



THE IMPACT INVESTING LANDSCAPE IN LATIN AMERICA

TRENDS 2014 & 2015

SPECIAL FOCUS ON BRAZIL, COLOMBIA & MEXICO

August 2016

Aspen Network of Development Entrepreneurs (ANDE)

The **Aspen Network of Development Entrepreneurs (ANDE)** is a global network of 250+ organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits.

Latin American Private Equity & Venture Capital Association (LAVCA)

The **Latin American Private Equity & Venture Capital Association (LAVCA)** is a not-for-profit membership organization dedicated to supporting the growth of private equity and venture capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 170 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of US\$60 billion directed at capitalizing and growing Latin American businesses.

LGT Impact Ventures

Founded in 2007 LGT Impact Ventures (LGT IV) is an impact investor targeting both attractive financial returns and measurable, positive social and/or environmental impact. LGT IV invests in scalable business models and helps to build strong companies that provide less advantaged people with access to essential services and products in areas such as education, health, agriculture, energy, information and communication technologies. LGT IV aim is to improve the quality of life of less advantaged people, contribute to healthy ecosystems and build resilient, inclusive and prosperous communities.

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Research Partners



Collaborators



Opening Letter

Dear Readers,

We are excited to share *The Impact Investing Landscape in Latin America* with you, the first report of its kind on the state of impact investing across Latin America.

Impact investing has gained momentum in recent years, as increasing numbers of investors look to align their money with their values. Individual investors, development financial institutions, foundations, and increasingly governments and institutional investors are moving funds into this space. At investment management and philanthropic conferences across the globe, and in Latin America, it is hard to avoid discussions of impact investment these days.

In many cases, the line between traditional fund managers and impact investors is blurring, and the number of firms that cite impact as a key element of their overall strategy has grown.

Though the industry has blossomed in Latin America, there are still a number of challenges to its growth. An important one is the lack of quality data about the industry. ANDE members, LAVCA members, and other pioneers in the industry have consistently pointed to the lack of information about

the size, scope and perceived effect of impact investments as a key barrier to future expansion. This report represents an important step in creating a source of reliable data on impact investing activity for the region.

The analysis shows that impact investing is off to a promising start in the region. Further, we are encouraged to see that investment activity is led by Latin American impact investors, rather than solely driven by international institutions. We anticipate that the industry will continue to grow in the coming years, and encourage further involvement in strengthening the broader ecosystem from government, corporations, and local civil society organizations.

Sincerely,



Cate Ambrose
President and Executive Director
LAVCA



Randall Kempner
Executive Director
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Executive Summary

In recent years, very little industry research has focused on Latin America despite active and growing communities of impact investors in many of the region's countries. This report is a step towards filling that knowledge gap, and maps the landscape of impact investing in Latin America.

The report opens with a regional analysis of broad trends in fundraising, deals, and exits, along with a special focus on pipeline development, technical assistance, impact measurement, talent, and gender. Following this overview is a series of deep dives into impact investing in three key markets where the industry is most active or developed: Brazil, Colombia, and Mexico.

Impact Investing in Latin America



A Growing Industry

This study has identified 78 firms that made impact investments in Latin America between 1997 and 2016. Twenty-eight impact investors headquartered in Latin America manage US \$1.2 billion in assets under management (AUM). Thirty-one firms headquartered outside of Latin America that have made impact investments in the region manage a total of US \$7.2 billion in AUM, considering both Latin America and allocations to other regions.

Firms that invest exclusively in Mexico manage US \$392 million, in Brazil US \$186 million, and in Colombia US \$52 million in AUM.

Nearly 80% of respondents made their first investment after 2007, when the term "impact investing" was coined, with 14 to 15 new entrants every two years. The growth in impact investing has been driven by those investing in impact enterprises. While the number of investors that made investments in microfinance institutions and agricultural cooperatives more than doubled between 2007 and 2015, the number that focus only on impact enterprises grew nearly seven times in that same period.

The type of organizations making impact investments are diverse in size, organizational structure, the type of capital they have been able to raise, and their relative expectations for financial and impact return on investment. 46% target a return of 10% and lower, while 56% target net annual returns of 11% and higher.

Impact Investing Deals

Respondents reported US \$1.3 billion invested in 522 impact investing deals in 2014 and 2015. Based on the number of firms that invest there, the top three countries in our sample are Mexico, Colombia, and Brazil. The top sectors for investment in 2014 and 2015 were financial inclusion, agriculture, and health. Respondents reported 52 exits in 2014 and 2015.

Challenges and Opportunities

Respondents commonly reported that sourcing quality deals, achieving expected returns, and fundraising pose the greatest challenges for the industry. Respondents were overall optimistic about 2016. They anticipated raising US\$2.4 billion globally and investing US\$796 million in 336 deals.

Brazil

- Between 2014 and 2016, the number of active impact investors in the country increased from 22 to 29. Currently, the total AUM of local organizations stands at US\$186 million; in 2014 it was US\$177 million (in 2016, seven organizations reported their AUM, compared with eight reporting in 2014).
- The market for impact investing in Brazil has grown over the past two years, but at a lower rate than investors had expected.¹ Several factors may have influenced this, including the current political and economic crisis, high interest rates, and the lack of a successful track record. It is also important to highlight that one participant in the 2014 survey left the market prior to the 2016 survey which affected the overall AUM managed by local firms.
- The number of domestic investors increased between 2014 and 2016. In 2014, there were nine Brazil-based investors and 13 international investors. By 2016 these numbers increased to 13 and 16, respectively.
- Return expectations remain relatively high in Brazil. In 2014, 53% of investors reported target returns 16% and higher.² In 2016, 50% of investors targeted net annual returns of 16% or

higher, compared to 37% from the region as a whole.

- The most commonly used financial instrument is equity (67%), followed by debt (52%), quasi-equity (41%), and other types of investments (22%). In the 2014 study, investors reported equity investments at 84%, debt at 32%, quasi-equity at 47%, and other forms of investment at 21%.³
- In 2014 and 2015, impact investors in Brazil made 48 new investments totalling approximately US \$70 million. This number is lower than the 68 new investments⁴ investors reported expecting in the 2014 study.⁴
- Key impact investment sectors in Brazil are health, agriculture, education, and financial inclusion.
- Of those interviewed in 2016, 89% said they measure social and environmental impact, although many still face challenges in finding adequate methods of measurement. This indicates a growing concern over impact measurement, compared to the 75% who reported difficulty in measuring impact in 2014.⁵
- Investors plan to invest US \$105 million in 88 deals in 2016.

Colombia



- International funds dominate the impact investing ecosystem in Colombia. Only three are local firms focused solely on the Colombia market, which manage a total AUM of US\$ 52 million.
- The Colombian economy has emerged as a stable growth market in the region. The final peace agreement with the Fuerzas Armadas Revolucionarias de Colombia (FARC) which is expected to be signed in 2016, has the potential to further accelerate the economy. This will be a significant opportunity for impact investing in Colombia.
- The private equity industry in Colombia is relatively young but has developed quickly. Impact investing has grown within this industry but still as a niche segment.
- Investors reported 16 deals in 2014 and 2015. The average deal size was US\$2.2 million. International firms invest in higher average deal sizes (US\$3.9 million) than national firms (US\$550,000).
- Investors reported 7 exits in 2014 and 2015. Close to 80% of the impact investing in Colombia is in financial inclusion and agriculture sectors.
- For impact investing to grow in Colombia requires more awareness about the industry as a whole in the country. Universities can play an important role in this process.
- Unlike Brazil and Mexico, where impact investing is more developed, Colombia is still in early stages. For impact investing to evolve from its current status as a niche investing approach, the industry will need increased government support, greater involvement of the local private sector, and wider communication of its activities.

Mexico

- The impact investing ecosystem in Mexico includes both local and international firms, with 42 investors focused on Mexico, 15 of which are exclusively investing in Mexico.
- Government regulations and the creation of the National Institute for Entrepreneurship (INADEM) have spurred the growth of private equity markets and are accelerating entrepreneurship in Mexico.
- Impact investors headquartered in Mexico manage US \$392 million. Of that total, US \$359 million AUM corresponds to non-MFI investors. International firms that invest in Mexico manage US \$6.8 billion.
- In 2014 and 2015, investors closed 45 deals in Mexico, primarily in financial inclusion, health, and agriculture. This trend is consistent with expectations for 2016.
- Five exits were registered in Mexico, and most of them occurred as strategic sales.
- Mexican-based investors aim to fundraise US \$136 million in 2016, and all investors project they will invest US \$199 million in 105 deals.
- Local firms typically seek higher return rates than international investors.
- Management is critical to the success of the enterprises, and therefore to the impact investors. Relevant actors need to work to attract talent to the sector in order to build strong enterprises.
- The private sector still needs to play a stronger role in the impact investment ecosystem by investing in, buying, and scaling impact enterprises.
- The public sector could get more involved by defining and regulating impact measurement in order to create policies that incentivize investment in impact enterprises and that also create a legal structure for impact enterprises.
- Post-investment engagement has been crucial to the success of enterprises. Opening markets, providing strategic contacts, understanding customer and market data, and offering recruitment support represent a few things investment firms are increasingly doing to support their portfolio.
- Mexico joined recently the G8 the Impact Investment Task Force. It created its National Advisory Board in order to advocate and strengthen the industry. Local industry players are keen to work with the global industry.

Recommendations

Impact investing in Latin America is impossible to describe as a single, unified industry. However, in considering the future of the industry some broad trends hold true for the region as a whole.

Entrepreneurial solutions have the potential to sustainably contribute solutions to the region's biggest challenges, but the impact investing industry must grow across the region to reach this potential. Some markets need a stronger base of local actors engaged in impact investing. In other more developed markets there still exists a gap in early stage financing, and, some fear, in adequate later stage B and C round financing.

Attracting new actors and increased flows of capital to impact investing will require coordinated promotion from current leaders in the field. Impact investors should transparently share lessons from the past ten years' experience, highlighting success cases and also setting expectations about both financial return and impact potential.

There are three groups in particular that will be important to engage in the coming years: governments, large corporations, and universities. These stakeholders have the potential to create the incentives, additional funding, and education necessary for the industry to grow.



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INTRODUCTION

Introduction

In the past decade, the private sector has increasingly become a force to create social good. Social enterprise, corporate shared value, and socially responsible investing have exploded across business schools, consumer consciousness, and shareholder expectations. For example, in the United States sustainable, responsible, and impact investing grew 76% between 2012 and 2014, to US\$6.6 trillion assets under management (AUM).⁶

Impact investing was first defined in 2007, launching a global movement of investors with the intention to generate social and environmental impact alongside a financial return. Impact investing is an opportunity for investors interested in financial opportunities that align with their values, as well as for governments seeking innovative ways to fund social programs.⁷ The need for impact-oriented capital is clear. For example the Sustainable Development Goals face a US\$ 2.5 trillion annual investment gap globally, a gap that impact investors can help fill.

One barrier to the industry's success is lack of data. Prospective investors have been wary of what can seem a nebulous industry, and of fund managers often without a track record. In addition, as impact investors gain experience, newer investors can benefit from their learning and results. More clarity on market segments, performance, and practices are key.

In recent years, very little industry research has focused on Latin America, despite active and growing communities of impact investors in many of the region's countries. This report is a step towards filling that knowledge gap, and maps the landscape of impact investing in Latin America. The report opens with a regional analysis of broad trends in fundraising, deals, and exits, along with a special focus on pipeline development, technical assistance, impact measurement, talent, and gender. Following this overview is a series of deep dives into impact investing in three key markets where the industry is most active or developed: Brazil, Colombia, and Mexico.

Defining Impact Investors

For the purposes of this report, we count impact investors as those firms that:

- **Make direct investments in companies**
- **Have positive social or environmental impact as an explicit objective**
- **Have an expectation of a financial return**
- **Invest a minimum of US \$25,000 using any instrument, including debt, equity, quasi-equity, guarantees, or other.**

This definition matches the definition that was used in the 2014 study “The Impact Investing Landscape in Brazil,” but is less inclusive than the four characteristics that the Global Impact Investing Network (GIIN) defines as key to impact investing. Those are: the intention to create positive social or environmental

impact, expectation of financial return, diverse asset classes, and impact measurement.

The criteria applied in this report deliberately exclude certain investments, narrowing the focus on specific segments of the impact investing industry. This report excludes investments into microenterprises which are typically around US \$2,000, project finance such as green bonds, and direct investments made by Development Finance Institutions (DFIs). DFIs play a critical role in impact investing in the region, primarily through investments into funds. The report excludes the few that make direct deals because their size would distort the overall picture of the market.

The investors that participated in the survey are nonetheless diverse, and include private equity and venture capital fund managers, as well as family offices, foundations, and nonprofits. While microfinance institutions (MFIs) themselves are excluded from this sample, fund managers that invest in MFIs are included. These firms are all called “impact investors,” including those that were active before that term was coined in 2007.

Methodology

Research took place in two phases. First, LAVCA distributed a survey between December 2015 and March 2016 to 136 firms that the research team identified as highly likely impact investors. This survey focused on general investing practices and transactions that took place in 2014 and 2015. Second, the research team conducted a series of semi-structured interviews with 15 to 25 key actors each in Brazil, Colombia, and Mexico. This approach, called a sequential mixed-methods approach, allows the research team to use qualitative data gathered through interviews to enhance, validate, and provide context to the quantitative data collected from the survey.

In our outreach to impact investors, we excluded the Caribbean as a primary geography of focus. However a few survey respondents provided data on investments in the Dominican Republic and Haiti, and that data is included.

See Appendix 1 for a more detailed description of the methodology.



78 SURVEY
RESPONDENTS



15-25 INTERVIEWS IN



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IMPACT INVESTING IN LATIN AMERICA REGIONAL OVERVIEW

- 2.1 Summary of Key Points
- 2.2 Regional Context
- 2.3 Overview on Key Actors
- 2.4 Impact Investing Deals
- 2.5 Fundraising
- 2.6 Post-Investment Support
- 2.7 Impact Measurement
- 2.8 Key Challenges and Opportunities

2.1 Summary of Key Points



A Growing Industry

- Seventy-eight firms reported that they have made impact investments in Latin America. The first impact investment was made in 1997.
- Twenty-eight impact investors headquartered in Latin America manage US \$1.2 billion in assets under management (AUM). Thirty-one firms headquartered outside of Latin America that have made impact investments in the region manage a total of US \$7.2 billion in AUM, considering both Latin America and allocations to other regions.
- Firms that invest exclusively in Mexico manage US \$392 million, in Brazil US \$189 million, and in Colombia US \$52 million in AUM.
- Nearly 80% of respondents made their first investment after 2007, when the term impact investing was coined.
- Industry growth has been relatively steady since 2007. Between 1997 and 2007, on average three or four new players entered the market every two years. Between 2008 and 2015, the number of new entrants jumped to 14 or 15 every two years.
- The growth in impact investing has been driven by those investing in impact enterprises. While the number of investors that made investments in microfinance institutions and agricultural cooperatives more than doubled between 2007 and 2015, the number that focus on impact enterprises grew nearly seven times in that same period.
- The type of organizations making impact investments are diverse in size, organizational structure, the type of capital they have been able to raise, and their relative expectations for financial and impact return on investment.

Impact Investing Deals

- The top three countries in our sample are Mexico, Colombia, and Brazil based on the number of firms that have invested there since 1997.
- Respondents reported US\$1.3 billion invested in 522 impact investing deals in 2014 and 2015.
- The top sectors in 2014 and 2015 by both capital deployed and number of deals were financial inclusion, agriculture, and health.
- Respondents reported 52 exits in 2014 and 2015.

Challenges and Opportunities

- Respondents commonly reported that sourcing quality deals, achieving expected returns, and fundraising pose the greatest challenges in the sector.
- Respondents were optimistic about 2016. They anticipated raising US\$2.4 billion globally total and investing US\$796 million in 336 deals.

2.2 Regional Context

Macroeconomic Trends

After a decade of growth in the 2000s, many countries in Latin America have been experiencing an economic downturn. The IMF reported that growth in Latin America and the Caribbean dropped below one percent in 2015.⁸ The degree of economic decline has not manifested evenly across the region. Brazil, for example, is in recession, whereas Mexico's outlook is more positive. Economies that depend heavily on commodity exports face the biggest challenges, whereas economies that have strong trade relationships with the United States are growing.⁹

Latin America has historically been the most socially unequal region in the world. Latin American countries are typically 30% more unequal than the world average, as measured by a 0.5 Gini coefficient for the region. However, there is less inequality today than in the past. Economic growth and government policies in the 2000s resulted in a significant decline in poverty and growth of the middle class. Employment rates have increased, and average incomes have risen, particularly for poor and low-income people.¹⁰ In the 2000s, the proportion of extremely poor people in Latin America declined more than 50%.¹¹

The economic slowdown is nonetheless taking its toll by slowing progress in reducing inequality. The proportion of the population classified as middle class remained stagnant in 2014.¹²

Entrepreneurial Ecosystem

Entrepreneurship has the potential to drive economic growth, stability, and other measures of well-being in nations around the world. In particular, businesses with the ambition to scale will create jobs as they grow, and create ripple effects for their supply chain partners. The context in which these enterprises operate determines that path to scale. For example, workforce skills, government policies, and the availability of capital can help or hinder young enterprises on their growth path.

This broader context is equally important for impact enterprises as traditional enterprises. Impact-oriented businesses face the same challenges, in addition to often facing added pressure to their growth by serving low-income customers.

The “Index of Systemic Conditions for Dynamic Entrepreneurship” (ISCEd), an assessment of entrepreneurial ecosystems around the world, assigns a score to over 50 countries based on the strength of multiple enabling aspects of the business environment. **Across Latin America, common challenges to entrepreneurial development include the lack of interested entrepreneurs with growth ambitions, a lack of early stage funding, and weak networks.**¹³

Another assessment of entrepreneurial ecosystems, the Global Entrepreneurship and Development Institute (GEDI), assigns a score based on a country’s entrepreneurial “abilities, aspirations, and attitudes” and the economic “infrastructure.” GEDI data on Latin America shows similar trends. While the region shows relatively high levels of “startup skills,” countries in the region demonstrate low levels of risk capital, innovation, and growth.¹⁴

Table 1. Entrepreneurial Ecosystem Scores and Rankings for Select Countries

Country	ICSEd-Prodem Rank	GEDI Rank
United States	2nd	1st
Germany	8th	14th
China	23rd	60th
Chile	29th	16th
Brazil	35th	92nd
Colombia	40th	43rd
Mexico	42nd	87th
Peru	43rd	70th
Bolivia	48th	69th
Nicaragua	-	110th
Ecuador	45th	88th



Private Capital Markets

According to research from EMPEA, Latin America attracts the second highest concentration of emerging market private capital, drawing 17% of the US\$178 billion invested in emerging markets.¹⁵ LAVCA reports that private equity and venture capital players invested \$14.3 billion in the region in 2014 and 2015.

Table 2. Private Equity and Venture Capital Fundraising and Investment in Latin America, 2011-2015

	2011	2012	2013	2014	2015
Fundraising (US\$ M)	10.270	5.553	5.497	10.391	7.213
Investment (US\$ M)	6.504	7.875	8.886	7.873	6.469

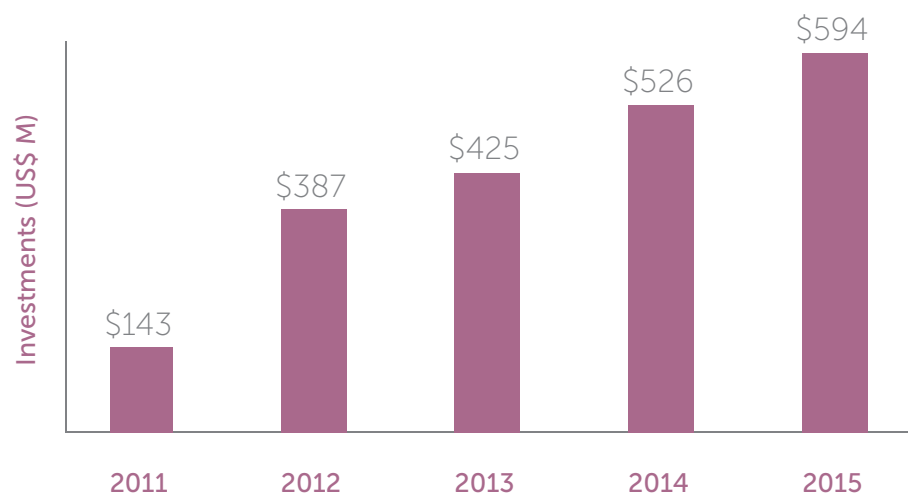
Source: LAVCA, Latin America Venture Capital: Five Year Trends

The economic slowdown is hindering private capital markets in some countries, however. In EMPEA's annual survey, limited partners (LPs) pointed to Spanish-speaking Latin America as the most attractive region for emerging market investors in 2014 and 2015. The region fell to fourth place in 2016.¹⁶

According to data from LAVCA, LPs believe that low entry valuations and good dealflow are strong in Latin America compared to other emerging market private equity destinations. On the other hand, currency volatility, the political climate, and the regulatory environment make Latin America less attractive compared to other regions.¹⁷

In spite of this trend, venture capital has grown in Latin America. According to research from LAVCA, VC investors have closed US \$2.3 billion in fundraising since 2011, and invested just over US \$2 billion in 667 deals, mainly in the tech sector.¹⁸

Figure 1. Venture Capital Deals 2011-2015



Source: LAVCA

Key Social Challenges

While the region has made enormous progress in reducing poverty, major challenges remain. The challenges that populations face in Latin America represent areas where impact enterprises have real opportunity to make positive change.

- **Resilience & Poverty.** Many of those who recently moved out of poverty are at risk of sliding back in to poverty. They are part of the population of 220 million people worldwide who earn enough that they are not officially “poor” (earning \$4 a day), yet do not earn enough to be characterized as middle class (earning \$10 a day).¹⁹ For them, informal employment is a major risk. Since about half of all jobs in the region are informal, this poses a threat to continued prosperity.²⁰
- **Education.** Most children are able to attend school, but the quality of the education they receive remains relatively low. According to a 2014 study, Latin American students are two years behind the OECD average.²¹
- **Healthcare.** While advances have been made in providing universal healthcare, according to estimates from the World Health Organization, approximately 30% of the population in Latin America cannot access healthcare.²²

• **Climate Change.** Latin America has the potential to be one of the regions most affected by the extremes of climate change, with threats including dwindling water supply, and reductions in agricultural productivity.²³

Looking towards the future, according to one assessment of the region's trajectory towards achieving the Sustainable Development Goals, Latin America is on track to reduce inequality, end extreme poverty, and provide universal access to energy. Goals that are severely underperforming in the region and will not be achieved unless a reversal is made include reducing violent deaths, reducing slum populations, and several environmental issues: reducing waste, combating climate change, and protecting marine environments.²⁴

It is in around these challenges that we expect impact enterprises to play.

An Overview of Impact Investing

Latin America represents an important area of activity for the global impact investing industry. **In the 2015 edition of the GIIN's Impact Investor survey, 44% of respondents included Latin America as a region of focus, representing US \$7 billion in capital out of the US \$77.4 billion total AUM²⁵** (This total includes assets managed by DFIs, banks, and pension funds as well as fund managers).

In some countries the market is relatively mature, with significant activity from local fund managers and other actors as well as interest from international players. For example, the Latin American Impact Investing Forum, which brings together regional players, has been held annually since 2010. The Global Social Impact Investment Steering Group, a network based in the G8 with the aim of catalyzing the global social impact investment market, now includes two national members in Latin America – Brazil and Mexico. These groups aim to influence government policy and the private sector, and organize national impact investing markets.

The data in this report include three main segments within impact investing: microfinance investors, agriculture social lenders, and those that invest in impact enterprises. These segments overlap: some investors invest in MFIs, agricultural cooperatives, and impact enterprises, for example. Data on the first two segments exists for 2014 and 2015.

Microfinance investors managed total microfinance portfolios of US \$7.7 billion in 2014, of which US \$690 million was in Latin America. Peru and Ecuador were among the top ten recipients for microfinance investment in 2014, at over 5 % of the global total each.²⁶

The Council on Sustainable Agricultural Finance tracks data from its nine members, all “impact-first agricultural lenders,” that target farmer cooperatives. In Latin America, members disbursed US \$372 million in 2015, and US \$372 million in 2014, respectively 66 and 62 % of total disbursements.²⁷

There is little data available on the third segment, investors that target impact enterprises often with a venture capital model. That is a gap that this study aims to fill.

How does the data in this study compare?

This survey provides data from a large and diverse sample of impact investors in Latin America. Although the survey did not capture the entire universe of activity, the sample is an accurate representation of the comparative size and scope of impact investing in the region. For example, respondents reported US\$900 million invested in 2015. This sum is approximately 13% of the GIIN’s annual impact investor’s survey total for capital committed by fund managers in 2015 (\$7 billion).

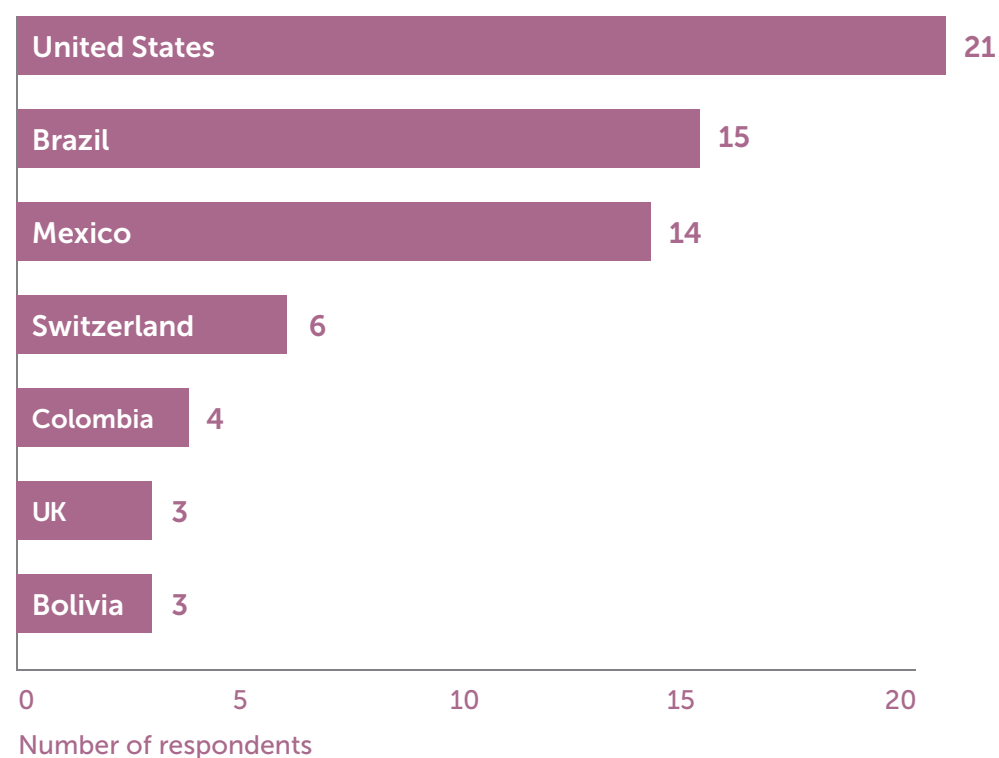
2.3 Overview on Key Actors

Notes on the Sample

Seventy-eight firms completed the survey.²⁸ Many of these firms are local to the region: 52% are headquartered in Latin America, 28% in United States and Canada, and 17% in Europe.

Fig.2 Headquarter Countries (where n >2)

Source: LAVCA-ANDE



Forty-eight percent of respondents invest in just one market, while the remaining 52% target either multiple countries in Latin America, and/or countries beyond Latin America. Survey respondents represent diverse organizations. Some identify primarily as impact investors, while others make impact investments as part of a broader organizational mandate.



Investors range in size as well, from less than one to 500 impact investment professionals on staff (median = 5, n=67). **Respondents' AUM totals US\$8.4 billion and ranges from just over US\$100,000 to US\$3 billion (n=60), Median AUM per firm is US\$30 million.**

Table 3. Type of organization

Impact Investor	63%
Private Equity/Venture Capital Fund	31%
Foundation	16%
Business incubator/accelerator	9%
Family Office	7%
Bank/Financial Services Institution	7%
Endowment	3%
Other	17%

Note: 42 selected more than one type (n=68)
Source: LAVCA-ANDE

Investing in Microfinance

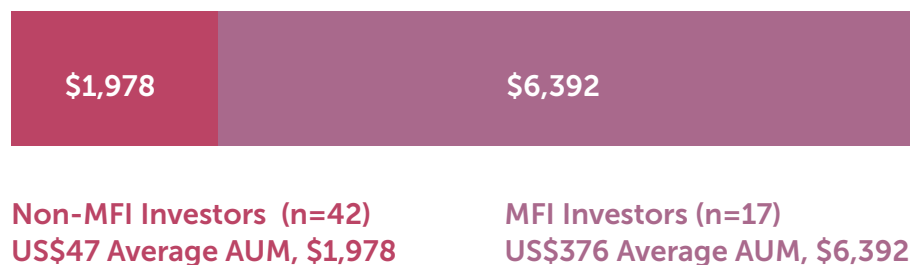
Impact investors that focus on MFIs manage more capital and invest with bigger ticket sizes—including some deals larger than US\$100 million—than investors that do not focus on MFIs.

The microfinance industry took off globally in the 1990s, long before the terms impact investing and impact enterprises emerged. It began as a fragmented set of NGOs and foundations, but has matured to the point that MFIs have commercialized and some large MFIs have reached an IPO or have been acquired by large banks. In the 2000s, investors began providing equity and debt investments to those MFIs that had transitioned from NGOs to non-bank financial institutions (NBFIs).

Microfinance, as a mature sector within impact investing, can serve as a reference point for the rest of the industry. Investors can learn from its path to scale as an industry, the possible backlash that can come after negative impacts are revealed, and safeguards to protect both financial returns and strong social performance.

Impact investors that target microfinance institutions (MFIs) participate in a distinct and more mature segment of the market. Among these 17 firms are both investors that focus exclusively on MFIs, and those that target a range of investments including MFIs. The distinction between MFI and non-MFI investor is important because of the size disparity between groups: those that target MFIs are eight times larger than those that do not. For that reason, the report often splits out the MFI investor subgroup in presenting the data.

Fig. 3. AUM by MFI focus (US\$ million)



Source: LAVCA-ANDE

Another key difference in survey respondents is the target market: those that make investments in a single country are on average six times smaller than those with an international focus. For survey respondents that target more than one region, we do not have data on the expected allocation of their assets to Latin America versus other regions. When we present data on AUM, we clarify the amount that is held by local investors versus those based outside of Latin America; likewise, we identify the amount held by those that focus on a single Latin American market versus those that target multiple countries, and sometimes multiple regions.

Fig 4. AUM by Investor Geographic Focus

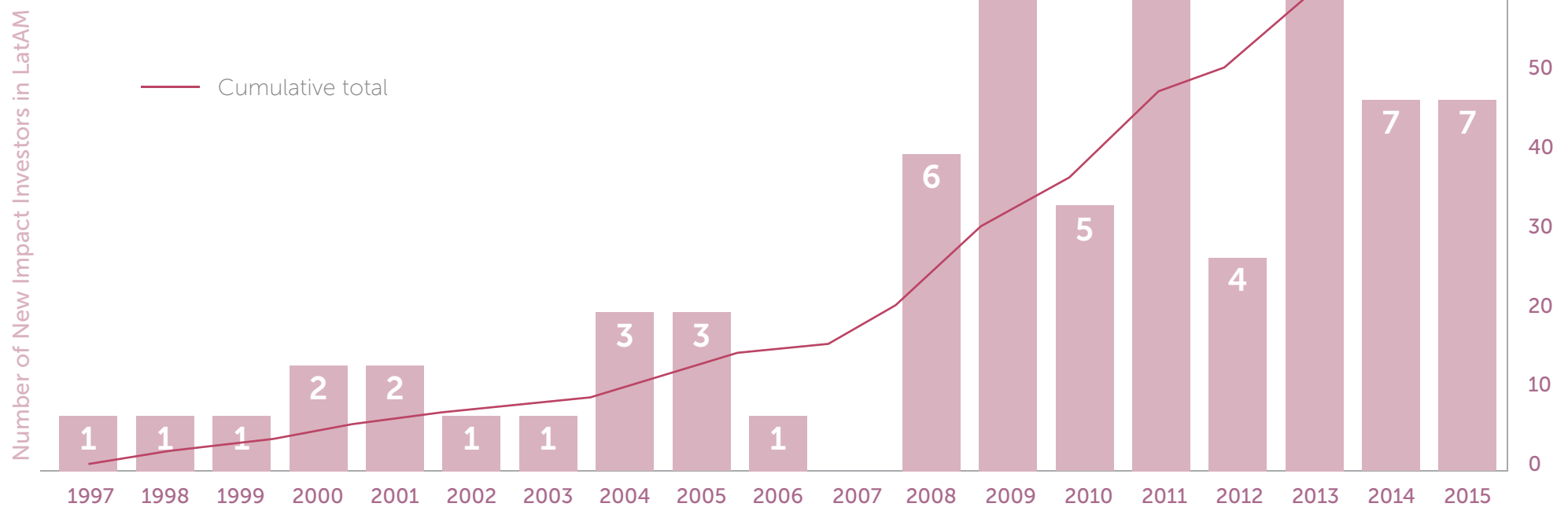


Source: LAVCA-ANDE

Overview

Nearly 80% of respondents made their first investment after 2007, when the term “impact investing” was coined. **The pace of new firms making impact investments in Latin America picked up in 2009, and continued at that higher level through 2015.**

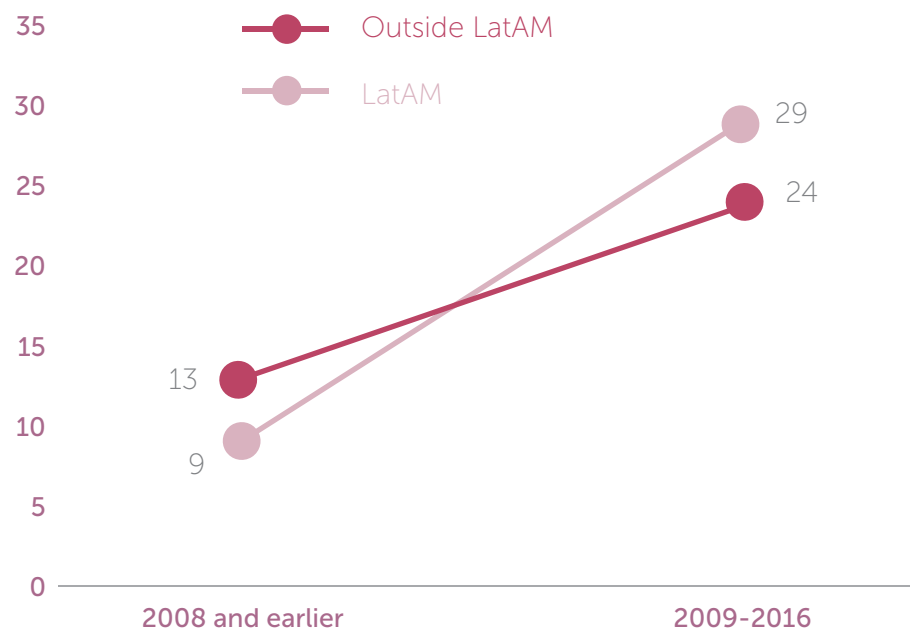
Figure 5.. Year of First Impact Investment in Latin America (2016 excluded)



Source: LAVCA-ANDE

Since the boom in 2009, there has been a sharper uptick in new entrants headquartered in Latin America (from nine to 29), compared to new entrants based outside Latin America (13 to 24).

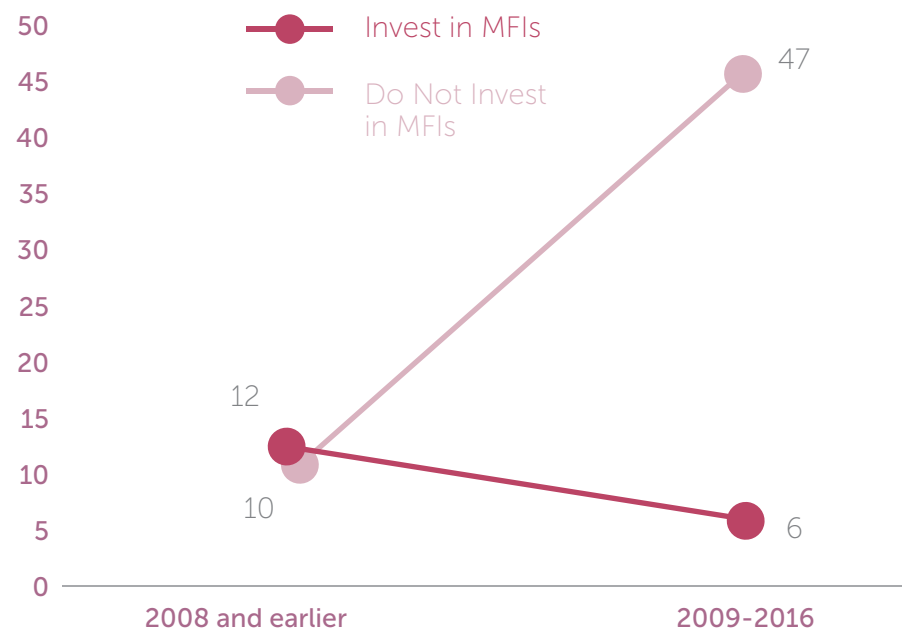
Figure 6. Number of Organizations with First Impact Investment in Latin America by HQ



Source: LAVCA-ANDE

There was an even sharper contrast between firms that invest in MFIs and those that don't. The number of new entrants that invest in MFIs decreased after 2008, while the number of new entrants that don't focus on MFIs jumped from 10 before 2008 to 47 in 2009 and later.

Figure 7. Number of Organizations with First Impact Investment in Latin America by MFI Focus



Source: LAVCA-ANDE



Geographic Focus

Since 1997, 78 survey respondents have invested in 20 Latin American countries, with the largest number of firms investing in Mexico, Colombia, and Brazil. The profiles of investors in each market are often distinct.

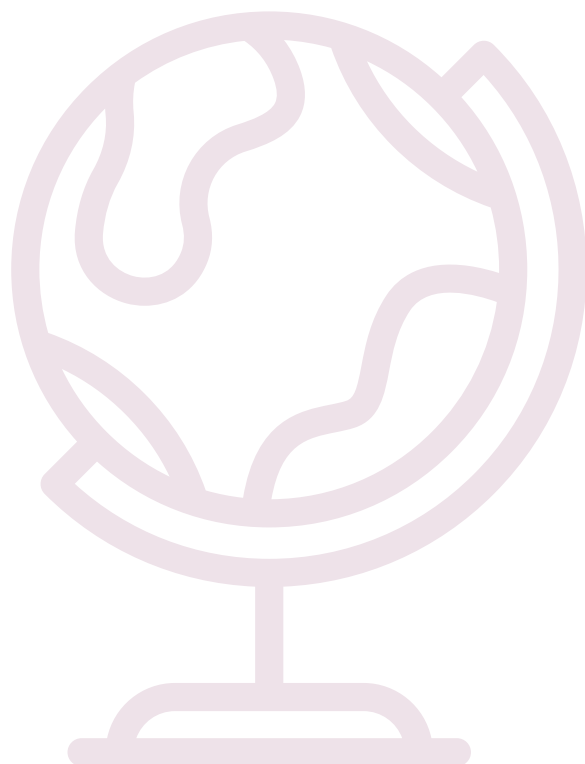


Table 4. Number of Impact Investors per Country

Country	Number of Firms	% of Sample
Mexico	42	55%
Colombia	32	41%
Brazil	29	37%
Peru	13	17%
Bolivia	11	14%
Nicaragua	9	12%
Ecuador	8	10%
El Salvador	6	8%
Guatemala	6	8%
Honduras	6	8%
Paraguay	6	8%
Chile	5	6%
Costa Rica	5	6%
Dominican Republic	4	5%
Panama	3	4%
Argentina	2	3%
Belize	1	1%
Haiti	1	1%
Suriname	1	1%
Uruguay	1	1%

Source: LAVCA-ANDE. Note: Total count by country includes partial survey responses which are excluded from subsequent analyses

Table 5. Types of impact investors active in each country where 10% or more of survey respondents invest

Source: LAVCA-ANDE

	BOLIVIA (n=11)	BRAZIL (n=29)	COLOMBIA (n=32)	ECUADOR (n=8)	MEXICO (n=42)	NICARAGUA (n=9)	PERU (n=13)
Year of First Investment							
2009 – 2016	18%	83%	78%	38%	70%	22%	46%
2008 and Earlier	82%	17%	22%	63%	30%	78%	54%
Invest in MFIs							
No	45%	83%	63%	13%	63%	22%	46%
Yes	55%	17%	38%	88%	37%	78%	54%
Geographic Focus							
International	82%	55%	88%	100%	54%	100%	92%
Single-Country	18%	45%	13%	0%	46%	0%	8%
Headquarters							
LatAm	27%	52%	25%	0%	42%	11%	8%
Outside LatAm	73%	48%	75%	100%	58%	89%	92%

2.4 Impact Investing Deals

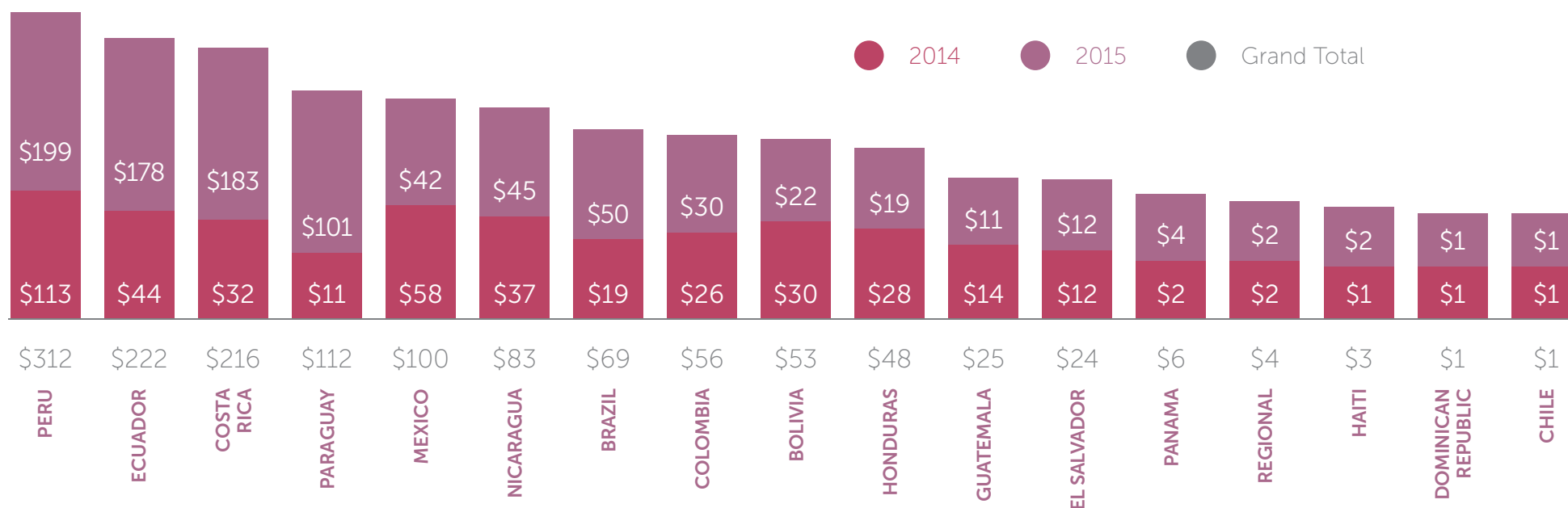
Geography & Sector

Respondents reported US \$1.3 billion invested: US \$430 million in 2014 and US \$901 million in 2015.²⁹ **Based on all data, Peru, Ecuador, and Costa Rica had the highest deal value in 2014 and 2015.**

Looking at detailed deal data only, top countries by deal volume were Brazil, Mexico, Peru, and Colombia. A small number of microfinance deals of US \$100 million and higher earned Peru, Ecuador, Costa Rica, and Paraguay their leader status.

Figure 8. Total Invested by Country (US\$M)

Source: LAVCA- ANDE



Note on Deal Data: Fifty-nine respondents provided detailed information on deals, and five respondents provided data in aggregate. Data presented here on 2014 and 2015 transactions include complete information for 170 deals, deal information without the amount invested for 18 deals, and aggregate capital invested by investor at the country or regional level from five firms on 334 deals.

Table 6. Number of Deals and Average Deal Size by Country, 2014-2015
(Note: this data excludes the \$382 million reported in aggregate)

Country	Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)	Total Invested, Non-MFI Deals (US\$ M)	Average Deal Size, Non-MFI Deals (US\$ M)
Brazil	48	\$68.9	\$1.5	\$68.9	\$1.5
Mexico	45	\$64.7	\$1.6	\$32.9	\$1.0
Peru	23	\$210.4	\$11.7	\$29.4	\$2.1
Colombia	16	\$32.7	\$2.2	\$15.2	\$1.2
Nicaragua	10	\$24.1	\$2.4	\$1.9	\$0.3
Bolivia	8	\$24.6	\$3.1	\$1.0	\$0.2
Ecuador	7	\$199.6	\$28.5	-	-
Costa Rica	5	\$211.0	\$42.2	\$4.8	\$2.4
Guatemala	5	\$1.7	\$0.3	\$0.7	\$0.2
Paraguay	3	\$93.8	\$46.9	-	-
El Salvador	3	\$8.4	\$2.8	-	-
Chile	3	\$1.1	\$0.4	\$1.1	\$0.4
Other	11	\$10.8	\$4.7	-	-

Note: Deals classified as MFI where 1) the investor was an MFI-investor, and 2) sector was financial inclusion.
Source: LAVCA- ANDE

Looking at detailed deal data only, agriculture was the most active sector in terms of the number of deals (41), while microfinance attracted the most total capital deployed (US \$788 million).

Table 7. Deals by impact sector
(data excluded where number of deals < 3)

* Note: Investors reported on the sector "financial inclusion." Deals in this group were designated Microfinance when the investor was an MFI investor. Deals were designated Financial Inclusion (excl. microfinance) when the investor was not an MFI investor.

Source: LAVCA- ANDE

















Sector	Number of Deals	Total Invested	Average Deal Size
 AGRICULTURE	41	\$53.5	\$1.4
 MICROFINANCE*	35	\$788.3	\$22.5
 HEALTH	20	\$32.1	\$1.7
 FINANCIAL INCLUSION (EXCL. MICROFINANCE)*	15	\$14.9	\$1.1
 OTHER	13	\$14.6	\$1.1
 EDUCATION	12	\$8.6	\$0.8
 HOUSING	8	\$5.2	\$0.7
 CAPACITY BUILDING	6	\$1.9	\$0.4
 COMMUNITY DEVELOPMENT	6	\$0.6	\$0.2
 ENERGY	4	\$2.7	\$0.7
 RENEWABLE ENERGY	4	\$1.8	\$0.5
 SUSTAINABLE LIVELIHOODS	3	\$0.5	\$0.2
 TECHNICAL ASSISTANCE SERVICES	3	\$0.5	\$0.2


Table 8. Deal Data by Country and Sector for Top Countries by 2014-2015
(data restricted where number of deals < 3)

Source: LAVCA- ANDE


BOLIVIA 		8	\$24.6	\$3.1
Sector		Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)
FINANCIAL INCLUSION		3	\$23.8	\$7.9
AGRICULTURE		3	\$0.4	\$0.1
FORESTRY		1	-	-
OTHER		1	-	-

COSTA RICA 		5	\$211.0	\$42.2
Sector		Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)
FINANCIAL INCLUSION		3	\$206.2	\$68.7
AGRICULTURE		2	-	-


BRAZIL 		47	\$68.9	\$1.5
Sector		Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)
HEALTH		13	\$24.2	\$1.9
AGRICULTURE		9	\$31.4	\$3.5
EDUCATION		6	\$3.9	\$0.8
FINANCIAL INCLUSION		6	\$3.6	\$0.7
HOUSING		5	\$0.5	\$0.1
CAPACITY BUILDING		4	\$1.9	\$0.5
COMMUNITY DEVELOPMENT		2	-	-
POLLUTION PREVENTION AND WASTE MANAGEMENT		1	-	-
RENEWABLE ENERGY		1	-	-







COLOMBIA				
Sector	Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)	
AGRICULTURE	7	\$4.3	\$0.6	
FINANCIAL INCLUSION	3	\$17.5	\$8.8	
OTHER	3	\$10.4	\$3.5	
EDUCATION	2	-	-	
CAPACITY BUILDING	1	-	-	












ECUADOR				
Sector	Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)	
FINANCIAL INCLUSION	6	\$197.3	\$32.9	
AGRICULTURE	1	-	-	



MEXICO				
Sector	Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)	
FINANCIAL INCLUSION	15	\$42.9	\$3.1	
HEALTH	6	\$5.9	\$1.2	
AGRICULTURE	5	\$5.2	\$1.0	
COMMUNITY DEVELOPMENT	4	\$0.3	\$0.1	
ENERGY	3	\$2.5	\$0.8	
RENEWABLE ENERGY	3	\$0.8	\$0.3	
TECHNICAL ASSISTANCE S.	3	\$0.5	\$0.2	
EDUCATION	2	-	-	
HOUSING	2	-	-	
CAPACITY BUILDING	1	-	-	
SUSTAINABLE LIVELIHOODS	1	-	-	

NICARAGUA		10	\$24.1	\$2.4
Sector		Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)
 FINANCIAL INCLUSION		5	\$1.6	\$0.3
 AGRICULTURE		3	\$22.2	\$7.4
 WATER AND SANITATION		1	\$0.1	-
 OTHER		1	\$0.2	-

PARAGUAY		3	\$93.8	\$46.9
Sector		Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)
 FINANCIAL INCLUSION		2	\$93.8	\$46.9
 AGRICULTURE		1	-	-

PERU		23	\$210.4	\$11.7
Sector		Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)
 AGRICULTURE		7	\$3.3	\$0.8
 OTHER		7	\$3.5	\$0.5
 FINANCIAL INCLUSION		5	\$181.0	\$45.3
 BIODIVERSITY CONSERVATION		1	-	-
 FORESTRY		1	-	-
 SUSTAINABLE LIVELIHOODS		1	-	-
 TOURISM		1	-	-

Capital Deployed by Investor

On average, respondents each invested US\$19 million in three deals in 2014 and 2015. This picture is skewed by two large outliers, which together represent 76% of the total capital disbursed. When these outliers are removed, the survey respondents averaged US\$5 million invested, with an average deal size of around US\$3 million.

Looking at median values rather than averages, it is clear that the majority of investors in the sample place even less capital. The median total capital disbursed for those that do not invest in MFIs is about US\$1 million, with a median deal size of \$500,000.

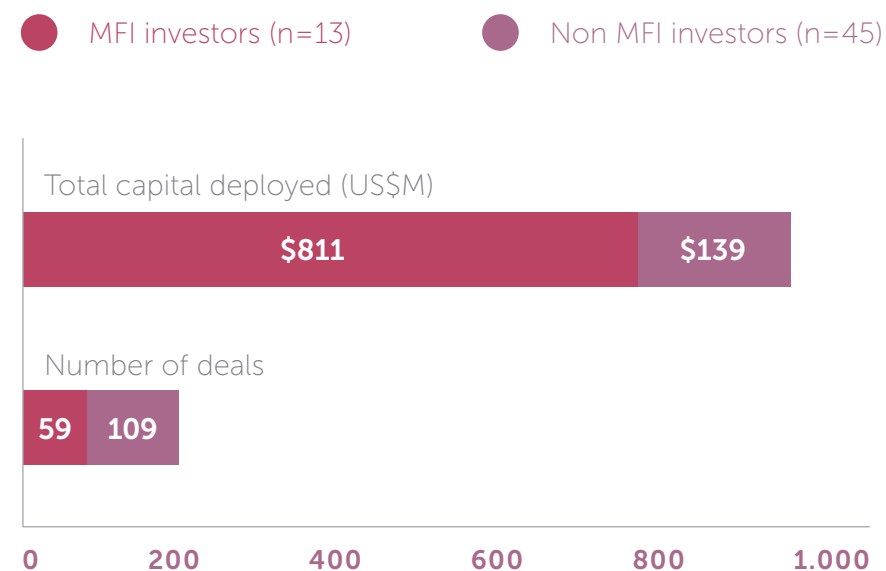
Table 9. Deals per Investor

Type	Median Number of Deals	Median Capital Disbursed	Median Deal Size
All respondents (n=59)	2	\$2.2	\$1
Do Not Invest in MFIs (n=46)	2	\$0.9	\$0.5
Invest in MFIs (n=13)	3	\$7.9	\$4

Note: all currency in US\$M
Source: LAVCA- ANDE

The largest impact investing deals in the sample were microfinance deals of over \$100 million each. Investors that target MFIs disbursed 85% of impact investing dollars, yet accounted for only 35% of deal volume.

Figure 9. Total Capital Deployed and Deal Volume



Source: LAVCA- ANDE

Business Stage

Investors classify most deals as expansion or growth stage, followed by early stage. **Seed stage deals represent just six percent of reported deals.**

Table 10

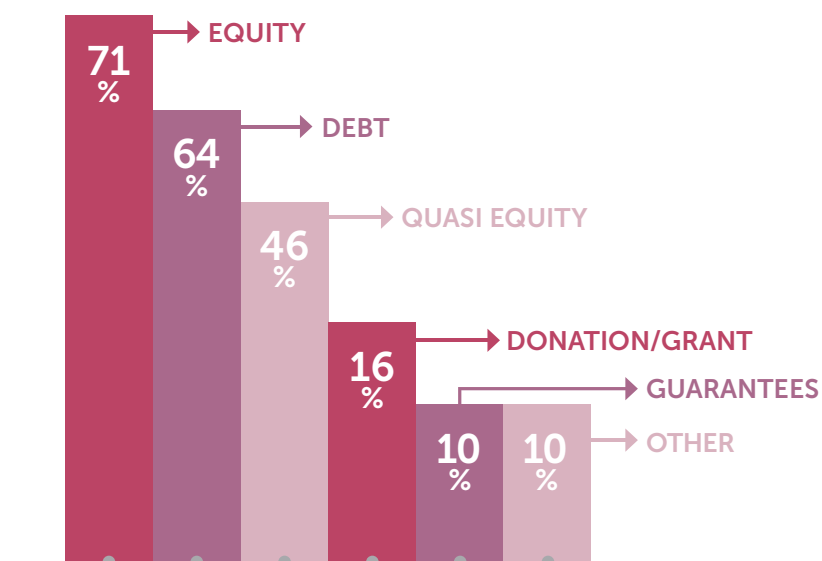
	Number of Deals	Total Invested (US\$ M)	Average Deal Size (US\$ M)
Early Stage	64	\$46	\$0.77
Expansion/Growth Stage	103	\$901	\$9.59
Seed / Incubator Stage	10	\$1	\$0.09
Other	5	\$3	\$0.80

Note: Deals with incomplete information excluded from this table.
Source: LAVCA- ANDE

General Practices: Instruments and Deal Sizes

In addition to information on individual deals, respondents reported on general practices at their firms. **Sixty-eight percent of survey respondents reported using more than one instrument for making investments, with equity most common followed by debt and then quasi-equity.**

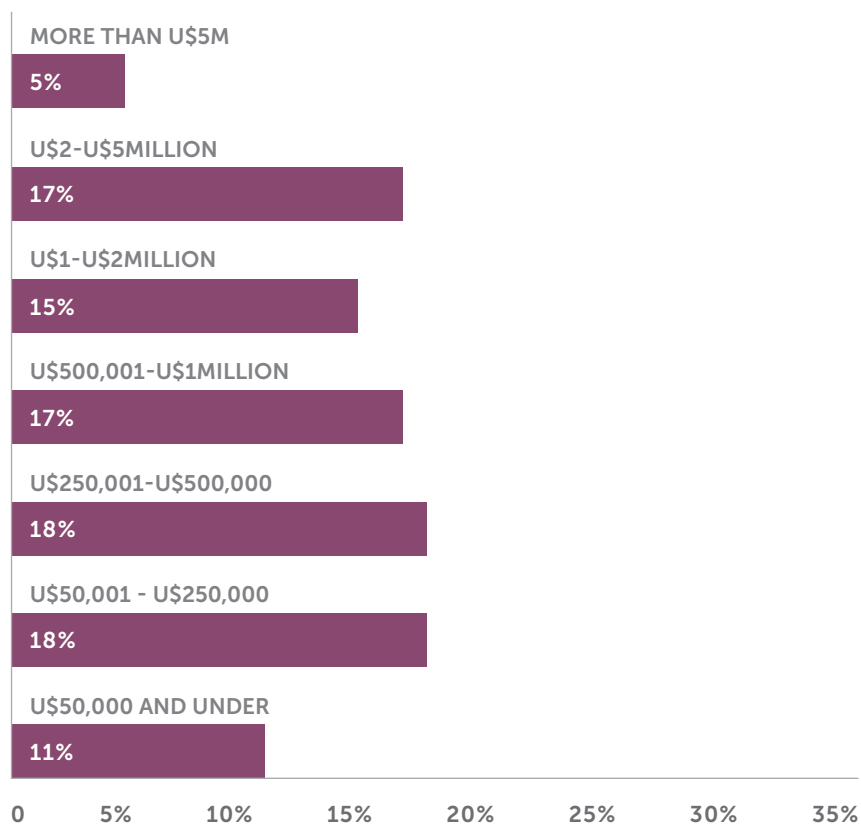
Figure 10. Instruments Used (n=69)



Source: LAVCA- ANDE

Respondents reported an average ticket size of US \$1.7 million, and 64% of respondents reported average deals of US \$1 million or less. Firms that invest in MFIs reported a US \$4 million average deal size compared to US \$1 million average for non-MFI investors.

Figure 11. Average Ticket Size Distribution



Source: LAVCA-ANDE



Gender

According to respondents, about 20% of portfolio companies include women on the founding team. That figure seems to compare favorably with the 15% of US venture capital investments that went to women-led businesses in 2014³⁰. But many firms invest far in fewer women-led businesses than that benchmark. **Thirty-five percent of respondents reported no investments in women-led businesses, and 30% reported that 10% or fewer of investments were in women-led businesses.**

We know that the supply of women-led businesses is not the issue. Approximately one third of SMEs are owned by women, and about half of all ventures that apply to accelerator programs include women on the founding team.³¹ However, research has shown that women entrepreneurs do not receive investment at the same rate as men, due to a combination of “culture, collateral, and capacity.”³² These factors are likely at play in the impact investing industry as in the traditional investing sector.

Co-investments

Respondents report on average that 36% of deals are co-investments. Investors that target just one market are more likely than international investors to co-invest: they report 47% co-investments versus 20% from international investors.

We also asked respondents about the partnerships they have developed to generate pipeline. Sixty-four percent said they worked with a partner to identify prospects. Partners include universities, government, accelerators, and VC funds. Seven percent mentioned that their firm includes an acceleration or incubation arm that provides pipeline to the fund.

Those that said they did not formally work with partners often mentioned that their team was embedded in the local impact enterprise ecosystem, or had wide networks that allow them to source their own pipeline. In some cases, respondents remarked that there were no partners to work with in a specific country.

Table 11. Pipeline partnerships (n=55)

	% of Respondents
Partnership	64%
No Formal Partnerships	29%
Proprietary Accelerator	7%

Source: LAVCA-ANDE Survey

A few organizations emerged as key pipeline partners, listed by 10% or more of respondents with partnerships. These were: Artemisia, Endeavor, Village Capital, Agora Partnerships, New Ventures Mexico, and 500 Startups.

Exits

Nineteen investors reported on 52 exits, the majority of which were “strategic sales.” There were no exits reported in Brazil, seven in Colombia, and five in Mexico. The remaining 40 exits took place in other countries in the region.

Table 12. Exits

	Strategic Sale	Sale to Another Buyer
Colombia	3	4
Mexico	4	1
Other Countries in Region	38	2
Total	45	7

Source: LAVCA-ANDE

2.5 Fundraising

Respondents reported US \$8.4 billion total AUM, of which US \$1.2 billion (15% of the total) is managed by firms that are headquartered in Latin America. The US \$7.2 billion managed by firms headquartered outside of Latin America is not exclusively intended for investment in the region.

A conservative estimate of the available capital for impact investing in Latin America is US\$ 2.3 billion. That includes 100% of the US\$1.2 billion managed by firms headquartered in the region, and 15% of the \$7.2 billion managed by firms headquartered outside the region.

The majority of that capital has been raised from institutional investors, such as development finance institutions. Approximately three percent of AUM is raised from philanthropic sources, without expectation of a return. Five percent of AUM comes from firms' proprietary sources rather than from external fundraising.

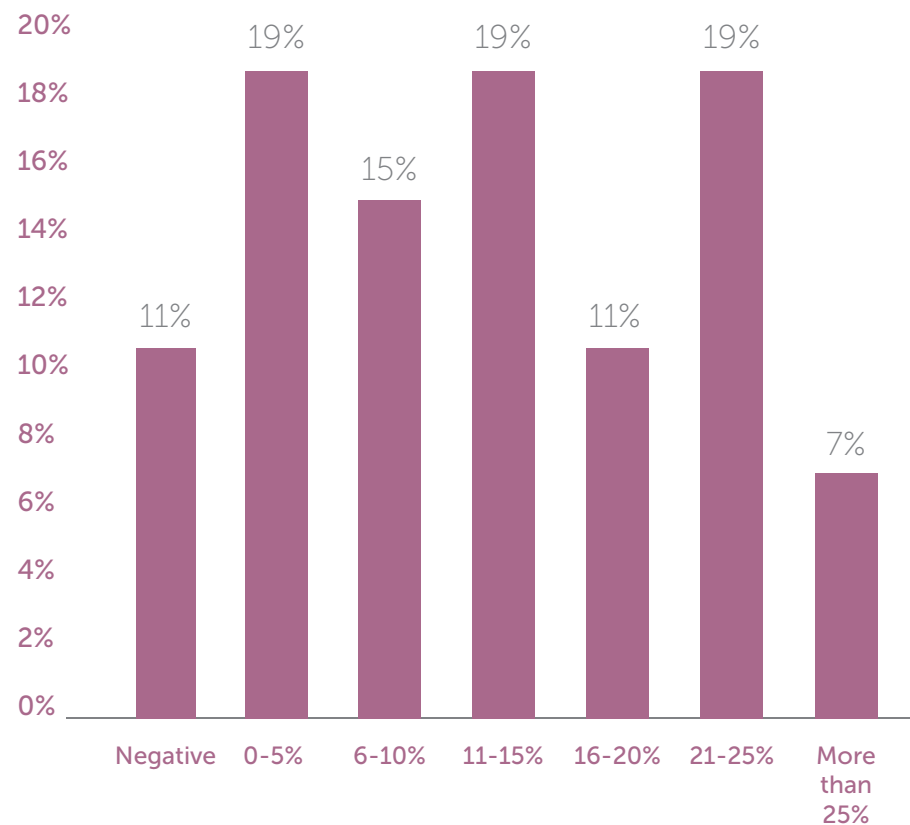
Table 13. AUM by Capital Source

	Percent of Total Respondents	AUM (US \$ M)	Percent of Total AUM
Institutional capital	51%	\$4,160	50%
Mixed Sources	3%	\$3,003	36%
Unknown and Other	4%	\$499	6%
Proprietary	23%	\$440	5%
Donated/philanthropic capital	19%	\$268	3%

Source: LAVCA-ANDE

Return expectations are correspondingly diverse, including 11% that expect a negative return and 7% with expectations of a greater than 25% return.

Figure 12. Net Annual Return Expectations (N=27)



Source: LAVCA-ANDE

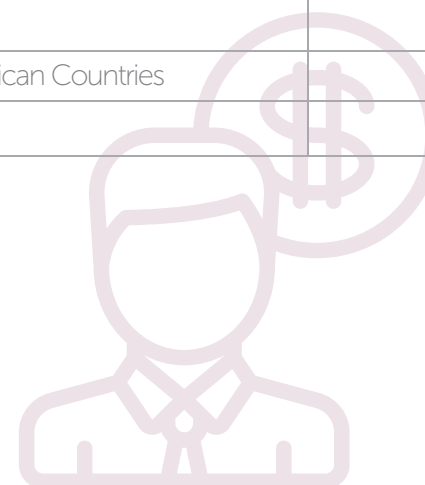
The majority of respondents fundraise from outside Latin America.

Table 14. Fundraising Sources

n=69

Outside Latin America	64%
Brazil	25%
Mexico	22%
Other Latin American Countries	16%
Colombia	9%

Source: LAVCA-ANDE



2.6 Post-Investment Support

On average, respondents hold portfolio companies for six years.

During this period, investors typically complement the capital they provide with other business support, such as advice, expertise, or direct technical assistance (TA). **The most common form of TA**

investors offer is strategic and business consulting, followed by mentoring. Most investors provide TA in-house or they hire consultants. Only 25% of investors maintain a formal partnership with a capacity development provider.

Table 15. Type of Technical Assistance Offered

Source: LAVCA-ANDE

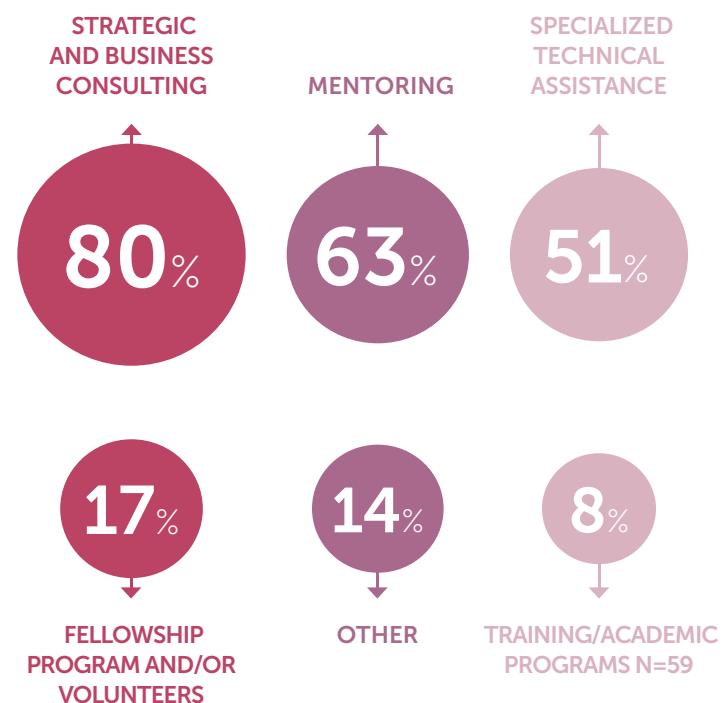
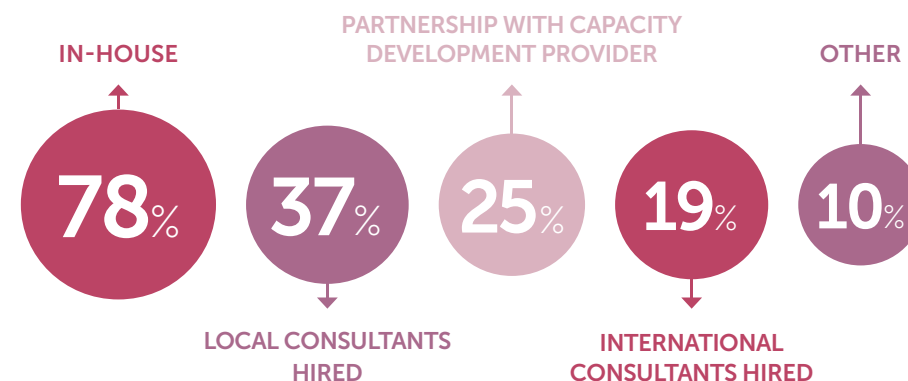


Table 16. How investors deliver Technical Assistance

Source: LAVCA-ANDE



In an open-ended question, the majority of respondents said they paid for TA with their own resources through, for example, management fees, operating budget, or through their own foundation. Thirty-five percent reported fundraising to pay for TA, either by soliciting donations or grants from corporations and foundations, or by establishing TA facilities funded by LPs or others alongside the fund. The remainder relied on pro-bono support.

2.7 Impact Measurement

Eighty-five percent of respondents say they measure impact. When asked which tools they use to measure impact, the majority include “other” tools, which most respondents described as a proprietary set of metrics or an in-house impact framework. Respondents could select more than one tool used to measure impact, and a large number of those that mentioned “other” also reported using an industry standard.

IRIS was the most common standard used by the total pool of respondents, followed by GIIRS and the PPI. Of those investors headquartered in Latin America, however, GIIRS was more commonly selected than IRIS.

Table 17. Impact Measurement Tools Used (n=57)

	Percent of Total	HQ in LatAm	HQ Outside LatAm
Other	65%	15	22
IRIS	46%	9	17
GIIRS	39%	13	9
PPI	7%	0	4

Source: LAVCA-ANDE

Most often, the impact investor pays for impact measurement, rather than the LP or portfolio company. Respondents completed an open-ended question about the challenges of impact measurement. The most common challenge reported was the high cost of measurement and the limited resources available to implement metrics. Other common challenges included the difficulty of aggregating data from diverse portfolio companies, followed by outcome measurement, and connecting impact measurement to management.

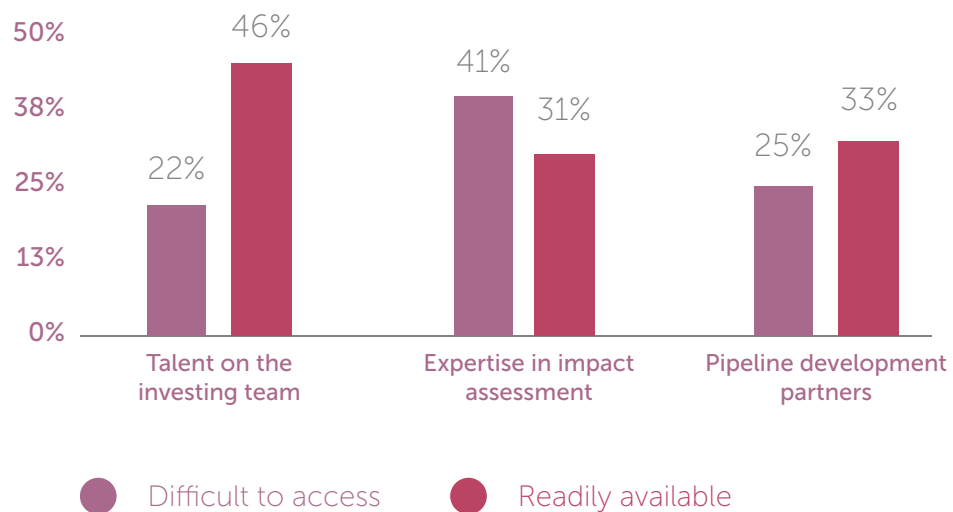
Table 18. Challenges measuring impact (n=46)

Cost / Resources	23%
Portfolio-Wide Metrics	19%
Measuring Outcomes	15%
Impact Measurement to Management	13%

Source: LAVCA-ANDE

According to respondents, investment expertise and talent on the investing team is relatively easy to access locally in Latin America. Impact measurement expertise, on the other hand, is relatively difficult to access.

Figure 13. Availability of Local Expertise and Talent



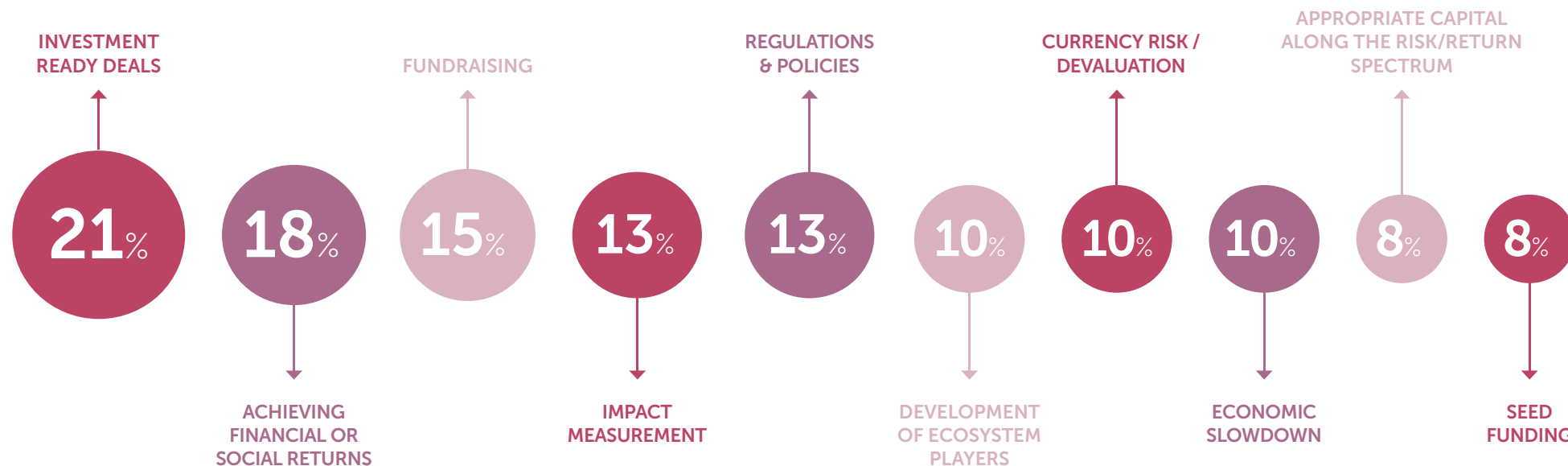
Source: LAVCA-ANDE

2.8 Key Challenges and Opportunities

In general, survey respondents see the global growth of the impact investing industry as a positive development for Latin America, but note that there are several key challenges to the continued growth of impact investing in the region. Some of these challenges seem to be universal, while some influence primarily local or global investors.

Figure 14. Top 10 Challenges (n=39)

Source: LAVCA-ANDE



Pipeline was the primary challenge that emerged. Respondents noted that finding investment-ready deals that align with the investor's goals is difficult, and competition for deals among investors can be high.

In addition, many respondents noted that securing financial returns –and also social returns–was a major challenge. The low level of successful exits in many markets is a potential threat to the industry. Adequate methodologies to measure the impact of investments was another issue that several respondents raised.

Investors headquartered in Latin America also often noted the difficulty of fundraising, and referred to political and regulatory issues that impact the market.

Investors headquartered outside of Latin America often noted currency risk, given the recent devaluation of local currencies against the US dollar. International investors also more often noted the lack of appropriate capital, such as patient capital.

Respondents mentioned a diverse range of opportunities, from specific sectors (like fintech and agriculture), to the widening of the impact investing “tent,” to experimentation with new instruments.

The key challenges that emerged in 2015 are similar to the challenges reported in the 2013 report from Bain and Company. That report lists pipeline development, impact measurement, exits, and government support as the four main challenges.³³

In addition, these issues parallel the challenges highlighted in the global impact investing market. According to the GIIN's 2016 survey, a commonly cited challenge continues to be “high quality investment opportunities.”³⁴

Expectations for 2016

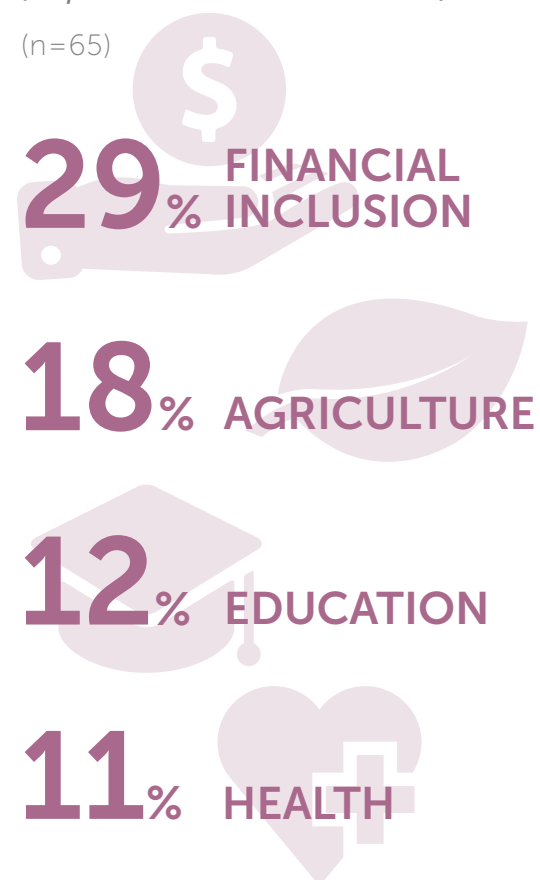
Respondents plan to raise US \$2.4 billion total in 2016, with local firms expecting to raise US \$537 million of that total. Respondents predicted they would deploy US\$796 million in 336 deals. Nearly one-third of respondents planned to invest in financial inclusion, followed by nearly one-fifth in agriculture.

Table 19. Expected Investments 2016 (n=58)

	Capital to Commit (US\$ M)	Number of Deals
Brazil	\$105	88
Colombia	\$123	44
Mexico	\$199	105
Other Latin American Countries	\$369	99

Source: LAVCA-ANDE

Figure 15. Top 4 Priority Sectors for 2016 (respondents had to choose one)



Source: LAVCA-ANDE

Evolution of the Market: Brazil, Colombia, and Mexico

Based on interviews with regional players, some key differences emerged about the stage of development of three major impact investing markets in Latin America.

Brazil: High Expectations

Brazil is seen as the most mature market, and one distinct from the rest of Spanish-speaking Latin America. Investors in Brazil in particular feel pressure to deliver key “success stories” soon, in order to prove the validity of investing for social and financial returns, and stimulate further growth of the industry.



According to interviewees:

- The size and diversity of Brazil’s economy and development of its private capital markets position it as one of the best opportunities in the region.
- Brazil seems separate from Spanish-speaking Latin America, not just in language, but also in its economy and culture. Investors operating in one Spanish-speaking country in the region are more likely to move to another Spanish-speaking market than try to enter Brazil.
- Players see Brazil as having the most developed impact investing industry. Brazil was the first Latin American country with national membership on the Social Finance Task Force, and its impact investing ecosystem was the first to advocate to policymakers and unite the private sector. In addition, many investors have specialized in specific sectors, like education or health.
- Brazil seems to have more leadership from private foundations to develop impact investing than Mexico or Colombia.



Colombia: International Hub

Many impact investors that focus on the entire Latin America region are based in Colombia. However the local impact investing industry is still nascent, with very few local firms. This is a country with growing potential for increased impact investment.



According to interviewees:

- Players see Colombia as a new market with huge potential for social innovation, and strong attraction for international investors.
- Unlike Brazil and Mexico where impact investing is mainly concentrated in São Paulo and Mexico City, in Colombia the industry has developed more evenly throughout the country in cities such as Bogotá, Cali, and Medellín.
- Colombia's environment for traditional investors has been improving, which has helped the impact investing industry as well.



Mexico: Dynamic and Growing

The impact investing industry in Mexico has boomed since 2012, and many investors see the market as a hub for impact entrepreneurship activity. Most players are relatively new, and the industry is undergoing growth and changes.



According to interviewees:

- Mexico's economy is large and diverse, and the local entrepreneurial ecosystem has been strengthening in recent years. This has driven the development of the ecosystem for impact enterprises as well.
- Impact investing is seen as having wide institutional support and promotion from the government compared to other countries in the region.
- Corporations are important players in Mexican impact investing, which respondents think is tied to the relationship Mexican companies have with US partners.
- In Mexico, impact investing seems to be very centralized in Mexico City, with little activity in other regions.

The next three chapters detail the investment activity and trends in each country.



THE IMPACT INVESTING LANDSCAPE IN BRAZIL

3

THE IMPACT INVESTING LANDSCAPE IN BRAZIL

- 3.1 Summary of Key Points
- 3.2. Brazil Context
- 3.3 Impact Investing in Brazil: Overview of Key Actors
- 3.4 Deals
- 3.5 Fundraising and 2016 Expectations
- 3.6 Post-Investment Support
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- 3.8 Challenges and Opportunities
- 3.9 Conclusion
- 3.10 Recommendations

Authors & Research Team: Insper, ANDE, LGT IV

3.1 Summary of Key Points

This chapter presents an assessment of the impact investing industry in Brazil based on survey data from:



29

firms that have made impact investments in Brazil



22

interviews with members of the local impact investing ecosystem

This survey builds on the 2014 study the ANDE and LGT IV conducted, "Mapping the Impact Investing Ecosystem in Brazil." 13 investors provided data for the previous and current study, enabling some comparison and analysis of the industry's evolution.

The key findings of this research include:

- **Between 2014 and 2016, the number of active impact investors in the country increased from 20 to 29. Currently, the total AUM of local organizations stands at US\$186.3 million; in 2014 it was US\$177 million (in 2016, seven organizations reported their AUM, compared with eight reporting in 2014).**

- **The market for impact investing in Brazil has grown over the past two years, but at a lower rate than investors had expected. Several factors may have influenced this, including the current political and economic crisis, high interest rates, and the lack of a successful track record. It is also important to highlight that one participant in the 2014 survey left the market prior to the 2016 survey which affected the overall AUM managed by local firms.**

- **The number of domestic investors increased between 2014 and 2016. In 2014, there were nine Brazil-focused investors and 13 international investors. By 2016 these numbers increased to 13 and 16 respectively.**

- **Return expectations remain relatively high in Brazil. In 2014, 53% of investors expected returns 16% and higher. In 2016, 50% of investors targeted net annual returns of 16% or higher, compared to 37% from the region as a whole.**

- **The most commonly used financial instrument is equity (67%), followed by debt (52%), quasi-equity (41%), and other forms of investment (22%). In the 2014 study, investors reported equity investments at 84%, debt at 32%, quasi-equity at 47%, and other forms of investment at 21%.³⁶**

- In 2014 and 2015, impact investors in Brazil made 48 new investments totalling approximately US\$70 million. This number is lower than the 68 new investments investors reported expecting in the 2014 study.³⁷
- Key impact investment sectors in Brazil are health, agriculture, education, and financial inclusion.
- Of those interviewed in 2016, 89% said they measure social and environmental impact, although many still face challenges in finding adequate methods of measurement. This indicates a growing concern over impact measurement, compared to the 75% who reported difficulty in measuring impact in 2014.³⁸
- Investors plan to invest US \$105 million in 88 deals in 2016.

3.2 Brazil Context

The impact investing sector has shown considerable growth in Brazil over the past decade. The first impact investment in Brazil was made in 2003 when only one impact investor was

reported as active. By 2009 there were seven active investors, by the end of 2013 the country had 22 impact investors, and in 2016 this number reached 29.³⁹

Among the 14 survey respondents headquartered in Brazil, 13 firms reported AUM US\$186 million, with an average AUM of US \$11 million per fund.⁴⁰ The majority of these investors focus on financial inclusion, education, health, and agriculture.



Despite this growth, the impact investing market represents only a small portion of Brazil's capital markets. For example, the venture capital and private equity industry has a median AUM of US\$70 million per fund and 195 actors in the sector.⁴¹ However, according to practitioners, Brazil's demand for social and economic development across diverse areas will continue driving high growth and support the impact investing sector to gain representativeness in the overall investment industry.

Brazil enjoyed considerable socioeconomic advancement between 2003 and 2014 as approximately 29 million people moved out of poverty. Income inequality decreased from 2004 to 2015, as measured by a 0.058 reduction in its Gini coefficient to reach 0.497 in 2014.⁴²

Yet the country still faces significant challenges related to inequality. Compared to countries with similar levels of development, the level of income inequality in Brazil is still relatively high:⁴³ 25.4% of employed workers receive less than the minimum wage,⁴⁴ while 0.7 % earn more than 20 times the minimum wage.⁴⁵ The country also face specific social challenges on sectors such as education, health, financial services, and agriculture.

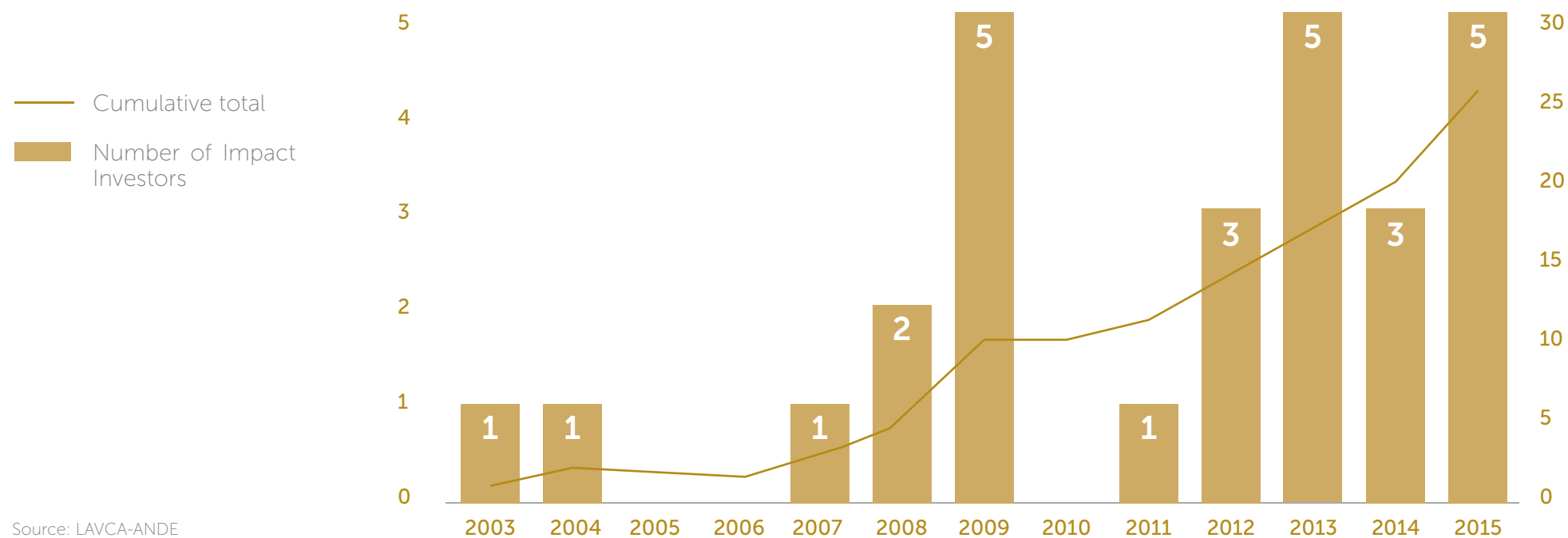
In this context, impact investing plays an important role, as it can encourage effective collaboration between impact entrepreneurs and financial markets, which may lead to solutions to social and environmental challenges. The subsequent sections explore the results of the current research in order to show where the activities and opportunities exist for impact investments in Brazil.



3.3. Impact Investing in Brazil: Overview of Key Actors

The impact investing industry in Brazil continues to grow. According to the 2014 study, seven investors were active in 2009, and 22 in 2013.⁴⁶ By mid-2016, this number had grown to 29 investors.

Figure 16. Year of First Impact Investment in Brazil (2016 excluded)



Source: LAVCA-ANDE

The growing impact investment community includes both Brazil-based investors (which increased from 9 to 13 between 2014 and 2016) and international investors (11 in 2014 and 14 in 2016) operating in the country.⁴⁷

Table 20: Firms that Invest in Brazil by Headquarter Country

Country	Number of Investors
Brazil	14
United States	6
Switzerland	4
Other	5

Source: LAVCA-ANDE

Of the new impact investors in Brazil, ten made their first investment between 2014 and the first quarter of 2016.⁴⁸ In the last five years, the number of Brazil-based investors has grown at the same pace as international investors entering Brazil.

Table 21. Year of First Impact Investment by Headquarters Location

	International	Brazil
2010 and earlier	7	3
2011-2015	8	9

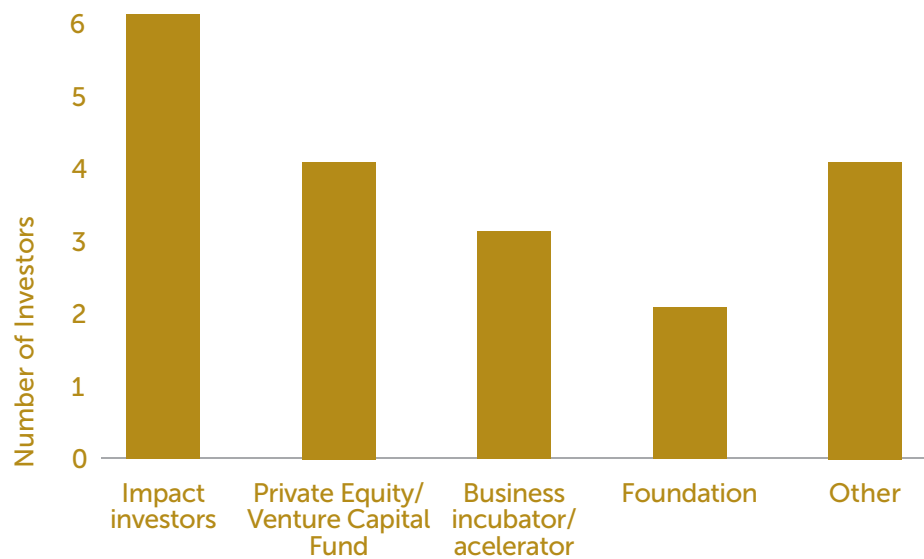
Note: 2016 excluded
Source: LAVCA-ANDE

In 2016, Brazil-focused investors reported US \$186 million in AUM, compared to US \$177 million AUM in 2014. In addition, international impact investors that include Brazil manage US \$5.4 billion in AUM, compared to US \$3 billion in 2014. While there cannot be a direct comparison between the 2014 and 2016 data because the sample is not identical, the overall impression is that the growth of the market has slowed. In 2014, impact investors estimated they would raise US \$150 million in 2014 and 2015 – an ambitious target given the size of the market at that time. But it seems that many investors have fallen far short of that goal, or have pushed their fundraising timeline into 2016.

 **Diversity in investor type, nature of funds raised, and form of investment**

Brazil has seen increased diversification in the geographic origin of investors as well as in the type of investor operating in the country.

Figure 17. – Investor Organization Type (respondents were able to choose more than one option).



Source: LAVCA-ANDE

Funding sources also varied. Forty-eight percent of investors manage institutional capital, 22% raise philanthropic capital, which involves donations used for investment, and 19% manage capital from their own sources.

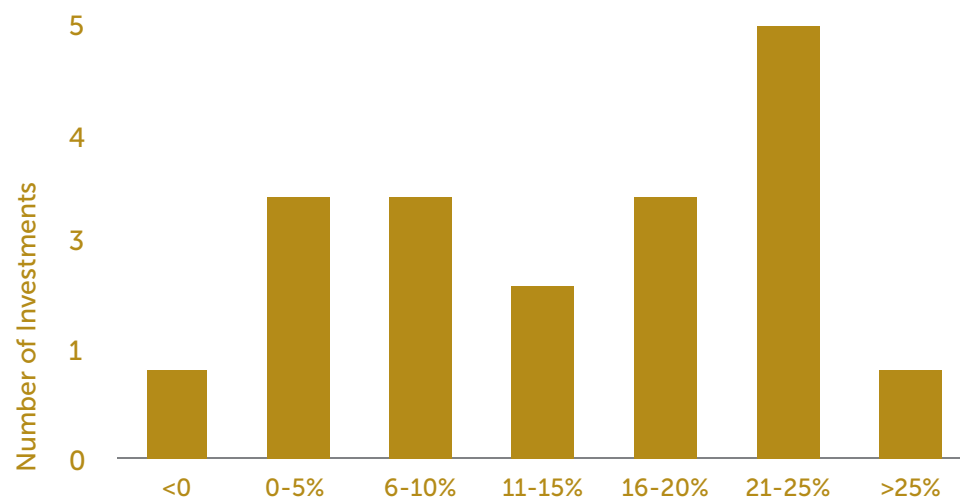
Table 22. Capital Sources

Capital Source	Number
Institutional capital (expectation of financial returns)	13
Donated/philanthropic capital (no expectation of financial returns)	6
Proprietary Capital	5
Mixed or Other	3

Source: LAVCA-ANDE

The target net annual returns on impact investments in Brazil are also diverse, and relatively high compared to the rest of the region. More than 50% of investors target net annual returns of 16% or higher, compared to 37% of investors in the region as a whole expecting similar returns. Eleven out of 18 investors expected to earn a rate of return above inflation (10.67% in 2016⁴⁹); and nine expected to earn a rate of return above the benchmark interest rate (14.25 % SELIC rate⁵⁰).

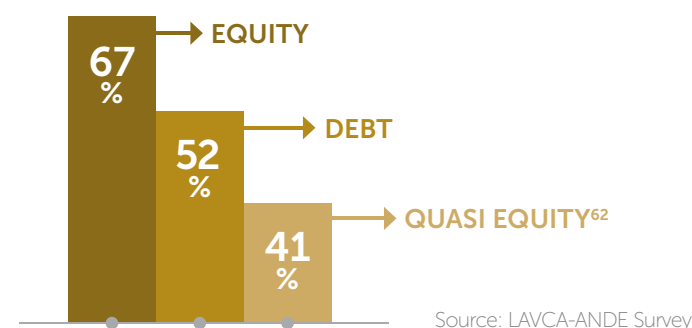
Figure 18. Net Annual Return Expectations in Brazil



Source: LAVCA-ANDE Survey. Inflation rate defined as IPCA (IBGE) as of total 2015, Selic as of April 2016.

There is also increasing variety in the financial instruments used.

Figure 19. Financial Instruments Used



More investors are using debt compared to the 2014 study, which showed only 32% of respondents including debt investments.

Twenty-two percent of respondents reported using other type of investments as well. The total value of grants disbursed by impact investors was just over US \$2 million in 2014 and 2015.

In sum, the range of impact investing strategies – from those that target higher than a 25% rate of return to investors who include grant-making as part of their portfolio – reflects the similarly diverse nature of impact businesses.

3.4 Deals

In 2014 and 2015, impact investors in Brazil invested US\$69 million in 48 deals. That total reflects growth in the market, though at a slower rate than projected (estimates from 2014 suggested deal totals would reach between US\$89 million and US\$127 million for the 2014-2015 time period).

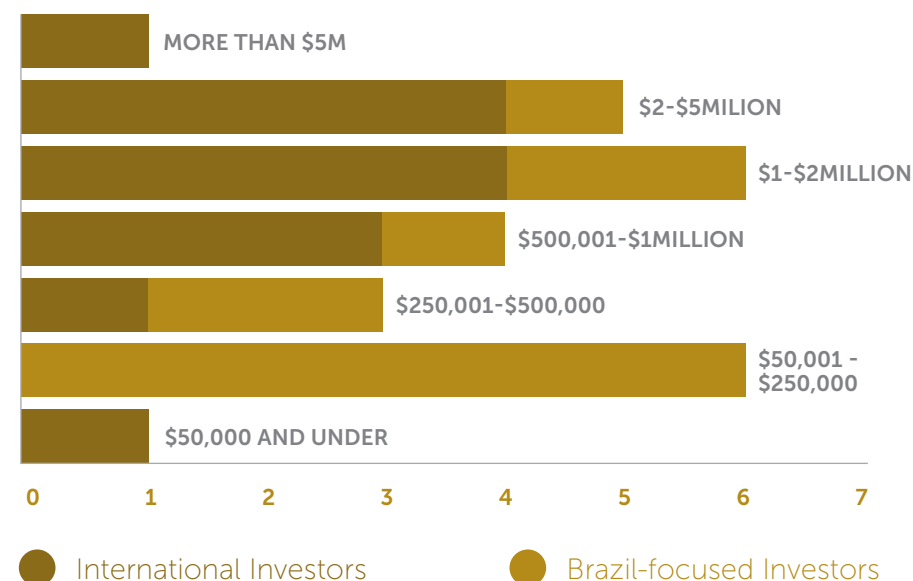
Table 23: Total Investments in 2014/2015

Year	Number of Investments	Total amount invested (US\$ M)	Average Deal Size (US\$ M)	Median Deal Size (US\$M)
2014	20	19.2	1.1	\$0.9
2015	28	49.6	1.8	\$0.3
Total	48	68.8	1.5	\$0.4

Source: LAVCA-ANDE

The average ticket size was about US \$1.5 million, which was 36% higher than the average of US \$1.1 million reported in 2014. Based on their average deal size, international investors reported a larger ticket size than Brazilian investors (US\$2.5 million for international and US\$750,000 for Brazil-based investors).⁵¹ The rising value of the dollar may have been a contributing factor to this trend in the country. It is worth watching how this will evolve, given the recent rise in value of the Brazilian real.

Figure 20. Distribution of Target Average Ticket Size



Source: LAVCA-ANDE

Of the sectors receiving investment in 2014-2015, 13 deals were in health, followed by agriculture with 9 deals. Despite the lower number of deals, agriculture received close to 30% more funds.

Table 24. Deals by impact Sector 2014-2015

Sector	Number of Deals	Total Invested (US\$M)	Average Ticket Size (US\$M)
HEALTH	13	\$24.18	\$1.9 M
AGRICULTURE	9	\$31.43	\$3.5 M
EDUCATION	6	\$3.93	\$78 M
FINANCIAL INCLUSION	6	\$3.61	\$70 M
HOUSING	5	\$0.49	\$10 M
CAPACITY BUILDING	4	\$1.91	\$50 M

Source: LAVCA-ANDE Survey
Note: data excluded where N<3

Co-investments

Brazilian investors report that 48% of their investments are done as co-investments, compared with only 33% of the investments closed by international investors that work in Brazil.

Exits

The average target holding period in Brazil is four years until exit, one year less than the average for Latin America as a whole. However, no exits have been reported for the impact investing in Brazil. The current instability in the country increases the difficulties for the exit market and some investors wait for conditions to settle down to advance in this topic. The lack of “success cases” continues to be a stumbling block for the industry.

3.5 Fundraising and 2016 Expectations

Brazil recorded GDP growth at 0.1% in 2014, and at -3.8% in 2015. It is expected to fall another 3.3% in 2016.⁵² Despite this, investors remain optimistic about the industry. **Brazil-focused investors say they plan to raise US \$269 million in 2016.** This estimate is high compared to the firms' target of US \$150 million for 2014 to 2015, and current AUM of US \$186 million.⁵³

Impact investors mention financial inclusion (eight investors), education (five), and health (four) most often as the sectors likely to receive investment in 2016.

8 FINANCIAL INCLUSION



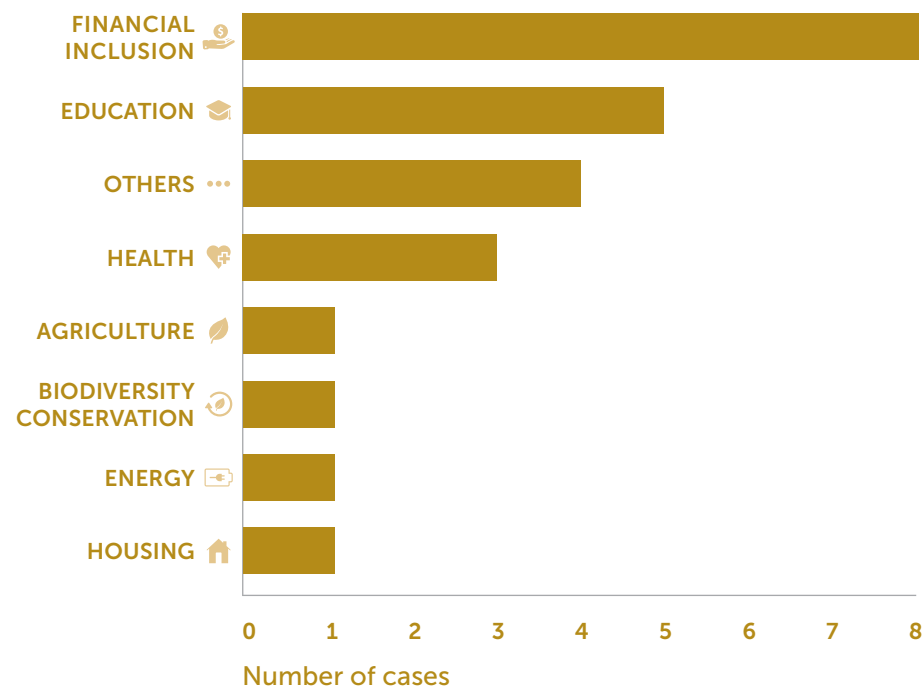
5 EDUCATION



4 HEALTH



Figure 21. Number of Investors Planning to Invest by Sector



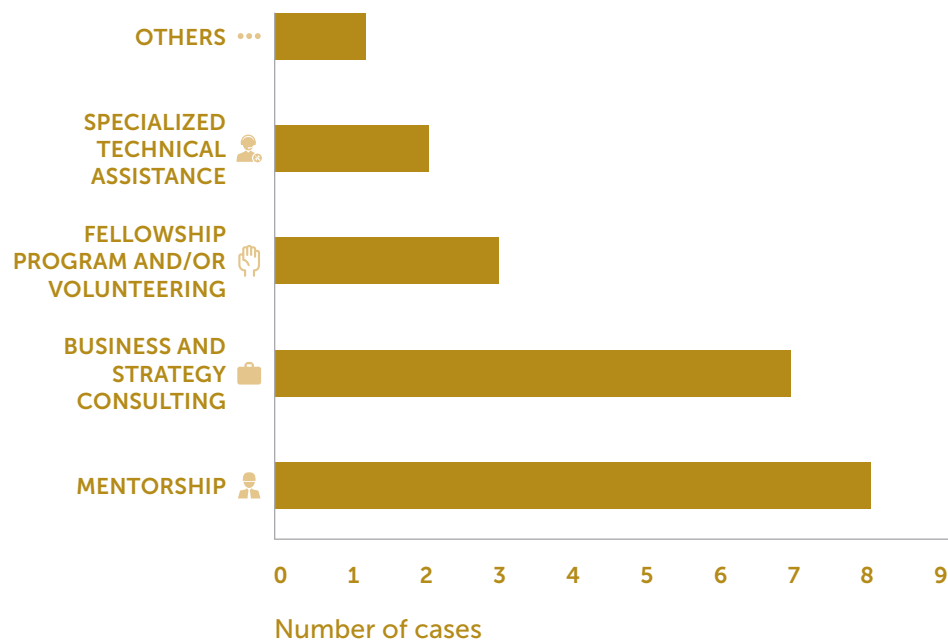
Source: LAVCA-ANDE Survey

3.6 Post-Investment Support

Many investors report that growth is impeded by the difficulty of finding qualified entrepreneurs and identifying technical partners to support them. Impact entrepreneurs' skills, knowledge, and management abilities are critical if investors are to reap social and financial returns. In order to provide their investees with the resources

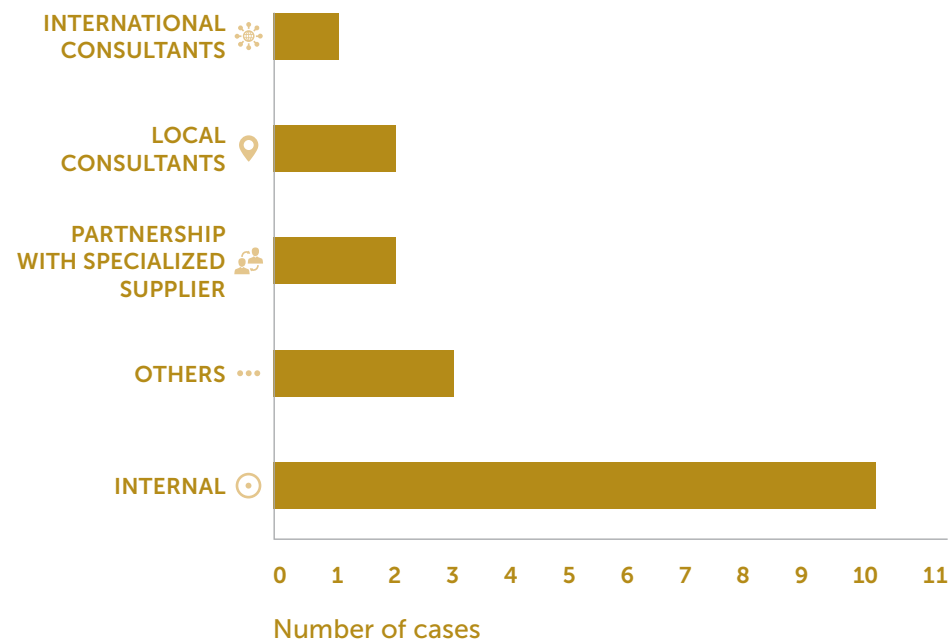
needed for success, many investors offer a package of support services bundled with the investment. **According to the investors in Brazil, mentorship and consultancy are the most common forms of technical assistance (TA) provided. Most provide these services with in-house resources.**

Figure 22. Type of TA Provided



Source: LAVCA-ANDE Survey

Figure 23. Means of delivering support

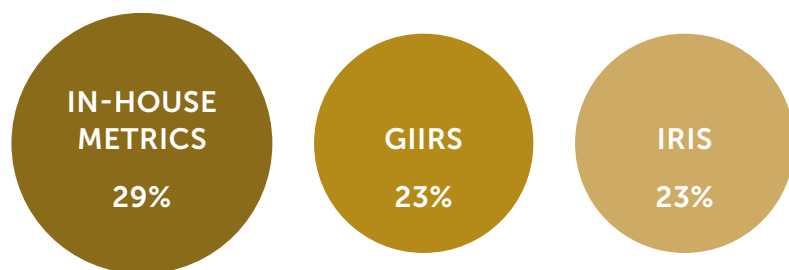


Source: LAVCA-ANDE Survey

3.7 Impact Measurement

The ability to measure and evaluate impact is a fundamental requirement for scaling the impact investing market in Brazil, just as it is for international markets. **Eighty-nine percent of impact investors in Brazil say that they measure their social or environmental impact.**

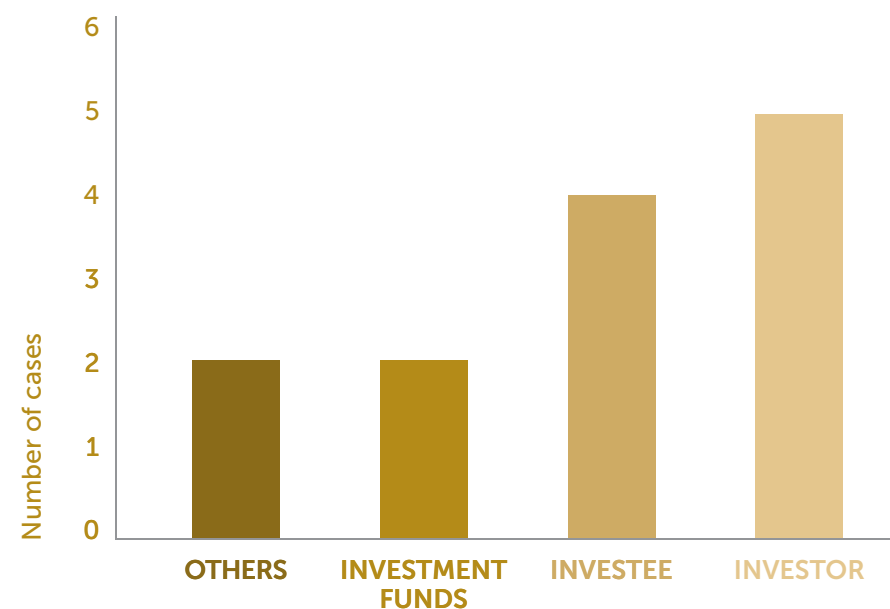
Figure 24. Impact Measurement Tool



In addition, the majority of respondents indicated that they have developed an in-house tool or proprietary set of metrics. They may use these approaches in addition to the industry standards. These results are consistent with impact measurement trends worldwide, where 37 % use IRIS alongside proprietary frameworks and metrics.⁵⁴

Typically, the investor covers the costs related to measuring impact in Brazil (five out of 13 respondents), followed by the investee (four out of 13 respondents).

Figure 25. Who Pays for Impact Evaluation?



Source: LAVCA-ANDE Survey

The need to measure impact is clear, but the means of measurement continue to present a constant challenge for the sector. According to one of the interviewees, it is essential to have: *“a feasible standard for comparison”,* making it possible to *“deliver to the investor what was promised.”*

The challenges that investors and investees in establishing and implementing metrics are multi-fold. First, there is a balance needed between standardizing metrics so that they can be used to compare impact across countries and regions, while ensuring that they are relevant to the local context.



“There exists a challenge in having, on the one hand, global standards that allow comparisons, and on the other, local metrics that enable identification of results that are relevant to the context.”

- International investor

Based on the interviews with diverse players in the impact investment market, large companies and international investors are most affected by the challenge of balancing both general and specific metrics, since these larger, multi-national entities have broader portfolios, and deal with a larger range of project types.

Another measurement challenge comes from the fact that different sectors require different metrics. Impact investments in education, for example, can be more complex to measure than those in energy generation, given the latter typically has more objective metrics than the first.

Measurement-related challenges exist in all sectors, however, especially as it applies to the long-term effects that investments may have on the end beneficiaries. Questions remain about the indicators and time periods that are most appropriate, as the timeframe for reaching a measurable impact may be different from the investment maturity.

Measurement is critical, but investors agree that improving and expanding their measurement efforts is challenging because of the associated costs, the need to integrate evaluation with operational activities, and the need to balance customization with standardization.

3.8 Challenges and Opportunities

The instability of the political and economic environment, the lack of impact investment success stories, the difficulty in establishing adequate metrics, and the challenges to cooperation between players operating in the ecosystem are ongoing worries for impact investors.

On a positive note, the country has seen advances on these issues since 2014. The majority of interviewees said that there are more high-quality impact entrepreneurs seeking investment, and that attracting talent to the field is not as difficult as it was in 2014.

CHALLENGES



Political & Economic Situation in Brazil

Economic and political instability are factors that could keep away new actors, hinder fundraising, or discourage new investments.

The current economic downturn in Brazil brings a challenge for the impact investing sector, as for any other sector in the country. Private sector investors complain that they do not know how the political arena will evolve, and those in the public sector state that

the continuity of their work is under threat. Impact investors mention rising inflation and institutional instability as factors that may dampen performance. In contrast, International investors see these issues as potential opportunity for returns, given the devaluation of the Brazilian real versus the dollar.

How the impact investment market will evolve in the coming years depends on how the country's political and economic scenarios develop. Despite the trend of growth highlighted in international reports on impact investing, current investors are cautious about the expansion of investments in Brazil given the current environment of institutional instability.⁶⁷

Different sectors will feel different impacts of the political situation. Areas such as education and health will likely continue to receive impact investments. One of the interviewees suggested that the energy and microfinance sectors, in contrast, will develop only with adequate regulation.



Proving the Impact Investing Model

Several interviewees pointed out that there is still a need to prove the impact investment model in Brazil. There are no clear success stories, which makes it more difficult to raise funds, and limits the number of new investors willing to enter the field. There is a consensus that there are still few professionals familiar with this type of investment, and an even smaller number of impact investors in Brazil.

This lack of visibility and successful cases can create a vicious cycle in which current investors become more conservative and finance fewer, more established ventures with potentially lower impact. There is, therefore, a trade-off between choosing organizations that are better structured to receive the investment and those that could have greater impact.



“It’s a dilemma that we face: what is our legacy? What is really the impact that we can expect from this? (...) What is worth the trouble now – taking something that’s already structured and helping to scale it up, or taking a good idea and helping to transform it into a good business?” -
Corporation

Pipeline Quality & Appropriate Capital

Advances have taken place between 2014 and 2016 in the quality of entrepreneurs and the availability of talent, yet many investors still highlight the quality of entrepreneurs and businesses as a challenge to expanding the sector.



“we see few entrepreneurs that are genuinely well qualified and positioned, with operating experience” - Investor

Many argue that universities should provide more entrepreneurship-training opportunities.

In addition, many players pointed out the need for more seed and risk capital in order for promising ideas to evolve into a potential investment opportunities. They see the need for more angel investors to begin making impact investments in Brazil to provide that much-needed seed capital.

Collaboration & Support

Initiatives that promote dialogue and cooperation between different organizations are fundamental to the impact investing field. Despite the existence of some initiatives striving for a more united approach, communication between members of the ecosystem still needs to improve.

Another challenge that investors frequently cited during the interviews was sector isolation. Many investees experience similar problems; better communication and collaboration could allow problems and solutions to be identified faster, and make sharing ideas more effective. Investors see support for this process as crucial to generating returns on investment.

In addition, some see the need for greater participation from the public sector. The most common ideas were to make government funds available and enact legislation to incentivize impact investments. Interviewees also mentioned involving universities to identify technological solutions and train entrepreneurs.

OPPORTUNITIES

Cooperation as a way to scale up impact investment

The impact investing practices in Brazil suggests growing demand for increased collaboration and information sharing. Several of the interviewees state that such collaboration practices will be necessary for establishing success stories of impact investments. Examples of this type of collaboration include the development of sector-specific databases designed to document the work of relevant players and establish indicators for key markets. Such a database might also be one way to lower the cost of social performance measurement.

Impact investing as a mainstream strategy in the financial markets

Diverse players in the industry believe that impact investing will become mainstream in Brazil. There is already growing awareness of social problems, and private investors increasingly recognize that they have a responsibility to help address them. However, some interviewees claimed that many important

actors in this field are still conservative when it comes to making actual financial commitments. To that end, institutional changes, including within large investing firms, will be necessary for impact investments to become mainstream.

Private sector engagement

One area where change is occurring is among corporate social responsibility departments.



“it is increasingly difficult to differentiate what is 100% social investment and what is related to the business” - **Corporation**

Today, corporate impact investing is typically housed separately from the company’s core business. Investors believe that significant change will come when other departments start integrating these impact enterprises into the core business.

The growing general interest in the social and environmental impact of companies is also driving expansion for impact investing.



“We believe (...) that the characteristics that we seek as an impact investor are gradually becoming characteristics that transform this company into something attractive on the stock market. Financial returns alone are no longer enough” - **VC-PE**



Public sector engagement

In the context of Brazil's growing political and economic instability, local actors understand that there is an opportunity to engage and partner with the government, as they seek to address society's needs and tackle social issues in innovative ways. Impact entrepreneurs may be a good fit to fill this gap.

In addition, investors are also anticipating the implementation of Social Impact Bonds (SIBs) in Brazil. According to one of the interviewees, SIBs would represent:



“SIBs would represent an important milestone for impact investing” - **Law firm**

Brazil already has two potential SIB projects in development.⁵⁵

3.9 Conclusion

Impact investing in Brazil is undergoing a period of transition. Representatives of diverse organizations operating in this field are confident that impact investing will become a common type of investment in the long term. Yet there remains some anxiety in the short term, as stakeholders feel the pressure to create success stories that can provide the visibility and credibility the market needs to scale up.

The challenges to scale include uncertainties in the Brazilian political and economic environment, but also the need for changes in the behaviour of social investors operating in Brazil. Increased cooperation and connection between diverse organizations can facilitate new investments and attract new players.

There is also room for more innovation in the impact investing market. The dominant perception among managers in this field is that what differentiates impact investments relates more to the goal of creating social/environmental results than to the mechanism for investment. To date, Brazil's impact investors have relied on mechanisms similar to those of traditional Venture Capital and Private Equity firms. These managers believe that innovations such as impact-based repayment mechanisms (social impact bonds, for example) can have significant impact in this field, and can scale up the use of more innovative investment approaches.

Despite these challenges, the Brazilian market has still experienced growth in the amount of investments and the number of deals. This shows that there is significant demand for impact investing in the country.

3.10 Recommendations

There are several opportunities for immediate action in the impact investing field in Brazil. These topics align with the 15 recommendations the Brazilian Social Finance Task Force made in 2014. The perceptions and comments captured in the quantitative and qualitative data collected for this study reinforce these recommendations.

Share knowledge

Most mainstream market participants still know little about impact investing. Educating actors such as entrepreneurs, investors, foundations, bankers, and members of academia continues to be a priority task. Sharing success stories and lessons learned from past challenges could help engage more players.

Foster collaboration

In order to reinforce public and private sector engagement, participants could leverage existing successful partnerships with select corporations and governmental departments as a way to build trust and inspire other actors. These partners should act as spokespeople in the impact investing industry.

Broaden university engagement

Educational institutions from all over the country should build courses focused on impact businesses, impact investing, and impact measurement. These institutions are key to encourage students to develop entrepreneurial skills.

Attract more early stage investment

This could include angel investors. In this sense, the growing segment of equity crowd funding could bring small investors closer to investment opportunities. While crowd funding regulations are still being finalized, this type of investment could provide an opportunity to engage Brazilian individuals with the investment culture.

Strengthen socially-minded capital in the impact field

This would involve engaging high net worth individuals, corporate foundations and institutes, stimulating the culture of impact, and innovating in investing mechanisms outside of the traditional venture capital sector to scale this type of flows.



THE IMPACT INVESTING LANDSCAPE IN COLOMBIA

4

THE IMPACT INVESTING LANDSCAPE IN COLOMBIA

- 4.1 Summary of Key Points
- 4.2 Colombia Context
- 4.3 Overview of Key Actors
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- 4.7 Post-investment support
- 4.8 Impact Measurement
- 4.9 Key Challenges and Opportunities for Impact Investing in Colombia
- 4.10 Conclusion

Authors & Research Team: School of Management at Universidad de los Andes

4.1 Summary of Key Points

This chapter presents an assessment of the impact investing industry in Colombia based on survey data from 32 firms that have made impact investments in Colombia, and 16 interviews with members of the local impact investing ecosystem. Key findings are that:



32 firms that have made impact investments in Colombia



16 interviews with members of the local impact investing ecosystem

- International investors dominate the impact investing ecosystem in Colombia. Only three are local firms focused solely on the Colombia market, which manage a total AUM of US\$ 52 million.
- The Colombian economy has emerged as a stable growth market in the region. The final peace agreement with the Fuerzas Armadas Revolucionarias de Colombia (FARC) which is expected to be signed in 2016, has the potential to further accelerate the economy. This will be a significant opportunity for impact

investing in Colombia.

- The private equity industry in Colombia is relatively young but has developed quickly. Impact investing has grown within this industry but still as a niche segment.
- Investors reported 15 deals in 2014 and 2015. The average deal size was US\$2.2 million. International firms invest in higher average deal sizes (US\$3.9 million) than national firms (US\$550,000).
- Investors reported 7 exits in 2014 and 2015. Close to 80% of the impact investing in Colombia is in financial inclusion and agriculture sectors.
- For impact investing to grow in Colombia requires more awareness about the industry as a whole in the country. Universities can play an important role in this process.
- Unlike Brazil and Mexico, where impact investing is more developed, Colombia is still in early stages. For impact investing to evolve from its current status as a niche investing approach, the industry will need increased government support, greater involvement of the local private sector, and wider communication of its activities.

4.2 Colombia Context

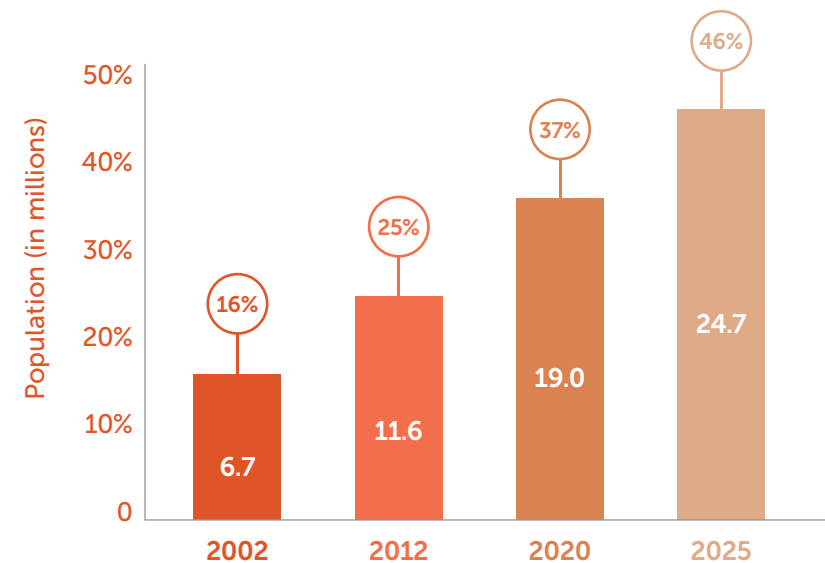
% Macroeconomic trends

Colombia has one of the most stable economies in Latin America. Despite its crime and security challenges, which are mostly concentrated in rural areas, Colombian economic policies have generated continuous growth. Its economy grew by an annual average of 4.9% between 2009 and 2014, a rate which has placed the country among the four biggest economies in Latin America. In 2015 Colombia's growth rate slowed to 3.7% as a result of the fall in international oil prices and the devaluation of Colombia's currency. The Colombian government expects a growth rate of 3.5% depending on the recovery of international oil prices in the coming years.

Since 2010 Colombia's inflation rate has been below 5%. It reached an all-time low for the decade of 2.2% in 2013, and an upper limit of 4.4% in 2015. Inflation is expected to increase slightly in 2016 to 6%, but in the medium-term it expected to return to a rate between 2% and 4%.

Colombian economic growth has enabled increases in per capita income for its citizens. Since 2000, per capita income in Colombia has doubled, and is expected to reach US\$14,110 by 2018. Income growth has created a growing middle class as well as increases in consumption. In 2002 the middle class in Colombia accounted for 16% of the population; it is expected to grow to 37% of the national population by 2020.⁵⁶

Figure 26. Growth of the Middle Class in Colombia



Source: Procolombia with data from the Foundation for Higher Education and Development (2001) and Euromonitor

Unemployment in Colombia dropped to 8.9% - three percentage points lower than registered in 2010. Unemployment is expected to continue on a downward trend in the next 24 months, reaching the goal set by the National Government of 8.1% for 2016 and 7.5% for 2018. The challenge for the Colombian economy is to maintain these positive economic indicators despite low oil prices and the devaluation of the Peso.

Social Issues

Economic growth and declining unemployment, accompanied by complementary public policies, have led to a reduction in extreme poverty in Colombia. The percentage of people living in extreme poverty decreased from 12% in 2010 to 8% in 2015. The national government hopes to reduce extreme poverty to a historical 6% rate by 2018.⁵⁷

Although Colombia is one of the more stable economies in the region, it still faces major social and environmental challenges. Inequality is a major issue, with 30% of the population officially classified as poor. Conflict with the FARC and drug traffickers has displaced more than two million people. Coverage of public services exceeds 90% in urban centers but reaches only 60% in rural areas. Only 40% of the population has their own home. Basic primary education exceeds 95% across the country, but only 30% of students attend university.


In addition, Colombia boasts the second highest level of biodiversity in the world. Such rich natural resources are usually found in areas of conflict or exploitation of natural resources, which puts this biological richness, and the communities that live next to it, at permanent risk.

However, the combination of these social conditions, environmental challenges and economic growth, make Colombia an attractive country for developing impact investing.

Entrepreneurial Ecosystem

The entrepreneurial ecosystem in Colombia is very dynamic. According to the Ministry of Commerce, Industry and Tourism, there are more than 700 organizations that support entrepreneurship throughout the country. Bogota has the largest number of support organizations in the country; 180 were registered in 2012.⁵⁸ Medellin has achieved strong local government support and private participation; these supports have given the city international standing in entrepreneurship and innovation.

There remain important areas for improvement in Colombia's entrepreneurial sector. Private and public actors are still challenged by the need to provide specialized support to entrepreneurs, and do so in a way that avoids burdensome costs. In addition, there are strong opportunities to expand the entrepreneurial support more broadly in small and medium cities throughout the country.



All signs indicate that the country is taking the right steps. According to the Global Entrepreneurship Monitor, Colombia is characterized as having one of the highest rates of entrepreneurship in the world. Since the first edition of this report came out in 2006, Colombia has been among the top five countries for entrepreneurial activity.⁶⁰ The latest GEM Colombia report indicates that Colombian entrepreneurs now seek more opportunity ventures than subsistence ventures, compared to equal amounts of opportunity and subsistence ventures in 2006. Despite these positive indicators, survival rates for companies have declined in recent years.

Private capital markets

Private capital markets in Colombia have grown steadily and generated interest from both national and international investors. Since 2005, when the first two fund managers entered the Colombian market, the private capital funds sector in Colombia has grown. According to the Colombian Association of Private Capital Funds (Colcapital), the number of professional fund managers has grown at an average annual rate of 40.6% since 2005. The Colombian market currently has 43 active fund managers.⁶¹

Forty-eight percent of fund managers are international firms and the remaining 52% are domestic firms. By 2014, these managers had created 55 funds, 24 of which have a regional focus and 31 of which have a local focus. The capital placed in these funds comes mainly from pension funds (41%), followed by Family Offices (19%).

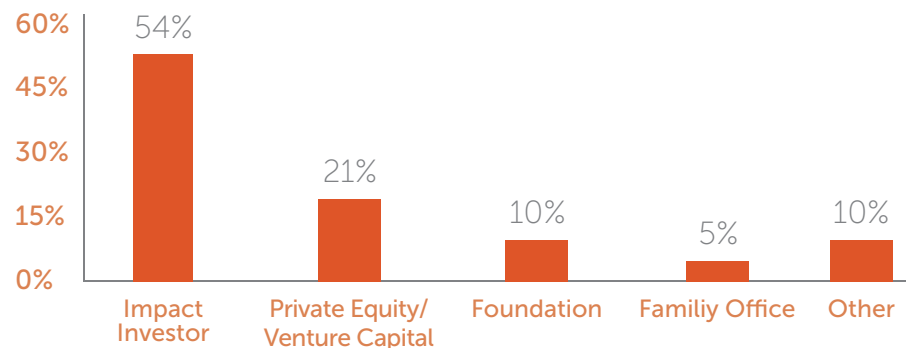
According to Colcapital, funds in Colombia are mainly growth funds, real estate funds, and venture capital funds. Only one impact-investing fund is part of this association. It is expected that the market is going to keep growing at a similar rate in the coming years, mainly driven by the favorable economic conditions: the controlled inflation rate, steady economic growth, decreasing unemployment, rising middle class, and increased investment opportunities, all of which will attract new investors and benefit current ones.

4.3 Overview of Key Actors

Number of investors

This study identified 32 investors in the impact investing ecosystem in Colombia.⁶² Some of these investors exclusively make impact investments, while others mix impact investing and traditional investing. Fifty-four percent of respondents consider themselves Impact Investors; 21% are Private Equity/Venture Capital fund managers.

Figure 27. Type of organization



Source: LAVCA-ANDE Survey

Note: 5 investors provided partial survey responses, and are not included in the majority of the data presented below

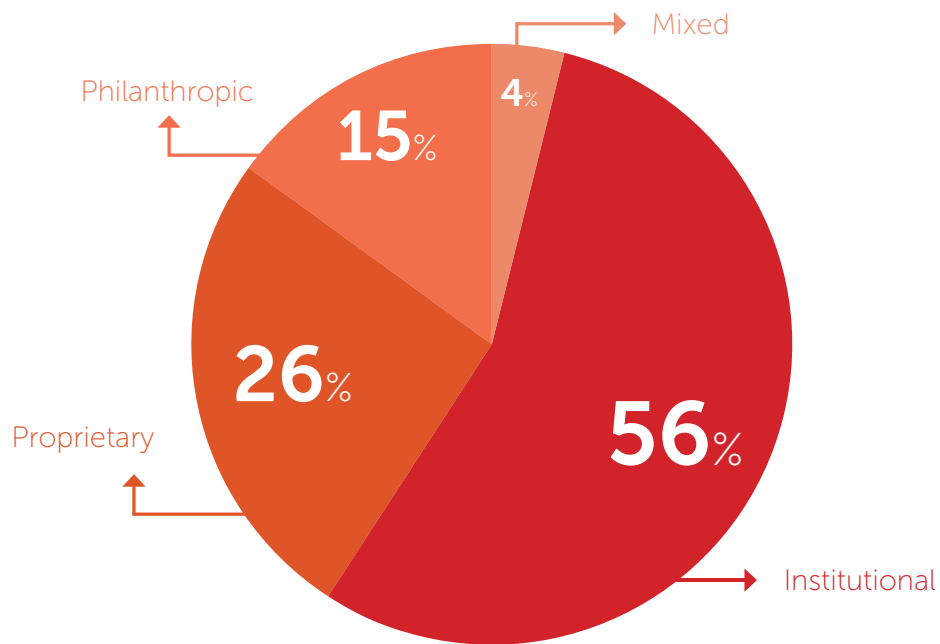
Regardless of their legal status, different organizations might play similar roles. For example, foundations can provide grants with similar terms as those issued by impact investors.

Capital sources

Ninety-one percent of investors are international, and have investments in Colombia as well as in other countries. These investors reported US \$6.7 billion in total AUM, although not exclusively for Colombia. Three investors invest only in Colombia, and reported US \$52 million in AUM.

Fifty-six percent of the capital managed by investors in Colombia is institutional capital, followed by proprietary capital, and philanthropic capital.

Figure 28. Capital Sources



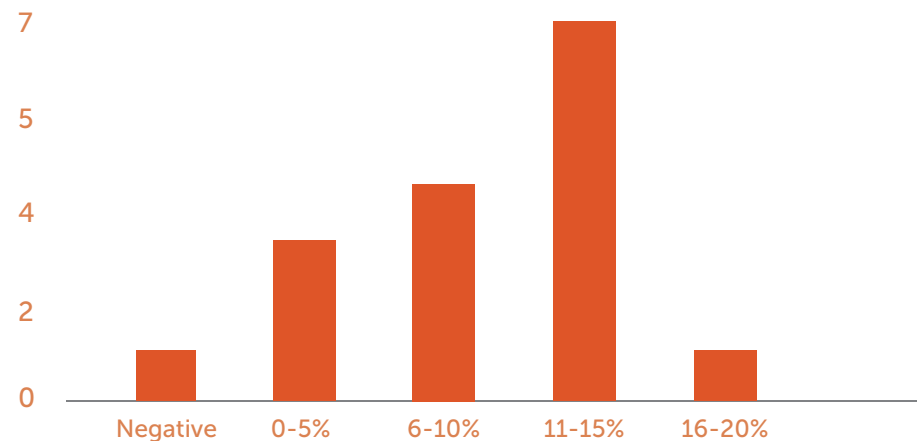
Source: LAVCA-ANDE Survey

Eighty-one percent of respondents report fundraising outside of Latin America, while 22% fundraise in Colombia, and 30% in other Latin American countries. Local fundraising, by both national and international firms, is encouraging for the future establishment of additional impact investing fund managers based in Colombia.

Expected Returns

Half of survey respondents report expected net annual returns of 10% and lower, and the remaining half reported expected returns between 11% and 20%. Many impact Investors in Colombia target lower returns than in Brazil and Mexico, and also the local venture capital industry. In Colombia, venture capital investors interviewed reported an expectation of return above 20%.

Figure 29. Annual Target Returns



Source: LAVCA-ANDE Survey

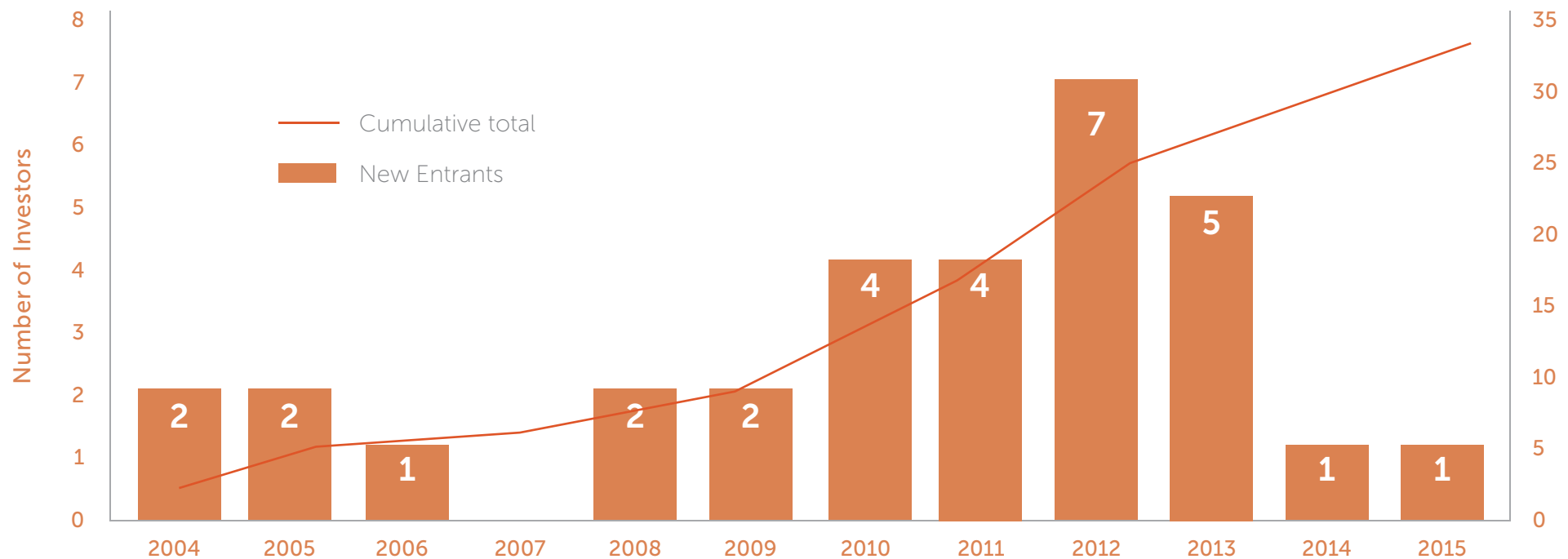
Entrants over time

Impact investors have been operating in Colombia since 2004. The years between 2004 and 2016 can be divided into three periods in the evolution of the impact investing market in Colombia. **The period from 2004-2009 saw the gradual entrance of 9 international**

firms, one to two each year. During the second period from 2010-2013, 18 international firms entered the market, and the first two national impact investors appeared. During the third period, between 2014 and 2016, three more firms appeared, one each year.

Figure 30. Year of First Impact Investment in Colombia (2016 data excluded)

Source: LAVCA-ANDE





“You have to build investment opportunities, the Colombian market is not dry but neither is a market with thousand opportunities, I do not anticipate more than 10 impact investment funds with strong portfolios, maybe in the post-conflict” - **VC fund**

4.4 Deals

Investors report that deploying capital has taken longer than expected. They attribute these long time frames to the fact that the Colombian impact investing ecosystem is still at an early stage of development in comparison with Mexico and Brazil.

However, Most impact investors in Colombia are in the process of closing their first deals. In the next two years, interviewees project that they will exceed the previous pace of capital deployment.





Top Sectors

In 2014 and 2015, investors reported US\$56 million in impact investments; this report has detailed data on 16 of those deals totaling US\$32 million.

Investors in Colombia have shown the most interest in those sectors showing traditional entrepreneurial opportunity (capacity for scale, etc.) and ripe market conditions (competition, business infrastructure development), as well as in those sectors becoming more open and opportunity-rich as a result of improvements in security.



Table 25. Deals by Sector 2014 & 2015

Sector / Stage	Number of Deals	Total Invested (US\$M)	Average Invested (US\$M)
 AGRICULTURE	7	\$4.3	\$0.6
 FINANCIAL INCLUSION	3	\$17.5	\$8.8
... OTHER	3	\$10.4	\$3.5
 EDUCATION	2	-	-
 CAPACITY BUILDING	1	-	-
TOTAL	16	\$32.7	\$2.2

Source: LAVCA – ANDE Survey

The sectors receiving the most investment are financial inclusion and agriculture, with a total of 10 investments and an average ticket size of US\$2.2 million in 2014 and 2015.

The financial sector, specifically those financial actors engaged in promoting financial inclusion, has received the most investment in Colombia according to investors. Low levels of banking penetration in “base-of-the-pyramid” communities, coupled with the financial needs of these populations, offer investment opportunities that have been exploited by impact investors.

The agro-processing sector is likewise one of the country’s prime recipients of investment. Colombia has the potential to become Latin America’s pantry due its privileged location. Colombia has a variety of climates capable of generating a diversified supply of agricultural products for both domestic and international markets. Advancements in the agro-processing sector would allow the country to migrate from being a lower value-add supplier of agricultural raw materials into a higher value-add producer of finished goods. Development in this sector has the potential to create jobs and higher income in local communities, leading to increased stability necessary for further long-term investment growth.

Beyond these two sectors, impact investors are very interested in the education and health sectors, but they have found that in Colombia there is good public coverage in these sectors. Investors that nonetheless want to develop these markets seek specialized investments, like specialized health care centers for certain diseases, or innovative complementary models to the public education system.

Regardless of sector, all of the investment recipients operate in markets that have the potential to increase formal employment in Colombia. Investors have found companies in different sectors with a high capacity to generate employment. The possibility of labor formalization in companies with high growth potential is a factor that investors find attractive.

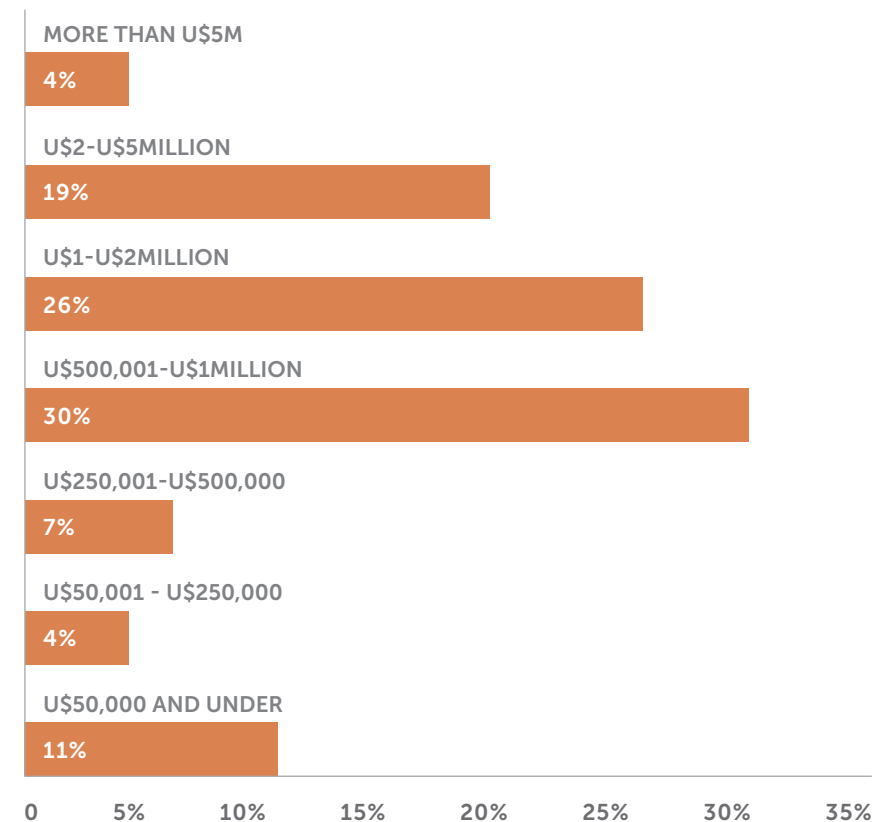
It is noteworthy that among investors that reported investees’ region, 50% were headquartered in Bogotá, while the remaining 50% are deployed in different regions of the country, especially the departments of Antioquia, Cauca, and Huila, which are important centers for agro-processing.

Deal Size

Firms that invest in Colombia target an average deal size of US \$2.23 million. **International firms target higher deals than local ones: US \$2.4 million compared to US \$ 550,000.** This difference indicates that national funds are investing in smaller businesses, and may be investing at earlier stages of the recipient's life cycle.

However, the combination of these social conditions, environmental challenges and economic growth, make Colombia an attractive country for developing impact investing.

Figure 31. Average Ticket Size



Source: LAVCA – ANDE Survey

Stage

In the early years of Colombia's impact investing market, investors looked for medium-sized companies at an early stage of growth that had the potential to scale at a national and regional level. Finding companies that fit these criteria has not been easy. Investors say it is easier today to find companies ready for investment, but the size of the companies is smaller than they expected.

As a result, some firms have invested in entrepreneurs who did not identify themselves as impact entrepreneurs, but whose businesses and operations still fit within the investment thesis of the fund. The role of the investor in these companies has been to strengthen the generation of environmental and social benefits, and to develop impact metrics.



“At first there was not much to find, we began looking for opportunities in the social side with scalable business models. We have found more traditional companies with social impact than scalable social companies.” - **VC fund manager**

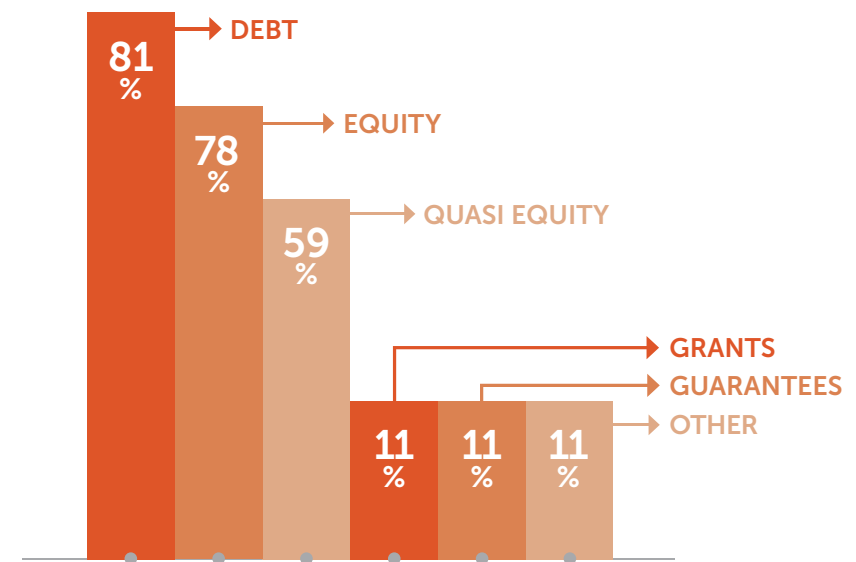


“The main challenge has been the absence of business with scaling potential in different sectors of our interest, and the institutional capabilities to reach the scales expected by our funders” - **Impact Investing Fund Manager**

This has had two major effects on the impact investing process in Colombia. The first is related to the valuation methods used by the funds to size their potential investments. Investors mentioned they have had to become more creative about how they value, without abandoning financial formality. The general rule in terms of valuation of investments has become “no rule;” valuation is particular to each case, and the most appropriate methodology or combination of methodologies is used. All representatives interviewed agreed that investors do not use just one valuation method.

The second is related to instrument choice. For smaller companies, investors are using debt and quasi-equity, which are believed to be better for the smaller companies they are finding since they allow investors to work closely with investees during the early stages and help steer them until they reach the required size for larger investment. **Over 80% of investors in Colombia invest debt, followed by 78% that invest equity and 59% that invest quasi-equity.** Most investors use multiple instruments depending on the needs of the portfolio companies.

Figure 32. Instrument Type



Source: LAVCA – ANDE Survey

Exits

There have been few exits to date in the impact investing Colombian ecosystem. Investors are still deploying capital, and the typical holding period is projected between five and seven years—for most investments that time frame has not yet been met.

Investors reported seven exits: three were executed as a strategic sale, and four were sold to other buyers. Investors prefer to exit investments through sale to a strategic buyer. Buyers are sometimes other funds, a move that is attractive. The funding chain between funds is still developing; selling an investment to another fund—especially to an international fund—may have possibilities.

4.5 Fundraising 2016

Investors expect to raise an additional US \$1.52 billion in 2016, of which 98% corresponds to international firms, and the remaining 2% (US \$30 million) to local firms. The resources of the international investors are not exclusively tagged for investment in Colombia.

Most of the investors find resources through their own marketing and promotional efforts. Only one investor, a large international fund, employs external specialists to help fund-raising; this organization's strategy is to identify global investment for potential investors, and therefore they complement their search with the work of these specialists.

Fund representatives agree it has been more difficult recently to capture impact investment resources in Colombia, and worldwide. Since the funds have not all closed, and therefore have not yet generated returns for investors, they do not have a track-record of success. Results from the investments are expected in the next years.



“10 years with many promises and few exits. Not everything has been successful and this has an impact on the fundraising.”
- VC Fund

The exchange rate is also challenging for investors. In 2015 the Colombian currency experienced an annual devaluation of almost 40%, a factor that has a significant effect on the expected return of some investments.

4.6 Pipeline Development

Investors believe that the impact investing ecosystem has developed in Colombia over the past five years. There are more entrepreneurs developing companies that are better prepared for investment.

However, that despite the increased opportunity, companies are in general not prepared for the investment process. As a result, funds have had to adapt their instruments, and approach companies at earlier stages than they had planned in order to seed the pipeline for future investments. Approaching less mature companies and financing their activities is considered a key step.

For this reason, partnering with accelerators and incubators is very important, not only to identify companies but also to enable investment-readiness. Investors see these organizations as key to a mature ecosystem, and as a way to reduce their own transaction costs.

Consensus among those interviewed was that closer partnerships and government support for incubators and accelerators would have a large impact on the development of the ecosystem.

Other mechanisms to find potential investees include conducting proprietary searches, participating in events, and developing networks to identify entrepreneurs in the community. In the early years of impact investing in Colombia, investors largely found their recipients through their own efforts, but today many investors report that companies now seek them out directly.

In particular, when an entrepreneur in an investor's network refers a company, they are often given special consideration. Fund managers believe that their personal network of contacts in Colombia's entrepreneurial ecosystem can filter more reliable opportunities.

Despite the benefits generated by capacity developers in building pipeline, very few firms are willing to pay others to help them search for investment opportunities, or to prepare companies to receive investment. Investors view these activities as valuable, but they have an imperative to keep administrative costs under control. This is particularly true for small firms. Thus, investors do not engage in formal partnerships with incubators and accelerators, but maintain contact with them to participate in their events and access information on potential investees.

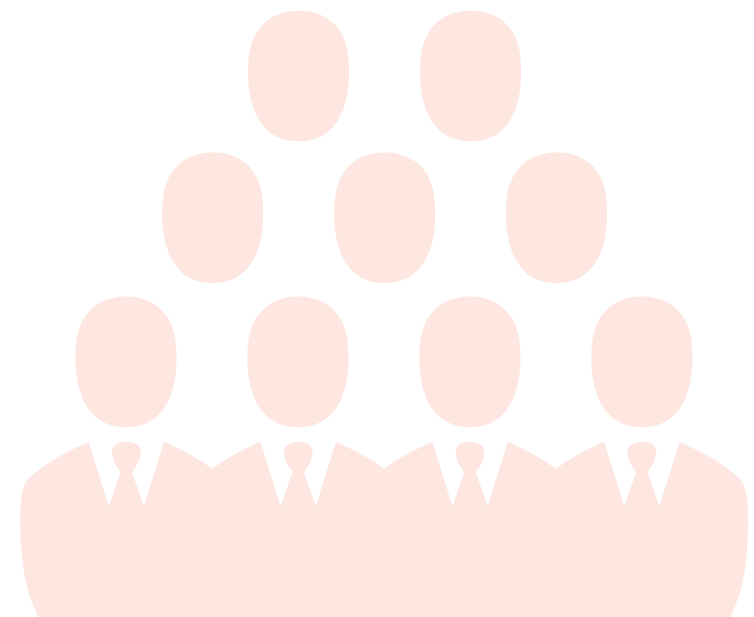
Firms co-invest at lower levels than in other markets. Investors reported an average of 21% of deals as co-investments, compared with 36% for the region as a whole.

There is no only one way and criteria to choose the company to invest. Some investors prioritize impact criteria, others financial criteria. In either case, the invested companies must meet the minimum required returns—economic, environmental, and social established for the investor.

Management quality refers to the ability of the management team of the company, and is a key criteria during the investment decision. Lack of management skills inside invested companies, including poor development of middle management, is a major challenge for investors. Investors agree that much of the work they do after the investment involves helping the entrepreneur strengthens his or her team.



“We invest in companies with management potential. [We] don’t invest in “one man shows”, it is essential to [think about the] team.” - **VC Fund**



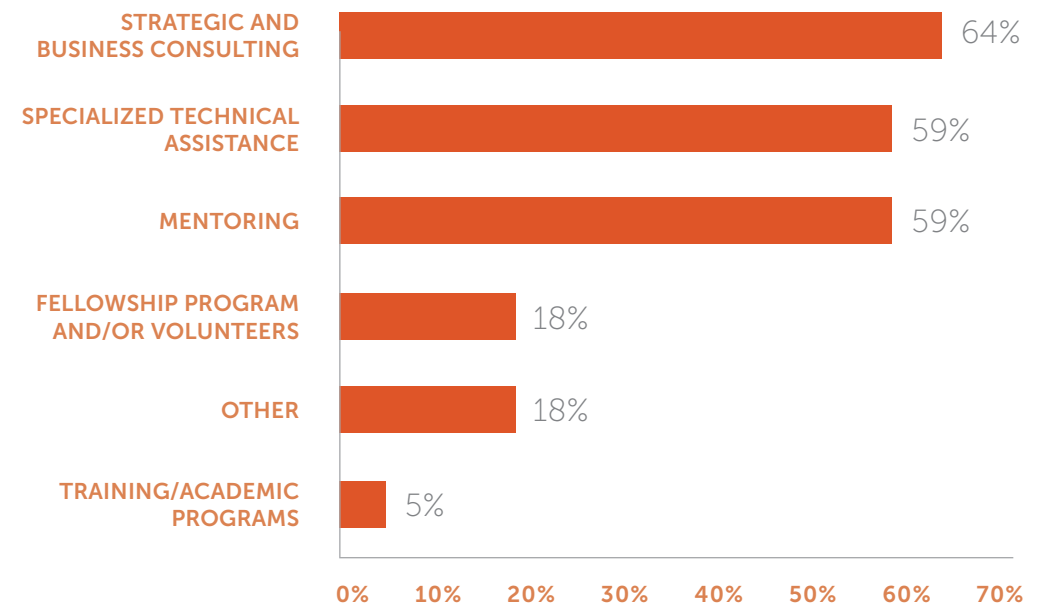
4.7 Post-investment support

When a fund decides to invest in a company, it provides not only capital but also nonfinancial benefits. Mainly, investors provide access to their business network and technical assistance (TA).

TA can be expensive and resources are limited, especially for small funds. Funds mainly offer assistance in business and development strategy, which is part of their monitoring process. As a result, the TA provided by investors includes strategic consulting and specialized technical assistance.

Some funds have mentoring and volunteer programs, or agreements with more mature organizations that can provide portfolio firms with technical support over the term of the investment. **Twenty-seven percent of funds provide mentoring and 9% participate in volunteer programs.** Only 2% provide financial or specialized technical assistance, such as accounting or legal services and training or academic programs.

Figure 33. Type of technical assistance



Source: LAVCA-ANDE Survey

4.8 Impact Measurement

Since social and environmental impact of business is the differentiating element of impact investing, impact measurement is a key activity. Despite significant advances in the field, firm representatives report that there is not yet one methodology that be used for all businesses.

Investors in Colombia primarily use their own methodologies, or a proprietary adaptation of existing methods, to measure impact of their portfolio investments (77%). IRIS and GIIRS are the most common standardized tools in use.

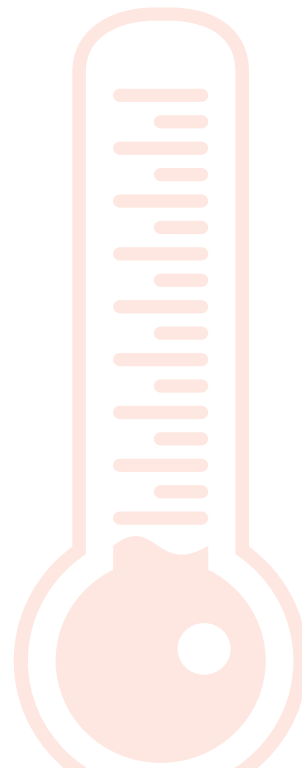
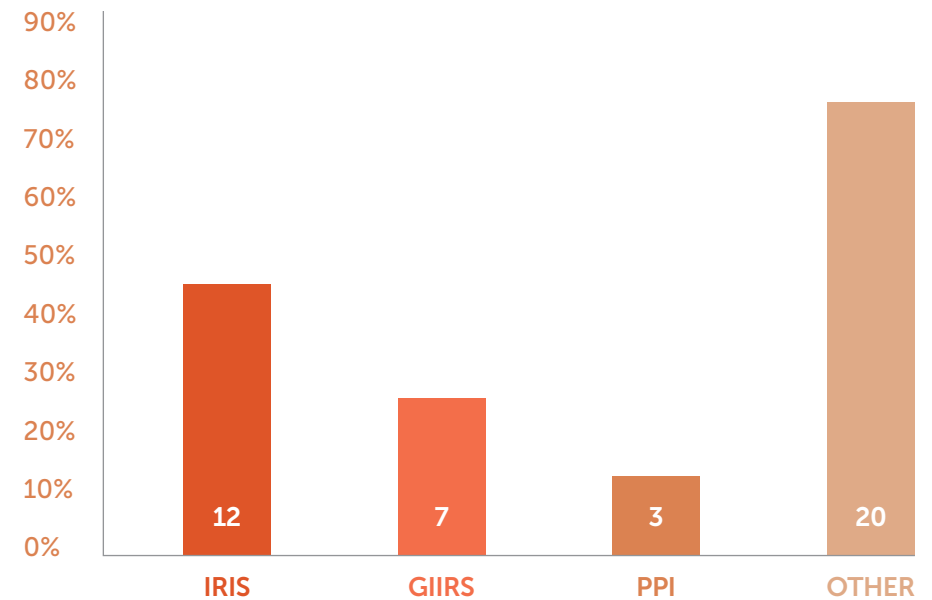


Figure 34. impact measuerment methodologies used by investors



Source: LAVCA – ANDE Survey

4.9 Key Challenges and Opportunities for Impact Investing in Colombia

Impact investors believe that the peace agreement between the FARC and the Colombian government will be positive for the impact investing industry. The national stability reinforced by the agreement will encourage national and international investors to place resources in sectors and regions that traditionally were viewed as higher risk because of ongoing instability.

The resources that are expected to enter the country with the peace process will strengthen the institutional environment, and provide support for the development of new businesses, and the growth of existing businesses. Given the high demand for social sector services, there will be increased opportunities for impact investing.

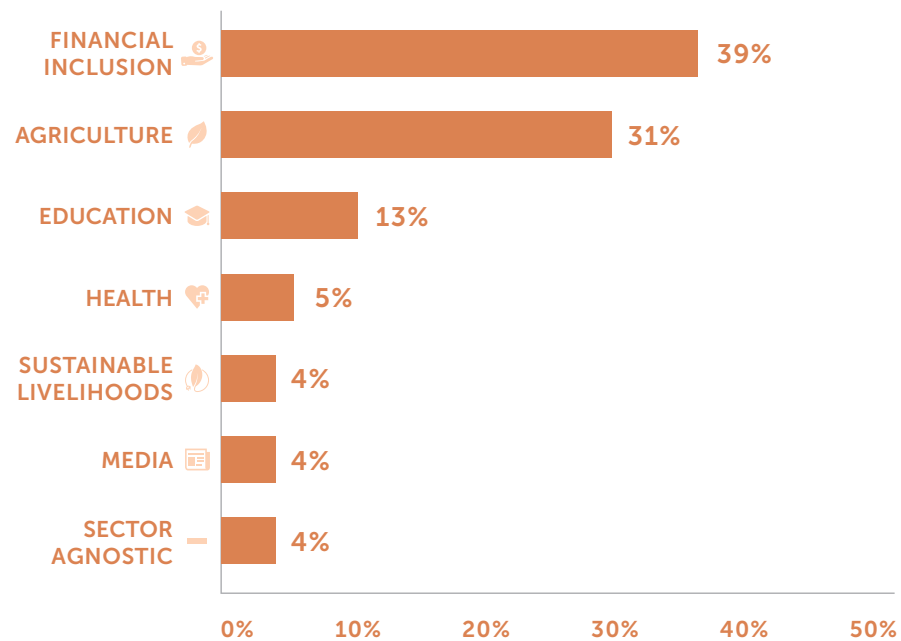
In this new context, there will be increased demand for impact investment and an entrepreneurial approach to creating economic, social, and environmental benefits.

In terms of sectors, financial inclusion and agriculture will continue to receive the largest share of impact investments, for these reasons: First, because these are relevant high-demand sectors in the post-conflict context. Second, investors have already developed expertise in these sectors, which will facilitate their ability to negotiate exits that meet their investment goals.



“The peace agreement will be a great opportunity, the market will move to the peace”
- **Capacity Development Provider**

Figure 35. Expected Investments by Sector 2016



Source: LAVCA-ANDE Survey

Investors reported their intention to close 2016 between one and two investments per fund, with a value in average of US \$3.71 million per investment. There is a remarkable difference in the number of investments and their average investment total between international funds (2 deals and US \$6 million) compared to local funds (1 deal and US \$1 million).

International investors based in Colombia may leverage their experience here to make investments in the regional market. Peru and Central American countries are the most interesting for these investors, mainly due to increased institutional and economic development alongside a large volume of unmet needs that create opportunity for social entrepreneurs. In these markets there are evolving and market opportunities in similar sectors in which Colombian investors have already gained experience (e.g. agriculture, financial inclusion, and education).

4.10 Recommendations

Although impact investing in Colombia has been developing for over ten years, the industry is still nascent and requires greater participation of public and private sector. International investors have a continued interest in Colombia, since they consider it as a market with high potential for development in the medium term.

In general, the players in the ecosystem believe it is too early to assess whether impact investing has “fulfilled its promise.” They look to assess social and financial returns in the coming three to five years. They identify a few issues as key to its future success.

Greater participation from local firms will be important to the industry’s development. To date, international actors have taken the lead to grow the eco-systems; while important, these players have investment interests in other countries in Latin America; Colombia needs a stable community of local players as well.

Public sector support should become more nuanced. The Colombian government has taken important steps to develop the private equity industry in the country, but their actions have not taken into account differences in fund size or sector focus. They seem isolated and specific efforts. Government support should continue, but more finely consider sector specialization, as well as the particular approach of impact investing. In addition, broad support for entrepreneurship is important. Pro-entrepreneurship policy has lost strength and dynamism in the last two years, which may affect the emergence of new business initiatives that may be interesting for impact investors in the mid-term.

The Colombian private sector can develop impact initiatives within their value chains. Some companies have already done so through corporate social responsibility initiatives, but it is necessary for them to develop these efforts by stepping into impact investing. In addition, the private sector can take advantage of the coming peace agreement to involve more local actors in the development of impact investing in Colombia, perhaps through establishing partnerships with local governments for business development in post-conflict regions.

Finally, universities play an important role in strengthening the ecosystem through research and outreach. Ecosystem expansion has been limited by the lack of communication to date about impact investing activities. Universities have the potential and credibility to facilitate this communication and in so doing to help impact investing evolve from its current status as a niche activity.



THE IMPACT INVESTING LANDSCAPE IN MEXICO

5

THE IMPACT INVESTING LANDSCAPE IN MEXICO

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- 5.2 Mexico Context
- 5.3 Impact Investing in Mexico: Overview of Key Actors
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- 5.5 Fundraising and 2016 expectations
- 5.6 Post- Investment Support
- 5.7 Impact Measurement
- 5.8 Challenges and Opportunities
- 5.9 Conclusions
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Authors & Research Team: ANDE

5.1 Summary of Key Points

This chapter presents an assessment of the impact investing industry in Mexico based on survey data from 42 firms that have made impact investments in Mexico, and 24 interviews with members of the local impact investing ecosystem. Key findings are that:



- The impact investing ecosystem in Mexico includes both local and international firms, with 42 investors focused on Mexico, 15 of which are exclusively investing in Mexico.
- Government regulations and the creation of the National Institute for Entrepreneurship (INADEM) have spurred the growth of private equity markets and are accelerating entrepreneurship in Mexico.
- Impact investors headquartered in Mexico manage US\$392 million. Of that total, US\$311 million AUM corresponds to non-MFI investors. International firms that invest in Mexico manage US\$6.3 billion.

- In 2014 and 2015, investors closed 45 deals in Mexico, primarily in financial inclusion, health, and agriculture. This trend is consistent with expectations for 2016.

- Five exits were registered in Mexico, and most of them occurred as strategic sales.

- 15 Mexican based investors aim to fundraise US\$224 million in 2016, expect to commit US\$199 million, and project that they make 105 deals.

- Local firms typically seek higher return rates than international investors.

- Management is critical to the success of the enterprises, and therefore to the impact investors. Relevant actors need to work to attract talent to the sector in order to build strong enterprises.

- The private sector still needs to play a stronger role in the impact investment ecosystem by investing in, buying, and scaling impact enterprises.

- The public sector could get more involved by defining and regulating impact measurement in order to create policies that incentivize investment in impact enterprises and that also create a legal structure in which for impact enterprises can operate under.

- **Post-investment engagement has been crucial to the success of enterprises. Providing strategic contacts, understanding customer and market data, and offering recruitment support represent a few things investment firms are increasingly doing to support their portfolio.**
- **Mexico joined recently the G8 Impact Investment Task Force. It created its National Advisory Board in order to advocate and strengthen Mexico the sector.**

5.2 Mexico Context

As one of the strongest economies in Latin America, Mexico has attracted particular interest from private markets. Significant attention and resources have been focused recently on growing and strengthening the country's entrepreneurial ecosystems. For example, when the Anonymous Society to Promote Investment (Spanish acronym - SAPI) was created at the end of 2005, it helped accelerate the private equity sector in Mexico. One way it did this was by allowing founders and investors of limited liability corporations to buy and sell shares freely as a company.⁶³

Since 2008, Mexico has seen a significant increase in private equity. Fundraising has dramatically increased from US \$140 million raised in 2008 to US \$1.162 billion raised in 2015, which marks an increase of 4% to 16% of investment in the region directed to Mexico.⁶⁴ The ability to both attract international investors and incentivize local actors has resulted in a competitive advantage for Mexico compared with its peers in Latin America.

The Mexican government has played a critical role in the growth of the investment sector. A series of regulations have allowed the private equity and venture capital markets to experience rapid growth. In 2009, pension funds were allowed to place 10% of their investments into PE by Certificates of Capital Development (CKD's), boosting the growth of Mexico-based, single-country funds. When the National Institute for Entrepreneurship (INADEM) was created in 2012, it empowered a strategic player to provide institutional investment, which in turn resulted in the launch of 36 venture funds.⁶⁵ INADEM has also provided funding for SME's, incubators and accelerators, and others.⁶⁶ Venture capital deals increased six-fold between 2011 and 2015, deploying more than US \$ 260 million in total. Many of these deals were for less than US\$1 million.⁶⁷ The rise of PE and VC has also helped empower the impact investment sector.

Mexico still faces a number of social problems. Mexico suffers from significant income inequality, as shown by its national Gini coefficient of 0.48. According to the National Committee for the Evaluation of the Social Development Policies (Spanish acronym - CONEVAL), in 2014, 46.2% of the Mexican population was poor; 9.5% lived in extreme poverty, and 36.6% lived in moderate poverty. Mexico's poor have limited access to education, health care, housing, food, or basic services. Nineteen percent of the Mexican population is excluded from formal education, while 18% do not have access to health care services. Fifty-nine percent of the population does not have access to social security. In terms of housing, 12% of Mexicans do not have a house, and 21% that do have homes still do not have access to basic services such as water, electricity, plumbing, etc. Despite Mexico's robust agriculture sector, 23% of the population experiences food scarcity.⁶⁸ These are critical issues that reflect growing inequality in Mexico.

Financial inclusion is also one of the biggest challenges that Mexico faces when compared to the rest of Latin America. Mexico is ranked 74th out of 131 countries by the World Bank in financial inclusion.⁶⁹

Social entrepreneurs and impact investors can play a critical role in tackling some of these social issues through business innovation.



19% DO NOT HAVE ACCESS TO
FORMAL EDUCATION
OF THE
POPULATION



18% DO NOT HAVE ACCESS TO
HEALTH CARE SERVICES
OF THE
POPULATION



12% DO NOT HAVE
A HOUSE
OF THE
POPULATION

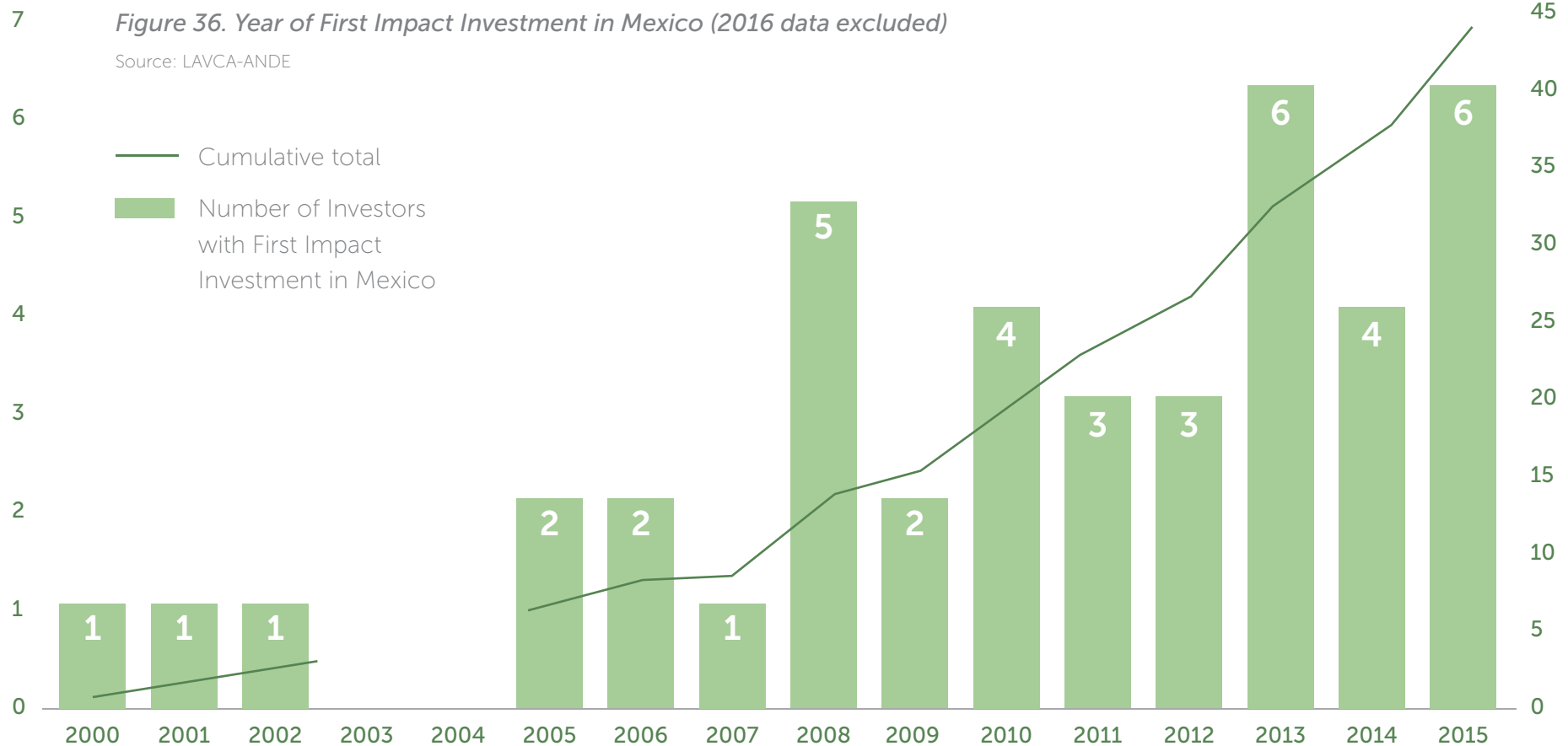


23% EXPERIENCE
FOOD SCARCITY
OF THE
POPULATION

5.3 Impact Investing in Mexico: Overview of Key Actors

The first impact investment was made in Mexico in 2000, seven years before the term was coined. Since then, there has been a steady increase in funds raised and invested in the country.

Specifically, 80% of current actors made their first investment in Mexico after 2007, and more than half began making impact investments in Mexico since 2012.



At the beginning of 2016, impact investors focused only on Mexico managed US \$392 million. The total rises to US \$7.1 billion in AUM once international firms are included.

Table 26. Total Assets Under Management in Mexico (US \$ Millions)

	International	Mexico-focused	Total
Non-MFI Investors	\$ 492	\$ 359	\$ 851
MFI Investors	\$ 6,265	\$ 33	\$ 6,298
Total	\$ 6,757	\$ 392	\$ 7,148

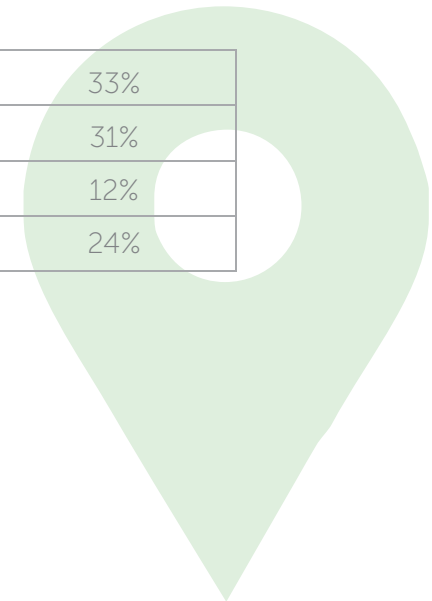
Source: LAVCA-ANDE

42 respondents reported that they had made an impact investment in Mexico. Of those firms, 27 were internationally focused while 15 were focused exclusively on Mexico. Only a few of the Mexico focused investors are MFI investors, while over half of the internationally focused investors are MFI investors. Thirty three percent of investors are headquartered in Mexico, and thirty one percent are based in the United States.

Table 27 Headquarter Country

Mexico	33%
United States	31%
Switzerland	12%
Other	24%

Source: LAVCA-ANDE



There is a great deal of diversity between active investors, and the sector is growing. **Sixty-two percent of the investors engaged in impact investment in Mexico identify themselves as impact investors, while 35% are VC/PE.** The rest are a mix of family offices, foundations, financial institutions, and others.

Table 28. Types of Firms

Impact Investor	62%
Private Equity/Venture Capital Fund	35%
Foundation	16%
Other	16%
Bank/Financial Services Institution	11%
Family Office	11%
Business incubator/accelerator	5%
Endowment	3%

Source: LAVCA-ANDE

The diversity of investor types within the Mexican ecosystem is also reflected in diverse capital sources. **Of all the firms investing in Mexico, 62% raised institutional capital while 31% manage proprietary capital.** Others raise a mix of philanthropic and return-seeking capital.

Table 29. Capital Sources, Mexico Investors n=13

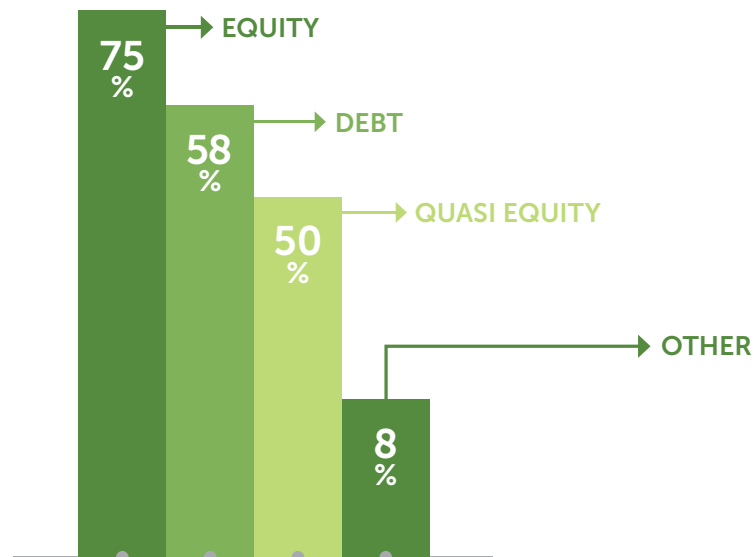
Institutional capital (expectation of financial returns)	62%
Proprietary capital	31%
Donated/philanthropic capital (no expectation of financial returns)	0%
Mixed or Other	8%

Source: LAVCA-ANDE

5.4 Deals

Impact Investors invest using multiple instruments. Debt and equity are most common with growing interest in quasi-equity models.

Figure 37. Financial Instruments Used by Mexico Investors (n=12)



Source: LAVCA-ANDE

In terms of the expected net annual return, the responses of 23 firms investing in Mexico show that there is a tendency for local investors to seek higher returns. Eighty-two percent of the Mexico-only funds expect returns higher than a 15% net annual return, and 36% of investors expect returns higher than 25%. In contrast, 83% of international investors expect less than a 16% rate of return.

Table 30. Expected Annual Returns

	International (n=12)	Mexico (n=11)
Negative	8%	0%
0-5%	25%	9%
6-10%	17%	9%
11-15%	33%	0%
16-20%	17%	18%
21-25%	0%	27%
More than 25%	0%	36%

Source: LAVCA-ANDE

The expected return varies among the array of investors that make up part of the impact investment space. On one side of the spectrum are investors that expect to subsidize the social return, while others assert that there is no (and should be no) trade-off between return and impact. This latter group expects returns similar to those of the venture capital market in the region, which primarily range between 16% and 21%.⁷⁰

In order to mitigate risks and leverage capital, co-investment strategies have risen in popularity among local investors. **These investors report that 53% of their investments are co-investments. In contrast, only 20% of international firms' portfolios are co-investments.**

Pipeline Development

Pipeline development in Mexico is still mostly achieved through personal networks, peer to peer references, and through networking events where firm representatives meet entrepreneurs. Although many impact investors in Mexico collaborate with various accelerator programs, most do not have accelerated ventures in their portfolios. Representatives say that

in general the pipeline has increased in the last few years, finding more and stronger entrepreneurs. They mention that there are more entrepreneurs building companies with a social focus. Yet the investors still struggle to find enterprises with the expertise in the problem they are trying to solve, and with a business plan that can scale and create impact.



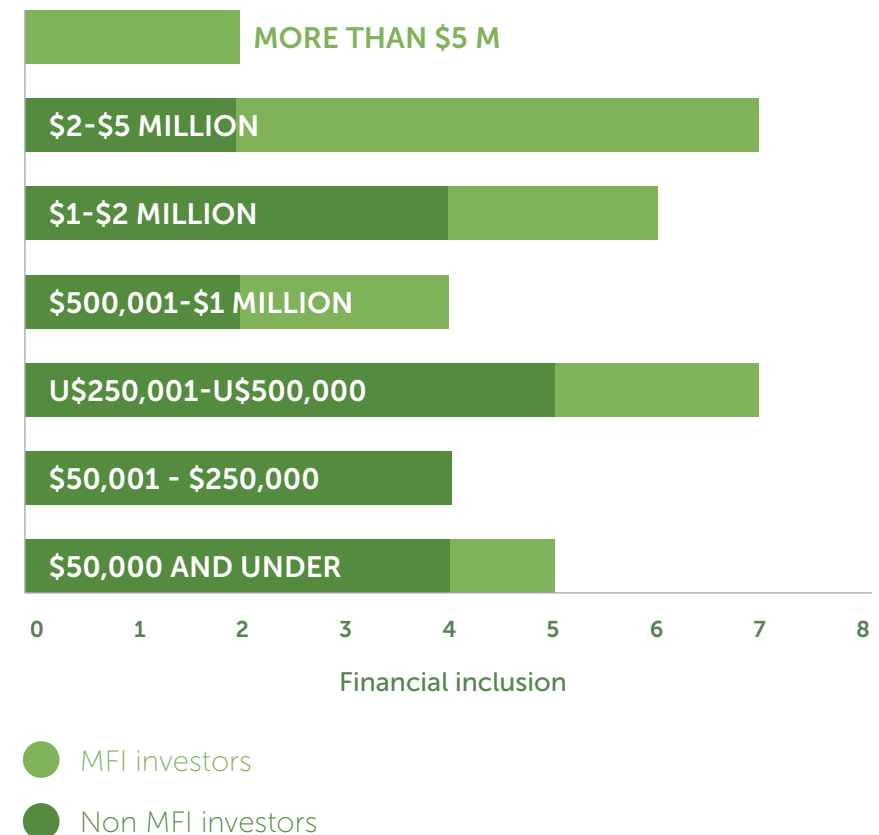
“We look for entrepreneurs who are married to the problem, not the solution - the solution may change depending on the customer” - Investor

Deals, structures and exits

Impact investors deployed USD \$100 million in Mexico in 2014 and 2015. This report has information on 46 of those deals, totaling US\$65 million. **Although more deals were made in 2015 (24 deals in 2015 and 22 deals in 2014), more capital was deployed in 2014 (US \$38.6 million) than in 2015 (US \$26.5 million).** The average ticket size in 2014 was US \$2 million dollars, compared to the average ticket size of US \$1.2 million dollars in 2015.

When deals invested in microfinance institutions are excluded, the average deal size from international investors is US \$770,000, compared to average deal size of US \$1 million from Mexican-focused investors.

Figure 38. Distribution of Average Ticket Size by Investor Type



Source: LAVCA – ANDE Survey

These investments have been made in a wide variety of sectors. Mexico, as stated above, has a major opportunity to improve access to health care, financial services, education, and food to its most vulnerable populations. Not surprisingly, **the main sectors of interest for impact investors in the region are financial inclusion, health, and agriculture.**

In 2014 and 2015, **financial inclusion attracted the largest share of investment, representing 28% of the deals done in 2014, and the 37% of the deals done in 2015.** Current projections from investors indicate that financial inclusion will also be greatest area of impact investment focus for 2016, with 41% of investors focused on that sector.

FINANCIAL INCLUSION

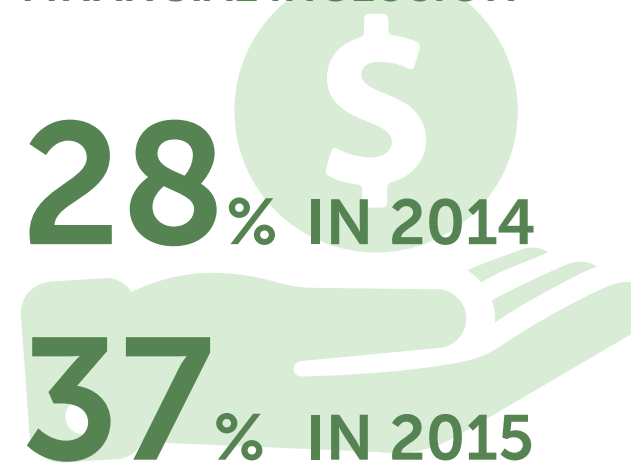











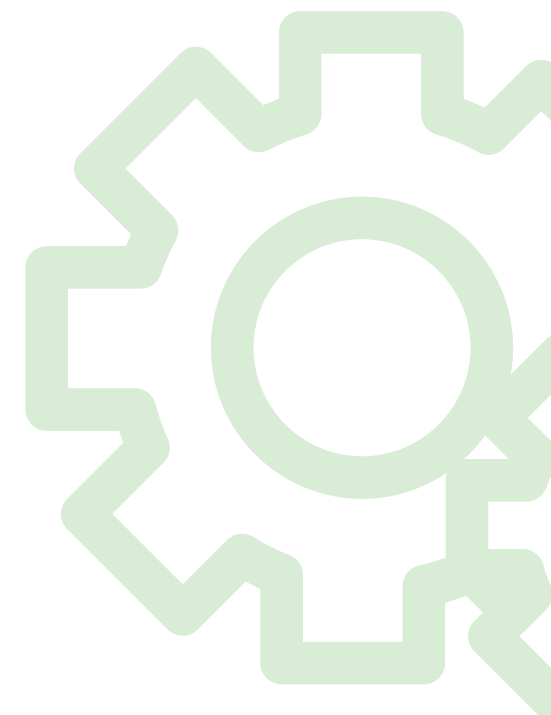


Table 31. Number of Deals by Sector, 2014-2015

Sector	Number of Deals	Total Capital Deployed (US\$M)	Average Deal Size (US\$M)
 FINANCIAL INCLUSION (NON-MFI)	8	\$11.1	\$1.6
 FINANCIAL INCLUSION (MFI)	7	\$31.8	\$4.5
 HEALTH	6	\$5.9	\$1.2
 AGRICULTURE	5	\$5.2	\$1.0
 COMMUNITY DEVELOPMENT	4	\$0.3	\$0.1
 ENERGY	3	\$2.5	\$0.8
 RENEWABLE ENERGY	3	\$0.8	\$0.3
 TECHNICAL ASSISTANCE SERVICES	3	\$0.5	\$0.2
 EDUCATION	2	-	-
 HOUSING	2	-	-
 OTHER	2	-	-

Source: LAVCA – ANDE Survey



Health and agriculture have also received attention from impact investors in Mexico. **In 2014, 15% of the deals were made in health companies. Although the health sector attracted only 12.5% of deals in 2015, it remains one of the most attractive investment sectors. In 2015, agriculture increased its share of investments made to 12.5%.** The focus on health and agriculture is expected to continue in 2016, due to the serious obesity problems that Mexico faces. Seventy percent of Mexico's population is overweight, which carries major implications for a public health crisis, and is compounded by a weak social security system.⁷¹ At the same time, Mexico's agricultural production capabilities, and overall economic strength mean that there is untapped potential for agricultural development.

Impact investors in Mexico highlighted that regardless of the approach used to value a company, they would not invest in any enterprise that did not have social or environmental focus as an explicit goal. This perspective differentiates impact investors from venture capital funds. Integrating the social aspect does not impact the financial valuation, however. Though some investors try to put a value on the expected impact a company hopes to achieve, it is very difficult to attach a monetary value to the unknown.

Firm representatives are open to using alternative valuation models, such as the demand-dividend model, a quasi-equity investment structure that is based on cash flow in order to provide flexibility to the enterprise growth.⁷² Yet, these financing approaches sometimes place a larger burden on the impact investors and entrepreneurs, as these structures are less common, but still need to comply with legal and fiscal regulations and policies.

Five exits have been reported in Mexico, most of which have occurred within the financial inclusion sector. Most investors expect to exit investments through a strategic sale to another company, and/ or to a buyout by another investor. Yet skepticism remains towards a number of exit approaches. Management buyouts are unlikely given current high interest rates, and IPOs are almost non-existent as an alternative for exit. Beyond equity investments, most debt and quasi-equity investments, especially made in agricultural businesses, have been, or are currently being, paid off on time to their investors.

Impact investors interviewed also see a risk, given the lack of Series B and Series C investors in the local market, that enterprises have a limited ability to raise the next round of capital, and will therefore default on their current obligations. Some investors are therefore raising funds specifically to invest in larger firms.

In a number of cases in the region, investors have had to write off investments. The reasons vary, from a natural disaster affecting the recipient business, to bad management by the recipient, to the market not being ready for the product provided by a company. Investors report that family enterprises are particularly risky given the nuances of these businesses,

Risks and Financial Stability

Sharp depreciation of a number of Latin American currencies since 2014 has raised questions about whether impact investors in Latin America will be able to realize their expected returns. The interviewees in Mexico who voiced concern about currency depreciation had made investments while there was a stronger peso; their portfolio will now need to over-perform to meet their initial expected return in US dollars. On the other hand, devaluation has increased the assets available to invest in local currency, and firms' ability to invest in more deals. Firm representatives are also likely to mention other sources of risk, such as natural disasters, and the ability of the management teams to operate and grow the enterprise at the expected financial and impact performance.

The investors also mentioned the political environment and the market knowledge of the entrepreneur a prominent source of risk. However, the investors' main concern has been to support enterprise growth, as they believe that in time they will be able to extract returns that surpass inflation rates.



5.5 Fundraising and 2016 expectations

Five Mexico-only investors aim to raise US\$136 million in 2016, with an average of US\$27 million raised per firm. International investors expect to raise a total of US \$1.3 billion for impact investments.

Interest from local investors as limited partners in impact investment funds has grown in parallel to market interest in PE and VC deals.

Seventy-two percent of the Mexico-focused impact investors have been able to fundraise from local institutional investors, such as INADEM, NAFIN, family offices, high net worth individuals, and other local actors. Twenty-two percent of these investors have also received investment from outside of Latin America, possibly motivated by the interest shown by local investors.

Mexican funds highlighted some concerns about fundraising. Investors see growing interest in the impact investment sector from both local private equity and global institutions. Nonetheless, the investors face pressure to deliver results from the investments they have already made, in order to generate confidence in the fund management team and thereby attract further investment. Impact investing in Mexico has also become more competitive as more fund managers enter the region. None of the funds currently work with third parties to support their fundraising.



“There is no room for mistakes any more, if we want to raise a second fund, we need to prove to our investors our track record and successes” - Investor

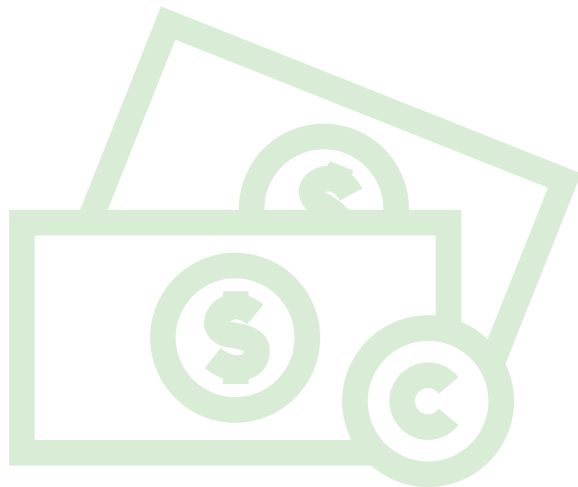
Notwithstanding concerns about fundraising, impact investors expect to invest US \$199 million in 105 deals in Mexico in 2016.

5.6 Post-Investment Support

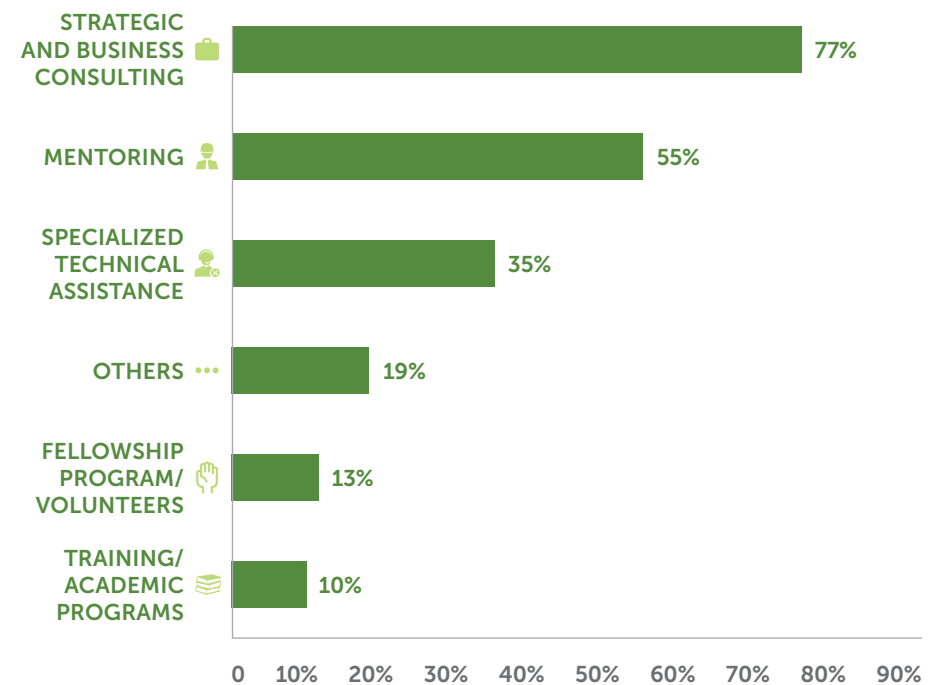
Post investment portfolio engagement has become a priority topic for Mexican investors that want to generate impact and financial returns. Supporting enterprise growth matters to everyone involved. Investors provide a variety of services and approaches to post-investment support, but the general view is that this aspect of investment has become one of the most pressing issues.

Figure 39. Technical Assistance Provided by Impact Investors in Mexico

Source: LAVCA – ANDE Survey



Both global and local investors provide support to their entrepreneurs in different forms: **77% of the investors offer strategic and business consulting and 55% provide mentoring to their portfolio companies.** Other investors provide specialized technical assistance and training programs or academies. A number of investors provide more than one of these services.



Out of the firms that provide support to their recipient enterprises, 71% do it in-house or with pro bono partnerships.

Others may either partner with a capacity development provider, or hire external consultants to support them when a particular enterprise faces specific challenge. Consultants are usually paid by investor's management fees, though some investors have pursued grants specifically for the purpose of paying for technical post-investment support.

There is broad consensus that post-investment support is critical. However it is also time consuming and expensive. In the past two years, international and Mexico-focused impact investing firms have invested a total of US\$16 million in support to companies in their portfolio. One international investor accounted for the majority of this amount, almost 65% of the US\$16 million through its separate technical assistance facility.

It is difficult to quantify the time and money spent on technical assistance, given that some assistance is provided through ongoing communication between fund managers and the entrepreneurs in their portfolio. In addition to technical support, most investment fund managers hold a seat on the board of directors of the companies in which they invest. Firm representatives also work to connect their entrepreneurs with opportunities and strategic partners in order to enter new markets, and obtain new clients, and pro bono legal or marketing services. Most of the investors interviewed also reported that they support portfolio companies in their effort to attract and identify talent.



5.7 Impact Measurement

Impact investors in Mexico, as elsewhere, face challenges when measuring outputs, outcomes, and impact. According to the survey, **50% of the Mexico-focused firms are not measuring impact in any way. The remaining firms, including all of the international investors and 50% of the Mexico-focused firms, are actively assessing and measuring their impact.** Most firms are motivated to measure impact in order to increase credibility with investors. There are some investors who pursue impact evaluation also as a way to conduct market research and generate customer feedback. This group sees their efforts to identify useful indicators of impact as an important complement to efforts to measure economic growth of the enterprise.


Most of the investors use in-house measurement tools to assess impact. Some use a mix of proprietary tools and industry standard methods such as IRIS and/or GIIRS. Nonetheless, investor representatives communicate that they are interested in moving toward collecting practical data that both the enterprise and the investor can use. They also plan to identify technological solutions that might help them improve financial and social outcomes.

Measurement requires resources from both the entrepreneurs and the fund. There is ongoing discussion in Mexico about who should assume those costs. **According to survey respondents, 44 % of the investors in Mexico assume the cost of impact assessment.** These costs become part of their management fees structure. A much smaller 26% of the respondents report that they have an investor who pays for their measurement efforts. Another 18% report that a third party, such as a foundation, pays for impact assessments. Only 11% of the investors report that the recipient entrepreneurs pay for the impact assessment of their enterprise. Impact investors use the results of impact assessments to validate investee's business models as well as their social and environmental impact.



5.8 Challenges and Opportunities


Talent



“The biggest risk is the operation of the entrepreneur and their team” – **Investor**

Talent is critical to the growth potential of the Mexican entrepreneurial ecosystem, in order to develop new ideas, build the investment pipeline, and instrumental to the growth and performance of the enterprise. Talent is also a major source of risk for investors, as stated in every interview. Investors state that the quality of the founding team largely dictates the financial and impact potential of the social business. Impact investors consistently communicate that they invest in teams and people, because those teams and the skills they have, business management and strategic planning are a source of great opportunity and of risk.

Small enterprises have a hard time attracting high-quality talent and expertise, given their limited resources.⁷³ Since most impact enterprises in Mexico are small, they face particular challenges. Both investors and the enterprises they support need talent with the financial expertise and the social commitment to work for an impact-focused enterprise. An even more specialized set of skills is needed by those enterprises in the process of transitioning from a startup company into a growth stage enterprise, given that the entrepreneurial tools needed at the beginning stage are different from those needed to manage and grow a business.



“Very difficult, you cannot pay them what a corporation offers [talented employees], and there is still very little risk aversion Mexico for people to take sweat equity” - **Investor**



“We have a hard time finding middle managers who can execute on the company’s strategy and manage technical staff” - **Entrepreneur**

Some investors work to identify potential candidates for their portfolio companies as part of the post-investment support they provide. Some even work with head hunters to find people for key roles. However, headhunting is still expensive, and a limited talent pool means that headhunters face the same challenges that enterprises do when recruiting talent.

Diversity, or the lack of it, also plays a role in the talent discussion. **Applying a gender lens to the enterprise portfolios of impact investors reveals that 41% of the investment firms had no women among the founding teams in their portfolio.** Of the remaining investors, 26% reported that 10% of their portfolio companies had at least one woman on the founding team. The lack of women founders that receive financing remains a pressing issue for the sector.

The Role of Universities:

Given the need for more diverse talent, and the overall high demand for talent to work for and with recipient companies as employees and service providers, it is critical for the impact investment sector to attract and retain high qualified talent. Universities can play an important role in this regard.

Mexican universities have had incubator programs for a few years. However, these entities rarely follow up with the companies they incubate after the business plan creation phase, and very few focus on social businesses. Some universities are starting to offer classes and lectures on social entrepreneurship, but impact investment remains a little-known concept among students. These efforts are usually launched as part of the business programs, and rarely reach audiences in other departments, a fact which shuts out the talent pool of budding economists and social scientists.

Overall, universities have played a limited role in the sector. Some allow students to work for impact enterprises to fulfill their “social service” requirements that Mexican college students need to complete as requirement for graduation. Beyond that, universities have made few infrastructure investments to create awareness of the impact investment sector.



“We need universities to take an active role in the ecosystem, creating a center for social entrepreneurship in which successful entrepreneurs can influence and support potential entrepreneurs. A place to innovate and produce relevant information, in which we can leverage the spirit of the university.” - **Impact Enterprise**

Engaging with the Traditional Private Sector

Engaging the private sector is important in order to achieve scale in the impact investment industry. Every person interviewed mentioned the need to engage the private sector more in the space. Some corporate entities are already supporting the impact investment sector in Mexico, but interviewees expressed that most of these corporations are still very cautious and conservative in their involvement.



“In Mexico corporations are still seeing entrepreneurship as a marketing tool for consumers. We need corporations to play an active role in the market acquiring or investing in small enterprises” - **Investor**

Most of the corporate engagement in the impact investing space has taken place through corporate social responsibility (CSR) departments. Some of these CSR initiatives have been instrumental in supporting accelerator programs, and sponsoring events to facilitate collaboration, networking, and research. Other corporate representatives are actively leveraging their in-house professional expertise. Corporate volunteer programs allow corporate employees to offer their time and expertise on a pro-bono project basis to impact entrepreneurs. Other private corporations are exploring corporate venture capital in impact enterprises.



**“We need to start innovating on how to engage with social entrepreneurs” -
Corporate representative**

Engagement with the private sector can go much broader and deeper. The impact investment sector needs to be able to attract a variety of corporate actors to play different roles.

Some of these may include: provide philanthropic support for impact enterprises, encouraging companies to include impact enterprises as providers in their supply chain, and helping companies play a role as investors or as strategic buyers to help create success stories for the industry.

Corporations are, for their part, still very conservative in their use of investment dollars. Impact enterprises and the entrepreneurs who run them need to prove their value to private sector actors, and overcome the perspective that a large corporation can simply replicate the services the impact enterprise offers in-house.

Though corporate entities are showing more interest in the field of impact investing, if local corporations became leading and influential stakeholders, the impact investing ecosystem would flourish even more.

Public Sector Engagement

The recent creation of the INADEM has brought attention, interest, and investment to the entrepreneurial sector in Mexico. In addition to the investment the institute has provided to private equity, venture capital, and impact investing funds in Mexico, it has provided additional support to accelerators, incubators, capacity development providers, ecosystem builders and entrepreneurs themselves.

Nonetheless, the impact investment ecosystem in Mexico still has a communication challenge. The Mexican government uses the word “impact” to describe fast-growth enterprises, which are referred to elsewhere as gazelles. This choice of terminology creates confusion and clouds the goals and intentions of the impact investing sector in the eyes of the public.

In addition, there are other responsibilities that other governmental institutions both at the state and national could assume. For example, **the public sector could create legislation to support impact investing, which would help create a stronger enabling environment for entrepreneurs and impact investment in general.**



“As government officials, we should be getting the word out there of what impact investment is, that is part of our job in order to strengthen the ecosystem” - Government official

Some state governments have already begun to propel and incentivize impact investment. Most notably, the Secretary of Innovation and Technology in Jalisco is leading an effort to create a social impact bond to incentivize and support various activities around social entrepreneurship. The state of Yucatán, in partnership with Promotora Social Mexico, has also launched a local initiative for social entrepreneurs, and also supports the development of the Latin American Impact Investment Forum in the region.


5.9 Conclusions

Growth in venture capital and private equity is correlated with the growth of impact investment in Mexico. In fact, many VC firms in Mexico are investing in alternative sectors such as energy, health, financial technology much more than just technology.⁷⁴ This has led to some co-investments by impact investors and venture capital investors in impact enterprises. Impact investors are also recognizing the increasing importance of providing post-investment assistance to their portfolio companies.

Investors remain positive about the fundraising and deal growth for 2016. Mexico has seen a significant growth of civil society actors in the impact investment sector and the creation of the Alliance for Impact Investment, the local chapter of the Global Social Impact Investment Steering Group launched by the G8. However there the need to address other aspects of the entrepreneurial ecosystem to improve the supply of talent, impact measurement, and coordination among and between sectors remains.

5.10 Recommendations

Respondents were cautious when asked whether impact investing is currently fulfilling its promise. Such caution is grounded in the fact that the sector still needs to mature, professionalize, and attract a broader and more diverse set of actors. New actors have emerged to provide more support services, mentorship, and financial assistance to entrepreneurs. **Respondents perceive that impact investing in Mexico is going in the right direction**, although the 'right' direction may differ depending on the stakeholder. Nonetheless, all those interviewed expressed a strong intent to continue working to strengthen and further the development of the impact investing sector.



“There is a risk we may attract too many actors to the sector, without really having proof of what we are trying to achieve” - **Investor**

Commitment

In the context of those good intentions, various challenges to the sector remain. First, the sector is perceived to lack true innovators. Second, respondents fear that the entrepreneurs active today are not fully knowledgeable about the real context and the daily nuances of the social problems they are trying to address. Impact Investment may risk being a “fad” to millennials, who look for mission-driven jobs without necessarily having the expertise to do them. Third, the sector needs to take its commitment to impact seriously, and with that it needs to develop rigorous evaluation standards in order to lend credibility to the social and environmental goals of both investors and the enterprises they support. Yet, evaluation takes time, and the impact investment space is still too young to have success stories to validate its impact claims.



“I would like to see some gray hairs in the sector, we need experienced professionals within the field” - **Capacity Development Provider**

Communication with other sectors

Impact investors need to communicate their activities to traditional sectors and industries active in Mexico more effectively. Impact investment should be described as simply another asset class managed by private equity advisors and banks. It should be perceived as a sector that can attract talent: one in which major universities, corporations, and public sector actors are involved.



“Social entrepreneurs need to be part of the mainstream investment, we shouldn’t exclude ourselves as a boutique club, we should want to change the ‘normal’ standard” - Entrepreneur

Investors: Riskier approaches

There is also a call for fund managers and their investors to take more risks. To date, a thin line has separated impact investment from venture capital. In some cases, actors on each side of that line share

or complete for investments. Impact investors should differentiate themselves by making more frontier investments, taking more risks, and creating more innovating investment structures.

Role of Universities

Universities are critical to talent development. Not only can they plant the seed for entrepreneurial thinking, and help people develop the skills to create new enterprises, but they can also create awareness about the impact investment sector and can act as a conduit to attract more talent to impact enterprises. There is also a clear need for executive education programs for mid-career experts that are interested in being part of the impact investment sector.

Another opportunity exists to connect academic talent in universities with stakeholders in the impact investment ecosystem in order to collect and better analyze data. For example, the industry would benefit from studies on the most effective approaches to impact measurement and assessment, research on sector-specific challenges, or analysis of the effectiveness of social impact bonds. The impact investment ecosystem needs to collaborate with academia, especially given young people’s growing interest in mission-driven work.

Private sector:

The private sector can support the impact investing industry in various ways including through corporate venturing, building ecosystem infrastructure such as capacity development providers, and integrating impact enterprises into their value chain.

Another way that corporations or private foundations can contribute is to invest in impact enterprises through social impact bond, a form of public-private collaboration that can help spur the sector forward.

Public Sector:

There remains consensus on the view that the government needs to take a more active role in establishing a common foundation for impact investing, including definitions, regulations, and incentives to create a successful impact investment environment. For example, the government could create a specific legal structure for impact enterprises, incentivize investment in impact enterprises, facilitate grant investments to businesses, and more.

Collaboration:

Lastly, the sector needs to collaborate to address systemic challenges and work together to mitigate risks. This could involve influencing local philanthropy, corporations, and governmental officials to actively participate in the sector. Impact investing stakeholders also need to work together to create relevant and accessible information to reach and inspire more entrepreneurs.



6

CONCLUSION

Mainstreaming Impact Investing in Latin America

Impact investing in Latin America is impossible to describe as a single, unified industry. Within the region each country context is distinct, from just emerging to more mature. Some of those more mature markets are at a period of transition, with many investors soon looking to exit their current investments. And in some of the more nascent markets, much work needs to be done in strengthening the broader entrepreneurial ecosystem, not just the environment for impact enterprises.

However, in considering the future of the industry some broad trends hold true for the region as a whole based on interviews and survey responses.

Entrepreneurial solutions have the potential to sustainably solve the region's biggest challenges, but the impact investing industry must grow across the region to reach this potential.

- **Some markets are dominated by international players, or by investors in one sector. These countries need to attract additional local firms to impact investing.**

- **In countries with more a developed industry there is not enough risk capital available for early stage impact enterprises. And investors fear there ultimately there may not be enough later stage Series B or C financing.**

Attracting new actors and increased flows of capital to impact investing will require coordinated promotion from current leaders in the field. The fragmented, niche nature of the industry can prevent it from growing, as potential new actors are not sure where to play, entrepreneurs may not seek out impact capital, and high-quality talent is not drawn to the industry.

- **Impact investors should transparently share lessons from the past ten years' experience, highlighting success cases and also setting expectations about both financial return and impact potential.**

There are three groups in particular that will be important to engage in the coming years.



Government

Policies can be an important force to accelerate an industry – or dampen its development. Among impact investors, there is general consensus that the government should take a more active role in supporting impact enterprises and impact investing. The mechanisms governments could use to support the industry include reducing the legal and regulatory challenges for impact-oriented firms, creating tax incentives for impact investment, and supporting the development of the entrepreneurial ecosystem.



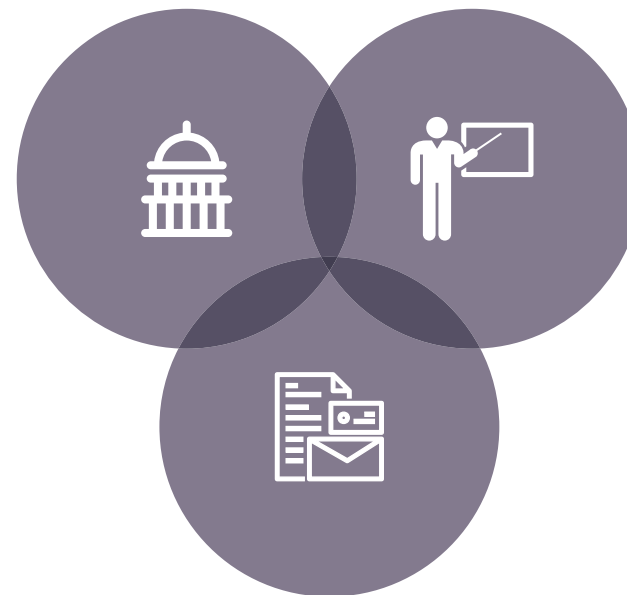
Large corporations

Have an important role to play in impact investing. The private sector can support the industry in various ways including through corporate venturing, integrating impact enterprises into their value chain, or investing corporate social responsibility funding into developing the entrepreneurial ecosystem.



Universities

Can create broader awareness of impact investing, develop students' skills necessary to enter the industry, and lead research.





Recommendations for Future Study

This report has left several issues with open questions that require more in-depth study.

What valuation methodologies are used, and what are the drivers for pricing in various sectors? Clarity on and a benchmark for valuation methodologies could be especially useful to equity investors in impact enterprises, especially for early stage businesses in sectors that are still in development.

What impact measurement approaches can work best for key sectors in the region: financial inclusion, agriculture, and health? Specific areas to explore are methods for data collection, assessing the existing evidence base, and compiling open data sources for impact measurement.

What role does gender play in the impact investing industry? Given the burgeoning practice of genderlens investing, better understanding where the gaps lie will ensure that capital will be well-placed to reduce gender inequality.

Appendix: Methodology & Participants

Methodology

Research took place in two phases. First, LAVCA distributed a survey between December 2015 and March 2016 to 136 contacts that the research team identified as highly likely impact investors. The survey focused on transactions that took place in 2014 and 2015.

Second, the research team conducted a series of semi-structured interviews with around 20 key actors each in Brazil, Colombia, and Mexico. Interview subjects included actors that were not impact investors, including representatives from government, corporations, venture capital, entrepreneurs, and capacity development providers.

This approach, called a sequential mixed-methods approach, provided qualitative data gathered through interviews to enhance, validate, and provide context to the quantitative data collected from the survey.

All country research teams used a common interview guide developed in consultation with all research partners and the advisory committee.

- The Brazil team, led by ANDE's Rebeca Rocha and Taina Costa and Alberto Rossi, from LGT IV, conducted 20 interviews, which were recorded. The research team at Insper then coded and analysed these interviews using ATLAS.ti software. Interviews were tagged with ten codes: i) Challenges; ii) Ecosystem; iii) Investment types; iv) Future of the market; v) Innovation; vi) Impact measurement; vii) Manager motivation; viii) Investor motivation; ix) Target projects; x) Risk-returns-impact.

- The Colombia team from the School of Management at Universidad de los Andes, conducted 12 interviews. Each interview was recorded, and the responses coded and analysed using NVivo software.

- ANDE's Katia Dumont with the support of Enrique Cervantes, conducted 24 semi-structured interviews. Responses were both tabulated during the interview with pre-determined codes, and also coded after the fact based on categories that were derived from the conversations.

Thank you to the individuals who took the time to participate in interviews, and complete the survey.

Interview Participants

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