extracted from El Comercio



2. LIMA'S STARTUP ECOSYSTEM

The non-profit organization Enpact¹⁰ assesses the business-friendliness of startup ecosystems at the city-level through a comprehensive indicator-based analysis. The Startup Friendliness Index (SFI) is Enpact's proprietary framework for analyzing cities' entrepreneurial ecosystems and their ability to grow and sustain startups. It contains over 80 indicators that are categorized in 14 sub-domains and 6 domains, with the domains representing the key aspects of an ecosystem. Indicator values range from 0 (for the city that has the lowest performance relative to the others) to 100 (for the city that has the best relative performance)¹¹.

In 2109, Enpact published an analysis of the startup ecosystem in Lima¹², according to which Lima ranks 20th in the global Startup Friendliness Index (SFI) out of 44 cities (cities in Latin America, Africa, Middle East, Central, South & Southeast Asia) and 2th in the Latin American region (behind Mexico City that is on position 18 in the global ranking).

LIMA'S STARTUP ECOSYSTEM

Domains	Global Ranking	Regional Ranking
Human Capital	6/44	2/6
Finance	7/44	2/6
Startup Scene	30/44	2/6
Infrastructure	33/44	5/6
Macro	22/44	2/6
Market	10/44	2/6

Table 1: extracted from Enpact

2.1 HUMAN CAPITAL

Human Capital is critical for starting a new venture and, according to Enpact, Lima's startup ecosystem scores best in this domain. A high female participation in the labor force (70%) and a high score in tertiary education (Lima ranks 4th in the global SFI) serve as incredible strengths for Peru's capital. However, the city faces some challenges when it comes to female entrepreneurship and salary indicators. Based on the aforementioned report, only 18% of the firms have a majority of female ownership and there should also be improvement in the field of salaries for graduates and software developers.

¹⁰ Enpact was founded with the aim of empowering entrepreneurs, ecosystems, and international cooperation, <https://www.enpact.org/#/>

¹¹ Information extracted from Startup Meter, Enpact's research arm, <http://startup-meter.org/methodology/#/>

¹² Information extracted from Enpact, <https://www.enpact.org/wp-content/uploads/2020/04/20191112-lima-v.1-4.pdf>

2.2 FINANCE

The Finance domain seeks to examine the financing options that entrepreneurs have by looking at two subdomains: Sources and Systems. In this domain, Lima ranks 7th in the global SFI.

It should be noted that, according to Enpact, the public funding¹³ through different programs led to ecosystem growth in Peru, ranking the country 8th in the global SFI and 1st in the region. Likewise, Business Angels and Accelerators/Incubators in Peru are above average in the global SFI, ranking 21st and 18th, respectively. The great challenge is to increase the number of Venture Capital and Private Equity companies (VCs/PEs), in which Lima ranks 18th in the global SFI.

2.3 STARTUP SCENE

The startup scene measures the maturity and liveliness of a city's startup ecosystem and overall entrepreneurial culture. In this domain, Lima ranks 30th in the global SFI. According to Enpact, all indicators that relates to this domain are below the global average (except for incubators). In that sense, Lima's startup ecosystem needs to further strengthen this domain.

There are two subdomains in the startup scene domain: Hubs and Activeness. Within the Hubs subdomain, for example, it is stated that there are many co-working spaces¹⁴ available, however these are too expensive.

2.4 INFRASTRUCTURE

The infrastructure domain, in which Lima ranks 33rd in the global SFI, is composed of three subdomains: Transport, Utilities and ICT. The cost of co-working spaces¹⁵, one of the indicators that the utilities subdomain considers, is still an aspect to improve (Lima ranks 40th in the global SFI). Regarding the transport subdomain, which considers the quality and capacity of transportation infrastructure (roads, railroads, ports and air travel), the city ranks 35th in the global SFI.

2.5 MACRO

A fair and reliable policy framework, political stability, and low crime are important fundamentals for a startup ecosystem to thrive. The macro domain measures these factors through three subdomains: Political Stability, Legal Framework and Crime. In the political subdomain Lima ranks 5th in the global SFI, highlighting regulatory quality and stability. However, Lima's startup ecosystem faces some challenges in terms of Value-Added Tax (VAT), business registration time and informality, ranking 38th, 35th and 37th in the global SFI, respectively.

¹³ Public funding is one of the 11 indicators within the finance domain

¹⁴ Co-working spaces is one of the 8 indicators within the startup scene domain

¹⁵ The expense of a coworking space has an impact on the type and maturity of startups and companies that can afford to rent there, which represents a disadvantage for startups that are on their way to growth and consolidation



2.6 MARKET

The Market domain describes macroeconomic conditions in terms of performance and connectedness. Overall performance in the market domain is high, ranking 10th in the global SFI. However, the city faces some challenges when it comes to the connectedness subdomain¹⁶, especially in the trade openness indicator, in which Lima ranks 25th in the global SFI.

LIMA'S STARTUP ECOSYSTEM VS. GLOBAL AVERAGE

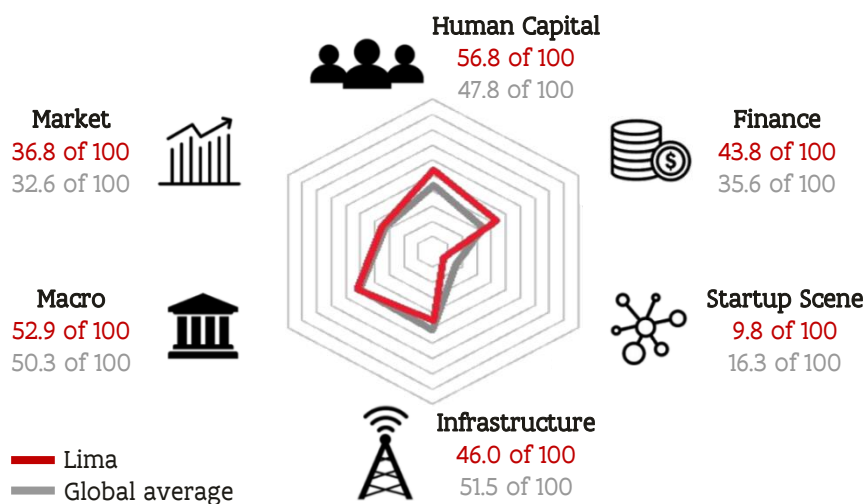


Image 3: extracted from Enpact

3. FINTECH

In Peru, around 70% of the population is unbanked. Fintech companies, which are companies that make use of the latest technology to provide digital financial solutions, aim to meet the specific needs of those people in this area¹⁷.

According to Mr. Javier Salinas, director of the Center for Entrepreneurship and Innovation at Universidad del Pacífico, Fintech means finance and technology, and everything that has to do with this sector is being highly demanded in countries like Peru due to the existing low level of bancarization. For him, people do not want traditional banks, but they do want more agile and less expensive proposals that are available 24 hours a day and seven days a week.

¹⁶ The connectedness subdomain considers openness to trade, tourism and international relationships.

¹⁷ Information extracted from the Lima Chamber of Commerce (CCL), https://apps.camaralima.org.pe/repositorioaps/0/0/par/edicion914/revista_digital_914.pdf

Mr. Salinas explains that in 2016 Peru and other countries in the region began to talk about the fintech ecosystem and since then, its expansion has been clear. In 2016, the number of fintech solution companies in Peru was 24; in 2017, 47; in 2018, 74; in 2019, 150; and for 2020 it was projected to reach 200. He estimates that in 2019 the accumulated amount of money in this sector would add up to USD 2,000 million in its different categories (known as verticals), a concept that refers to exchange houses¹⁸ (a segment that takes 60%) as well as payment, loan, negotiation, invoice and asset management platforms, among others. He adds that, by the end of 2020, this sector was projected to reach about USD 4,000 million.

According to Ms. María Laura Cuya, former president of the Fintech Association of Peru, today fintech companies have reached a stage of maturity, as 44% have already been in the market for more than four years, which implies that they have overcome the so-called 'death valley' or stage of vulnerability. Even though 46% of fintech companies grow with their own resources, to continue scaling, they require increasing amounts of investment, which includes raising Series A capital (between USD 2 million and USD 15 million)¹⁹.

Although between 88% and 90% of fintech companies are concentrated in Lima, Ms. Cuya points out that the sector is also growing in the provinces and in cities such as Arequipa, Cusco, Tacna and the north of the country. An example is Arequipa, which has become a hub for innovation²⁰.

According to the fintech consulting company Lombardia, 23% of the Peruvian fintech companies offer payment and international transfer services. The following image shows the Peruvian fintech market composition to 2020²¹:

¹⁸ casas de cambio

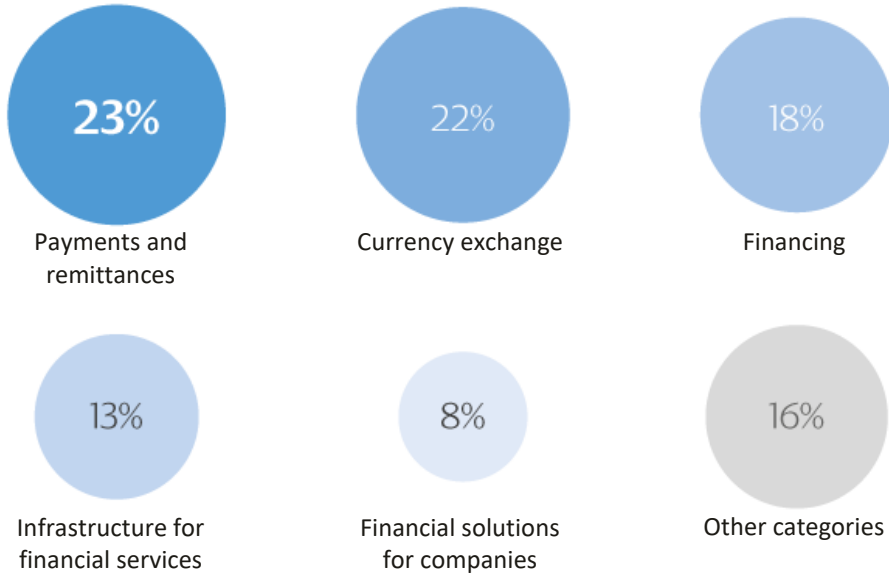
¹⁹ Information extracted from Semana Económica, <https://semanaeconomica.com/economia-finanzas/microfinanzas/fintech-consolidaran-mas-alianzas-con-empresas-financierasnbsp>

²⁰ Information extracted from the Lima Chamber of Commerce (CCL), https://apps.camaralima.org.pe/repositorioaps/0/0/par/edicion914/revista_digital_914.pdf

²¹ Information extracted from Semana Económica, <https://semanaeconomica.com/economia-finanzas/banca/banca-y-fintech-alianzas-cada-vez-mas-esenciales>



FINTECH MARKET COMPOSITION TO 2020 (in %)



Fintech companies oriented to the processing of payments and digitization of banking processes are the most benefited by the current situation

* includes the personal finance management, insurance, capital market, crowdfunding and cryptocurrency fintech companies.
Consulting company Lombardia

Image 4: extracted from Semana Económica



The following table mentions some of the fintech companies that belong to the lending, payments and currency exchange segments:

FINTECH COMPANIES

Lending	
Innova Funding	https://www.innova-funding.com/
Latin Fintech Perú	https://latinfintech.com/
CrediFace	https://crediface.pe/
Apurata	https://apurata.com/
Tienda Pago	https://www.tiendapago.com/
Solven	https://www.solven.pe/
Independencia	https://www.independencia.com.pe/
Payments	
Yape	https://www.yape.com.pe/
Tunki	https://www.tunki.com.pe/
BIM	https://mibim.pe/
Culqi	https://culqi.com/
La Mágica	https://www.tarjetalamagica.com.pe/
PagoEfectivo	https://pagoefectivo.pe/pe
Kashio	https://www.kashio.net/
Currency exchange platforms	
Kambista	https://kambista.com/
Rextie	https://www.rextie.com/
Billex	https://www.billex.pe/
MidPoint FX	https://www.midpointfx.com/
Cambia FX	https://cambiafx.pe/
T-Intercambio	https://tintercambio.com/
Dollarhouse	https://dollarhouse.pe/

Table 2: fintech companies

For a broader list of fintech companies, please review the following links:

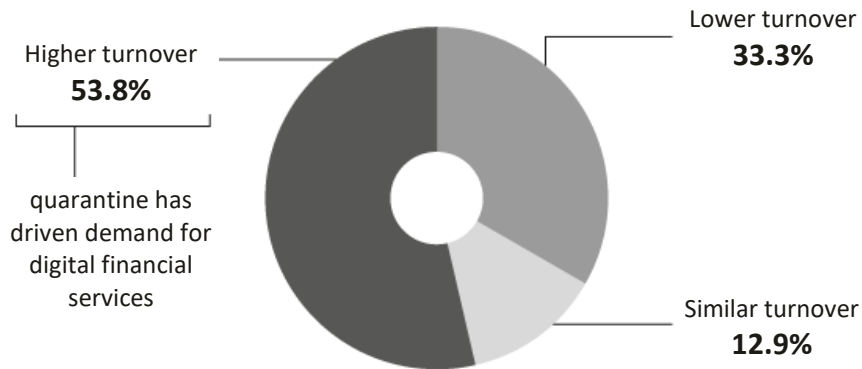
<https://www.mapafinanciero.pe/>

<https://www.fintechperu.com/asociados/>

<https://www.sbs.gob.pe/supervisados-y-registros/registros/otros-registros/casas-de-cambio-prestamos-y-empenos/casas-de-cambio>



TURNOVER VARIATION AS OF JUNE COMPARED TO 2019*



* survey applied to 40 of the 78 fintech associates at the end of June and beginning of July. Fintech Association of Peru

Image 5: extracted from *Semana Económica*

3.1 IMPACT OF COVID-19 ON THE PERUVIAN FINTECH SECTOR

The Peruvian fintech ecosystem has shown sustained growth in recent years and the current scenario of Coronavirus Pandemic has been favorable for the growth of this sector, given the strong need for digital and contactless delivery of financial services.

According to Ms. María Laura Cuya, former president of the Fintech Association of Peru, the segments of lending, payments and currency exchange are the ones that benefited the most from "forced" digitization. Mr. Antonio Rolando, CEO of Kashio, remarks that about 75% of Peruvian small and medium-sized companies did not use technology [for payments]; COVID-19 has accelerated its adoption and is going to mark a milestone²².

Given the irruption of the COVID-19 virus, banks are strengthening their alliances with fintech companies to speed up digitalization and financial inclusion processes. The creation of 100% digital bank accounts as well as the rise of digital payment processing are some of the results of this closer cooperation²³.

It should be noted that the increase in demand for digital financial services is expected to persist and that the current context encourages not only the creation of new products but also the entry of more competitors. The interest from new participants is reflected in the hundreds of applications UTEC Ventures had in August when they closed the call for their acceleration program to help startups scaling up. According to Mr. Rodrigo Fajardo, program manager of UTEC Ventures, the majority of applications was

²² Information extracted from *Semana Económica*, <https://semanaeconomica.com/economia-finanzas/microfinanzas/fintech-consolidaran-mas-alianzas-con-empresas-financierasnbsp>

²³ Information extracted from *Semana Económica*, <https://semanaeconomica.com/economia-finanzas/banca/banca-y-fintech-alianzas-cada-vez-mas-esenciales>

in the field of fintech including startups from Argentina, the United Kingdom, Mexico, Colombia and Italy wanting to enter the Peruvian market²⁴.

4. RELATED ASSOCIATIONS

- **NATIONAL INNOVATION PROGRAM FOR COMPETITIVENESS AND PRODUCTIVITY (INNÓVATE PERÚ)**
T.: (+511) 640 4420
<https://www.innovateperu.gob.pe/>
<https://www.start-up.pe/>
Address: Calle Manuel Gonzales Olaechea N° 435, San Isidro
- **CENTER FOR INNOVATION AND ENTREPRENEURIAL DEVELOPMENT (CIDE) OF THE PONTIFICAL CATHOLIC UNIVERSITY OF PERU (PUCP)**
T.: (+511) 626 2000 Ext. 5076
<http://cide.pucp.edu.pe/>
Address: Av. Universitaria 1801, San Miguel
- **CENTER FOR ENTREPRENEURSHIP AND INNOVATION (EMPRENDE UP)**
T.: (+511) 219 0100 Ext. 2119
<https://emprendeup.pe/>
Address: Jirón Luis Sánchez Cerro 2121, Jesús María
- **PERU'S FINTECH ASSOCIATION**
<https://www.fintechperu.com/>
- **PERUVIAN SEED AND VENTURE CAPITAL ASSOCIATION (PECAP)**
<https://www.pecap.pe/>

5. RELATED EVENTS

- **INNÓVATE PERÚ SUMMIT 2020**
<https://ipsummit.innovateperu.gob.pe/>
- **LIMA FINTECH FORUM 2020**
<https://limafintechforum.com/>

²⁴ Information extracted from Semana Económica, <https://semanaeconomica.com/economia-finanzas/microfinanzas/fintech-consolidaran-mas-alianzas-con-empresas-financierasnbsp>

- <https://larepublica.pe/economia/2019/08/31/en-el-peru-operan-mas-de-30-fintech-que-compran-y-venden-dolares-online/>
- <https://infomercado.pe/peru-cuenta-con-81-fintech-que-brindan-servicios-y-productos-financieros/>
- <https://www.mypes.pe/index.php/noticias/estas-son-las-tasas-que-ofrecen-algunas-fintech-para-creditos-rapidos>
- <https://www.usil.edu.pe/noticias/lanzan-mapa-financiero-plataforma-digital-para-difundir-las-innovaciones-financieras>
- <https://semanaeconomica.com/economia-finanzas/microfinanzas/fintech-consolidaran-mas-alianzas-con-empresas-financierasnbsp>
- <https://semanaeconomica.com/economia-finanzas/banca/banca-y-fintech-alianzas-cada-vez-mas-esenciales>
- <https://www.ccfirma.com/wp-content/uploads/2020/05/Ecosistema-de-Innovaci%C3%B3n-Legal-Mayo-2020-1.pdf>
- <https://ruta-startup.com/new-cornerstone-for-perus-venture-capital-industry/>
- <https://www.innovateperu.gob.pe/noticias/noticias/item/2026-red-de-inversionista-angel-cofinanciada-por-produce-invirtio-mas-de-s-4-millones-en-startups-peruanas>

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