



Impact Investing in Latin America

Trends: 2018 - 2019

SEPTEMBER 2020



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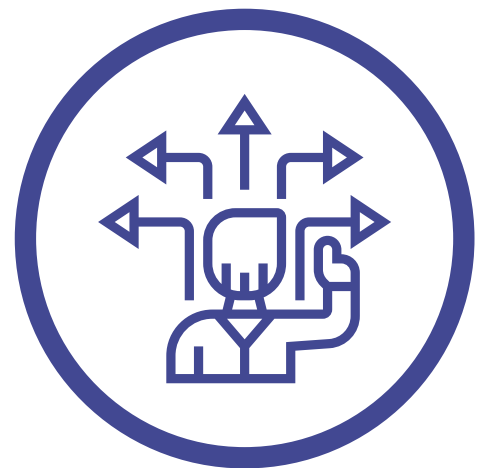
Introduction

In 2018 and 2019 the global impact investing market continued to grow, now estimated at approximately USD \$715 billion.¹ The Latin American market reflects similar trends, though it faces unique challenges and opportunities, and there is relatively little data available to characterize the specific nature of investors and deals in the region.

This report aims to capture characteristics of the impact investing sector in Latin America over the past two years based on a sample of impact investors active in the region. Through institution-level and deal-level data shared by these investors, this report gives a snapshot of where and how capital is being allocated and identifies challenges that the ecosystem faces. The report focuses on the region widely while taking a deeper dive into three of the region's largest markets: Brazil, Colombia, and Mexico.

At the beginning of the data collection period, the world came face to face with an unprecedented set of challenges caused by the COVID-19 crisis. This report also provides some initial insights into how the pandemic might affect the impact investing sector in Latin America in the longer term, by adding qualitative perspectives from active investors to the quantitative data that was collected about the last two years of investments.

Due to the inherently limited sample, this report does not aim to quantify the full size of the impact investing market in Latin America.² The analysis focuses instead on characterizing the market and understanding major trends, allowing those in the sector to better understand what types of deals are being made and how the market has developed in the past two years.



¹ Hand, D., Dithrich, H., Sunderji, S., Nova, N. (2020). "Annual Impact Investor Survey 2020." Global Impact Investing Network.

² There are a number of reports (referenced in this report) that offer specific analyses on the size of the impact investment market, including the Global Impact Investing Network's (GIIN) "Sizing the Impact Investing Market" and the Latin America Venture Capital and Private Equity Association's (LAVCA) "Industry Data & Analysis," the latter of which is updated annually.

Key Findings

The following findings are based on data collected from a sample of 83 investors who have assets under management (AUM) directed toward Latin America. While many are active in other regions, the findings in this report apply to their activities in Latin America.

2018-2019 Trends:

- + **Impact investors active in Latin America continue to rely on traditional financing structures**, with the vast majority using either debt or equity. Only 5% of deals and 2% of capital deployed in 2018-2019 used quasi-equity instruments.
- + **There is significant capital going into smaller deals.** Within the sample, most deals in 2018-2019 were for under USD \$500,000.³ However, there remain relatively few deals specifically targeting early-stage ventures. This is because smaller ticket size deals tend to target smaller but well-established agricultural enterprises such as smallholder cooperatives, leaving a gap in financing for ventures that are both small and early stage.
- + **Stakeholders often cite a lack of exits as a barrier** to the growth of impact capital markets. This study shows that there have in fact been many successful exits for impact investments in Latin America, with investors reporting 16 exits in 2018-2019. These include strategic sales, buybacks, and acquisitions, in addition to 163 debt repayments.
- + **About half of the investors in the study target market rate returns**, while the other half are willing to take lower returns in exchange for greater impact, showing that the impact investment market contains significant diversity in terms of capital expectations and impact profiles.
- + **Impact measurement has become commonplace**, with 80% of investors measuring their impact. However, this continues to be done mostly through proprietary tools, with about a third using the standardized IRIS+ taxonomy. This leaves considerable room for growth in the use of standardized tools.

Prospects for the Future:

- + **The most common challenges cited by respondents were macroeconomic conditions** (64%) and availability of capital (49%), not surprising given the economic fallout of the COVID-19 pandemic. Currency risk also seems to be increasing as an issue, with roughly one-third of respondents (29%) citing it as a primary challenge—up from only 6% in 2018.
- + **Forty-five respondents shared their perspective specifically on the pandemic** and its impact on the sector. Their greatest concern is the deterioration of and uncertainty in macroeconomic conditions, making it difficult to fundraise.
- + **There is reason to think the sector is stepping up:** according to the GIIN's recent survey of 81 impact investors' response to the COVID-19 pandemic, 41% are planning to target Latin America and the Caribbean when deploying capital to respond to the crisis.⁴

³ All amounts are in US Dollars.

⁴ Bass, R. (2020). "The Impact Investing Market in the COVID19 Context: An Overview." The Global Impact Investing Network.

Methodology

The data used in this study were collected through a survey designed and distributed by ANDE between March and June 2020. The survey targeted impact investors active in Latin America, including investors based in the region as well as global investors that make investments in the region. The survey focused on general investing practices, as well as transactions that took place specifically in 2018 and 2019. For the purposes of this report, impact investors are defined as those that:

- + Make direct investments in companies;
- + Have positive social or environmental impact as an explicit objective;
- + Have an expectation of a financial return or at least capital preservation; and
- + Invest using any instrument, including debt, equity, quasi-equity, guarantees, or other.

The criteria applied in this report deliberately exclude certain investments, narrowing the focus on specific segments of the impact investing industry. Project finance, such as green bonds and investments made by development finance institutions (DFIs), were excluded from the analysis of deals. DFIs play a critical role in impact investing in the region, primarily through investments into funds, but the relatively large size of their direct deals would make it difficult to understand the segments that are the focus of this report. In addition to the survey, ANDE conducted interviews with seven impact investors to gather perspectives from both locally headquartered and international investors regarding key opportunities and challenges facing the impact investing sector in Latin America, in particular for investors focused on biodiversity and conservation.

Approximately one-third of survey respondents invest in microfinance institutions (MFIs). Since impact investors with this focus often manage more capital and invest with bigger ticket sizes, the data are separated for MFI versus non-MFI investors in certain parts of this report. Individual deals were also separated into microfinance or financial inclusion (excluding microfinance) for additional clarity.



About the Sample

In total, ANDE collected data from 83 investors with assets under management (AUM) directed toward Latin America. The investors that participated in the survey are diverse, representing 18 headquarter countries and a cumulative \$3.7 billion in AUM targeting the region.⁵ This sample does not, however, include AUM from development finance institutions (DFIs), and due to this and other differences in the makeup of the sample, is significantly different from other analyses of the region's impact investing market.⁶ Thirty-one of the survey respondents also provided data for the 2018 report, which covered trends in 2016-2017.⁷ Roughly half of these organizations saw an increase in AUM over the two-year period, with the remaining half seeing no change or a decline in AUM.

Over half (60%) of respondents are based in Latin America, with the greatest representation coming from Brazil and Mexico (Figure 1). ANDE has regional chapters in Brazil, Mexico, and Colombia; therefore, the greater number of respondents representing these countries is in part a reflection of ANDE's network and not a complete picture of the landscape of actors in all of Latin America. This local representation is a shift from ANDE's previous analysis, in which only 45% of investors in the sample were based in Latin America;⁸ see the "Locally-Headquartered Investors" section for analysis of how investors based in the region have emerged as a more significant portion of the market in recent years. When looking at total AUM directed toward Latin America by country of headquarters, those based in Brazil and in the United States make up nearly 60% of total AUM. The bulk of the rest of the AUM is managed by investors in Europe.



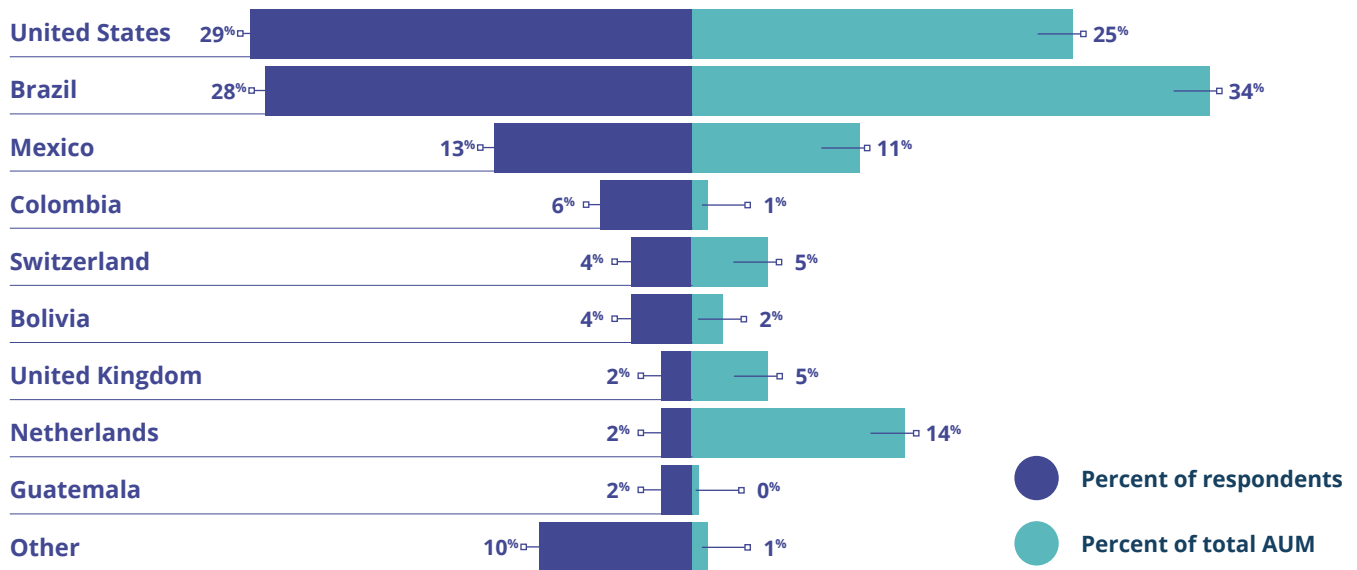
5 79 of the 83 respondents shared their AUM targeted toward impact investing in Latin America.

6 Most notably, the GIIN's 2020 Annual Impact Investor survey identified \$19.6 billion in AUM allocated towards Latin America. However, the GIIN sample includes DFIs as well as a number of large financial institutions in developed markets that allocate a portion of their capital to Latin America but that did not provide data for this study. 64% of the AUM in the GIIN's sample is made up of DFIs, leaving approximately \$7 billion of non-DFI AUM; the remaining differential from this study's sample of \$3.7 billion AUM is generally made up of larger financial institutions based in developed markets.

7 (2018). "The Impact Investing Landscape in Latin America: Trends 2016 & 2017." ANDE, LAVCA: The Association for Private Capital Investment in Latin America.

8 *Ibid.*

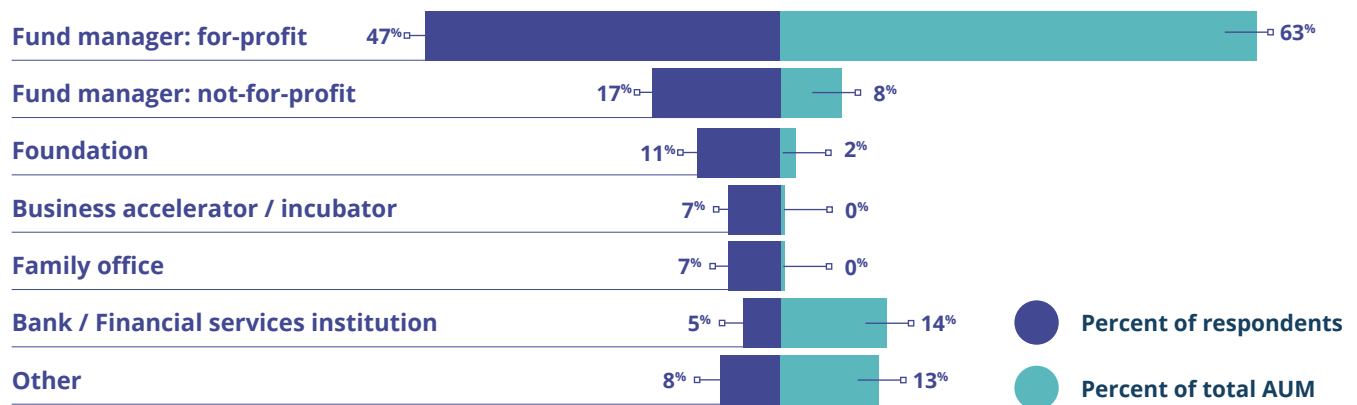
Figure 1: Sample by headquarters country (where n>1)⁹



N = 83 respondents with total AUM of \$3.7 billion

As shown in Figure 2, the largest proportion of respondents are structured as for-profit fund managers (47%), followed by not-for-profit fund managers (17%) and foundations (11%). The vast majority of AUM in the sample is managed by for-profit fund managers, while family offices and business accelerators/incubators make up less than 1% of total AUM.

Figure 2: Sample by investor type



N = 83 respondents with total AUM of \$3.7 billion

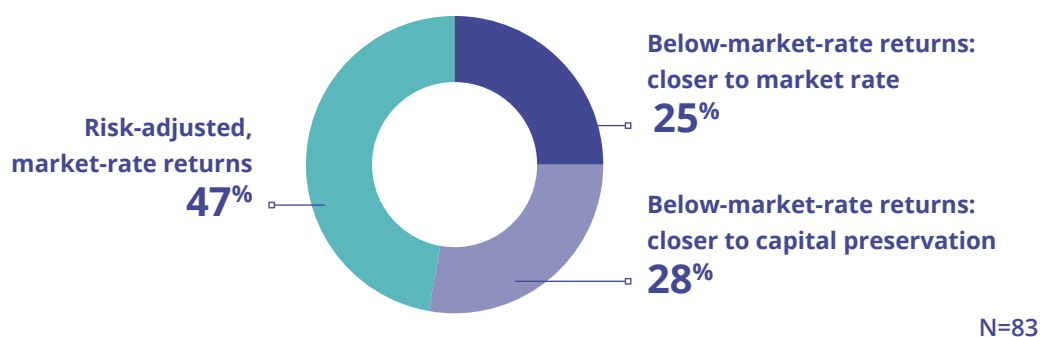
⁹ This chart represents countries in which more than one respondent is located. Countries not shown in the figure include Argentina, Chile, Peru, Costa Rica, Ecuador, El Salvador, Germany, and Luxembourg.

Investment Practices and Fundraising

Financial Instruments and Target Returns

Investors in this study most often invest through equity and debt financing, a finding that is consistent among those that invest in MFIs (referred to in this report as “MFI investors”) and those that do not (referred to as “non-MFI investors”). Almost half (47%) of investors characterize the target financial returns of their impact investments as risk-adjusted market-rate returns (Figure 3), which is lower than in the impact industry as a whole according to the GIIN’s most recent survey.¹⁰ This suggests that this study’s sample is somewhat more focused on social rather than financial impact relative to the global impact investing industry; in fact several respondents in this study use zero-interest loans and 28% of respondents have an expectation closer to capital preservation, compared to 15% in the global GIIN survey.¹¹ Impact investors in this study who use equity to invest are more likely to target risk-adjusted market-rate returns, while those who use guarantees or debt are more likely to target below-market-rate returns. Although there is clearly a wide spectrum of return expectations for impact investors in the region, commentators have noted the continued lack of risk-tolerant “patient” capital at sufficient scale, which may require concessionary return expectations.¹²

Figure 3: Target financial returns (percent of respondents)

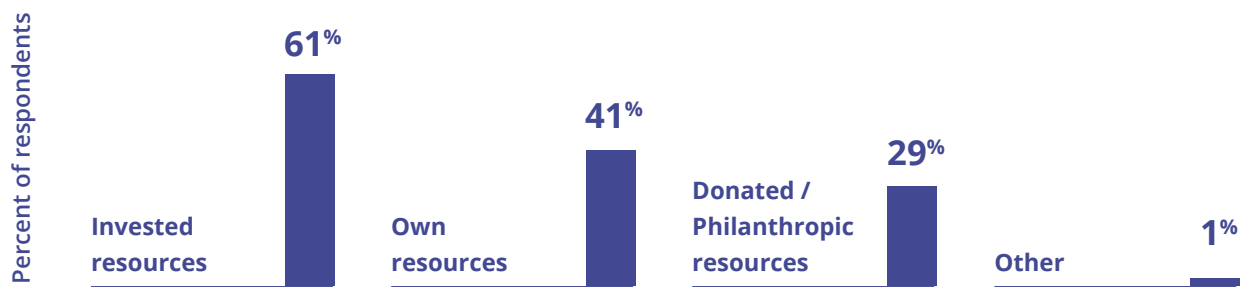


10 Hand, D., Dithrich, H., Sunderji, S., Nova, N. (2020). “Annual Impact Investor Survey 2020.” Global Impact Investing Network.
11 *Ibid.*
12 Price, D. (2019). “50 deals that signal a growing impact investing market in Latin America.” Impact Alpha.

Fundraising

As shown in Figure 4, most respondents raise capital through invested resources (61%), while a significant minority use their own resources (41%). This does not differ between investors based in Latin America versus elsewhere. Of those that raise capital through invested resources, the most common sources of these funds are high-net-worth individuals/family offices (46%), foundations (30%), and development finance institutions (29%).

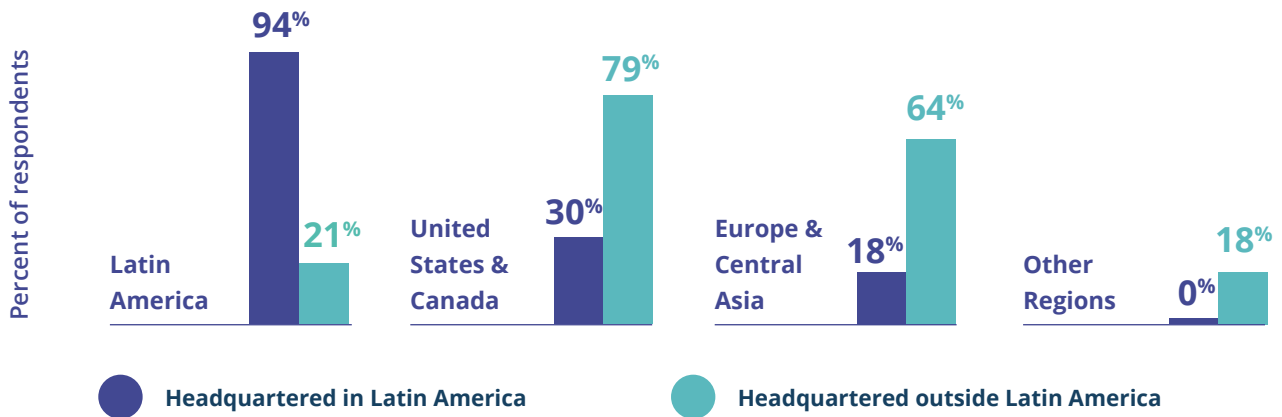
Figure 4: Sources of capital



N = 83 (respondents could select more than one)

Organizations headquartered in Latin America tend to raise capital within the region, while those based outside Latin America more commonly raise capital in the United States and Canada, or Europe and Central Asia (Figure 5). Among those that raised capital in Latin America, it most often came from Brazil, Mexico, Colombia, or Peru. The alignment between the headquarters region and the capital source highlights the importance of locally headquartered funds as a mechanism for mobilizing local capital.

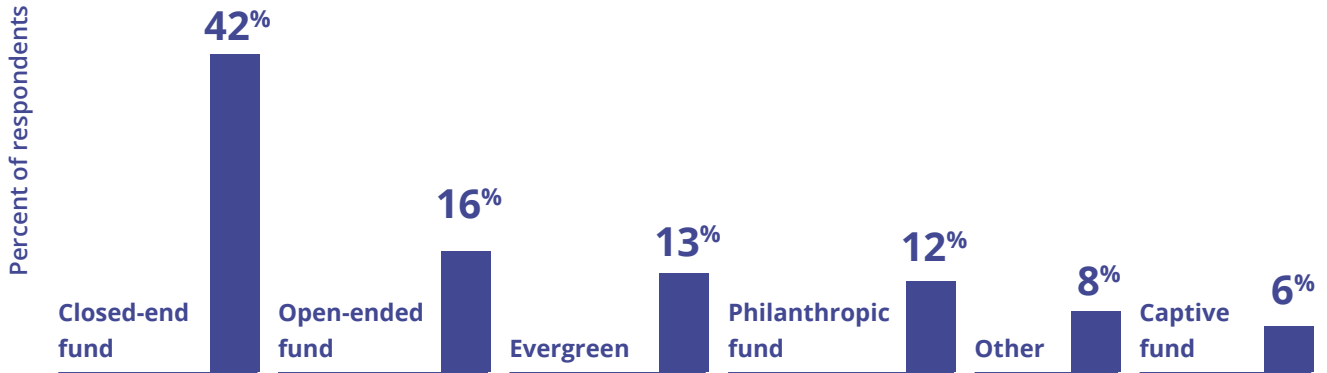
Figure 5: Where capital was raised by investor headquarters country



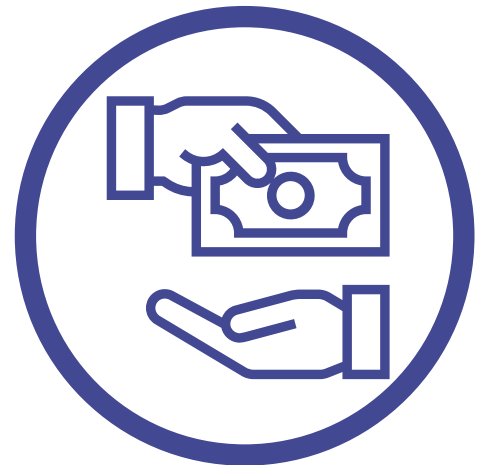
N = 83 (respondents could select more than one)

Investors in this study most commonly manage closed-end funds, accounting for 42% of the sample (Figure 6). Notably, a large proportion employ alternative fund structures that allow for greater creativity and innovation; for example, roughly a quarter of respondents use open-ended and/or evergreen funds.

Figure 6: Fund structure



N = 83 (respondents could select more than one)



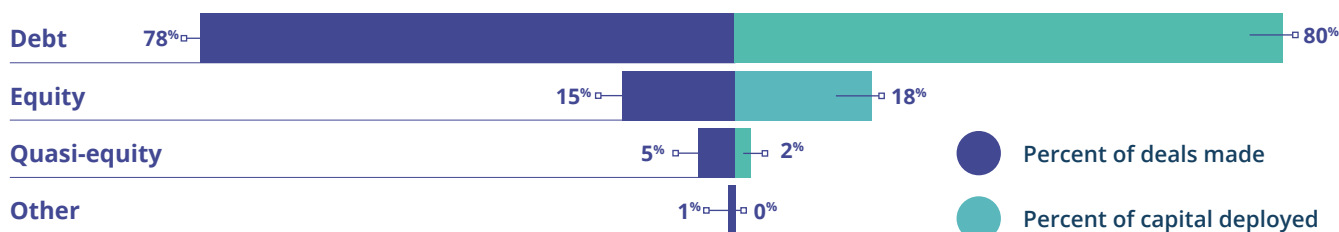
Capital Deployed

Investments in 2018-2019

Of the 83 investors that responded to the survey, 49 shared information about the individual investments they made in 2018 and 2019. In this period, the surveyed investors deployed over \$600 million through 619 deals in Latin America. Approximately half (52%) of these deals were initial investments into a given company, while the remaining half were follow-on investments. Both initial and follow-on deals had a similar average size (\$1.0 million and \$0.9 million, respectively).

Most deals used traditional debt or equity instruments, with debt alone accounting for 80% of capital deployed in 2018-2019 (Figure 7). Over 70% of the debt investments were directed toward the microfinance or agricultural sectors, which have both well-established impact business models and a traditional reliance on debt. Only 5% of deals were quasi-equity or other alternative structures. This reflects a lack of innovative financing structures available in the region: anecdotal evidence suggests that there remains an unmet need for innovation in product design for entrepreneurs who are not eligible for the traditional equity and debt schemes.

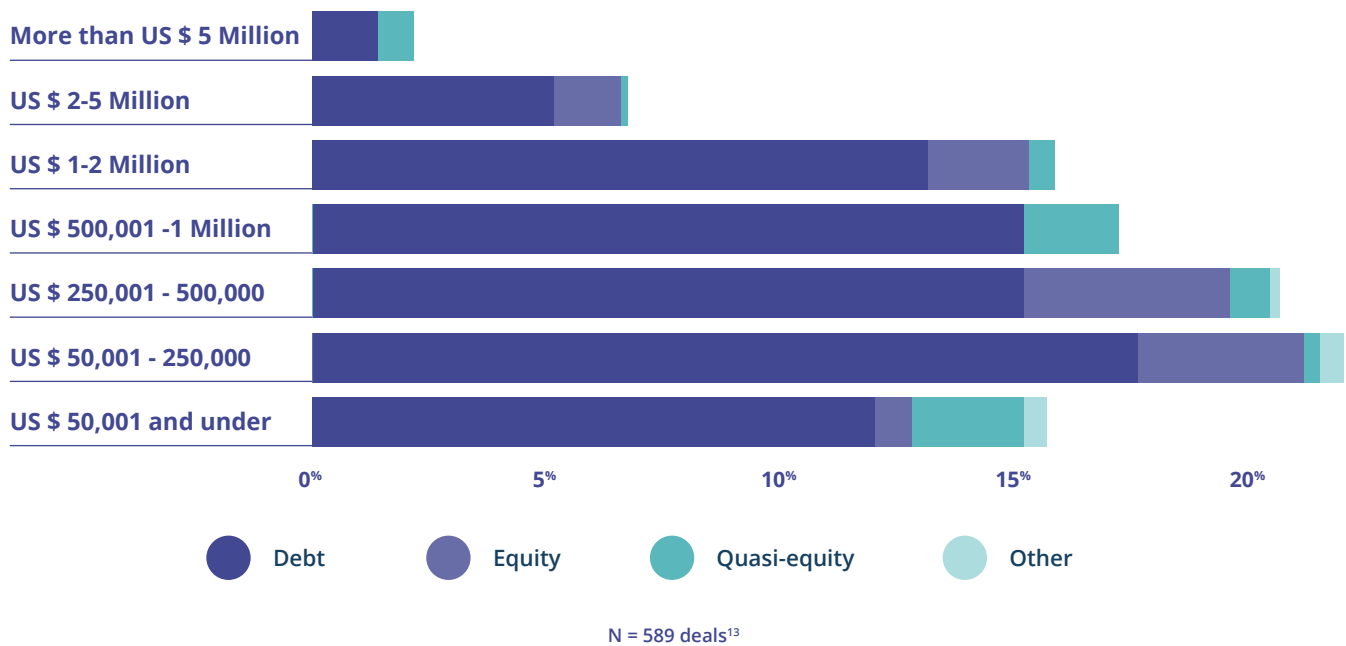
Figure 7: Financial instruments used in 2018-2019



N = 619 deals totaling \$604 million

Over 75% of deals made in 2018 and 2019 were for under \$2 million, most commonly falling between \$50,000 and \$250,000. Investments made into MFIs tended to be larger, with the majority above \$500,000, while non-MFI investments made up the vast majority of deals up to \$250,000. Equity deals most commonly fell between \$50,000 and \$500,000, while debt deals were more evenly distributed across ticket sizes (Figure 8). Over the past decade, the impact investing sector has often pointed to the lack of smaller ticket sizes as a barrier, so it is encouraging to see that in the past two years in Latin America there were over 120 deals in the \$50,000-\$250,000 range.

Figure 8: Deals by ticket size and financial instrument



However, despite the prevalence of deals at smaller ticket sizes, the majority of deals were categorized as being at the “expansion/growth” stage. Although overall the median amount invested in deals at this stage was \$540,000, a significant number of deals (roughly 25%) under \$250,000 were labeled as targeting this later stage. In particular, many deals in the agricultural sector were relatively small but also labeled as being at the expansion/growth stage. This reflects the fact that many of the smaller ticket deals are targeting smaller but more established enterprises, such as agricultural cooperatives. The availability of smaller deals does not necessarily mean there is capital available for ventures that are both small and early stage, showing that there remains a lack of capital that truly targets the so-called “pioneer gap” of smaller and newer impact businesses.

Table 1: Number of deals and average deal size by stage

	Number of deals	Average deal size (USD millions)	Median deal size (USD millions)
Seed/Incubator	27	\$0.1	\$0.03
Early	103	\$0.4	\$0.1
Expansion/Growth	432	\$1.1	\$0.6
Other	12	\$0.8	\$0.04

Twenty investors also shared their deal data during the previous version of this study in 2018. When comparing these time periods, investment activity appears to be remarkably similar – the number of deals dropped just slightly in 2018-2019 compared to 2016-2017, and total capital deployed increased by only \$100,000.¹⁴

¹³ A small number of deals were reported in aggregate and are therefore left out of any calculations of average or ticket size.

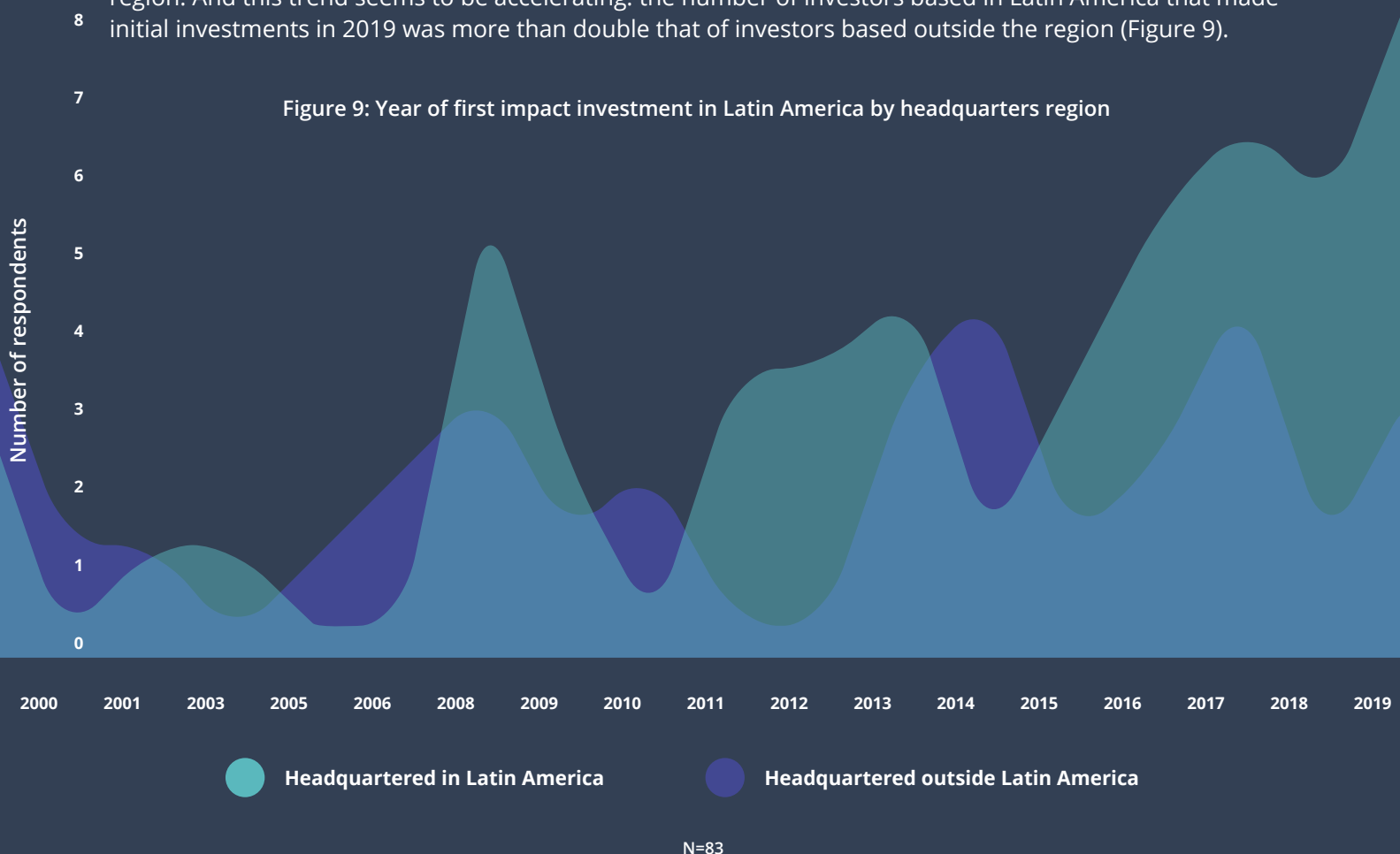
¹⁴ The noted change in deal size may be in part affected by significant fluctuations in currency exchange rates as a result of macroeconomic conditions in several Latin American countries over the past two years.

Trend Spotlight: Locally Headquartered Investors

Most of the investment activity in 2018-2019 came from outside the region, with only 26% of capital and 33% of deals coming from impact investors headquartered in Latin America (despite representing a greater proportion of the sample). The average deal size for impact investors based in Latin America was half that of foreign investors. While this shows that foreign investors continue to dominate larger ticket sizes, it is encouraging that local capital is stepping in and filling the gap in smaller investments for local entrepreneurs.

Despite the continued importance of foreign capital, the timing of these investments demonstrates the increasing emergence of local capital. Fifty-four percent of respondents based in Latin America began investing in the region within the last five years, compared to only 33% of those headquartered outside the region. And this trend seems to be accelerating: the number of investors based in Latin America that made initial investments in 2019 was more than double that of investors based outside the region (Figure 9).

Figure 9: Year of first impact investment in Latin America by headquarters region



An example of this trend is ALIVE (Acumen LatAm Impact Ventures), which highlighted that 30% of its fundraising has come from local institutions, including government-owned entities, corporations, and philanthropic foundations. "This is a trend we have not seen in other regions where Acumen has participated in fundraising efforts. The participation of local investors is an encouraging sign of maturity of the sector, as well as growing interest from the private sector in innovative approaches to engage in development efforts." said managing partner Santiago Alvarez.

The agriculture and food sector saw by far the most total deals over the 2018 and 2019 period (Table 2). This is largely due to a small number of investors with a specific impact thesis focused on relatively small investments in smallholder cooperatives. In contrast, while the number of microfinance deals was much lower, deal sizes tended to be much larger, with an average size of over \$1 million, and so represented nearly as much total funding as the agricultural sector (Table 2).

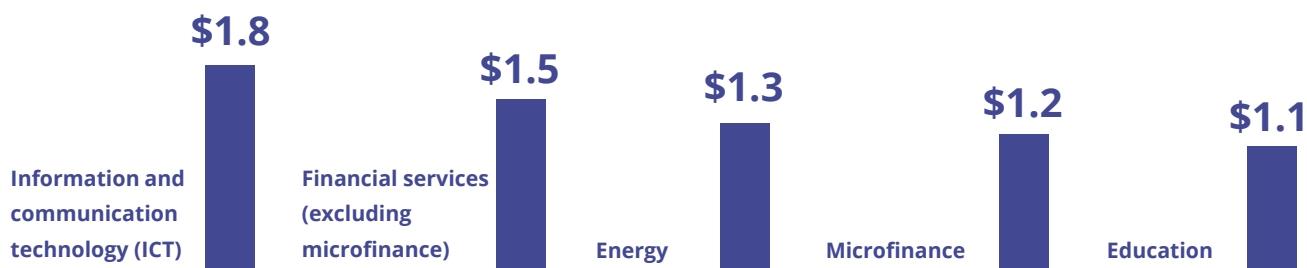
Table 2: Number of deals and total invested by sector

Sector	Number of deals	Total invested (USD millions)
Agriculture and food	253	\$159
Microfinance	113	\$132
Financial services (excluding microfinance)	41	\$56
Education	38	\$16
Biodiversity and ecosystem conservation	29	\$13
Information and communication technology (ICT)	29	\$44
Healthcare	20	\$8
Manufacturing	13	\$10
Energy	12	\$15
Water, sanitation, and hygiene	10	<\$1
Housing	5	<\$1
Tourism	1	-
Other	48	\$38

Other notable sectors in 2018-2019 included non-MFI financial services and ICT, which had a moderate number of investments but the largest average deal sizes. Deals were also common in the education, biodiversity and conservation, and healthcare sectors. Important impact sectors that received notably little attention from this sample of investors include energy, water and sanitation, housing, and tourism. Given that 41% of investors expressed a focus on at least one of these sectors, there appears to be a gap between the stated interest in these areas and actual recent deal activity.

Average ticket sizes were largest in the ICT, financial services, energy, microfinance, and education sectors (Figure 10), though it's important to note that two large investments in ICT and education drew these averages up considerably.

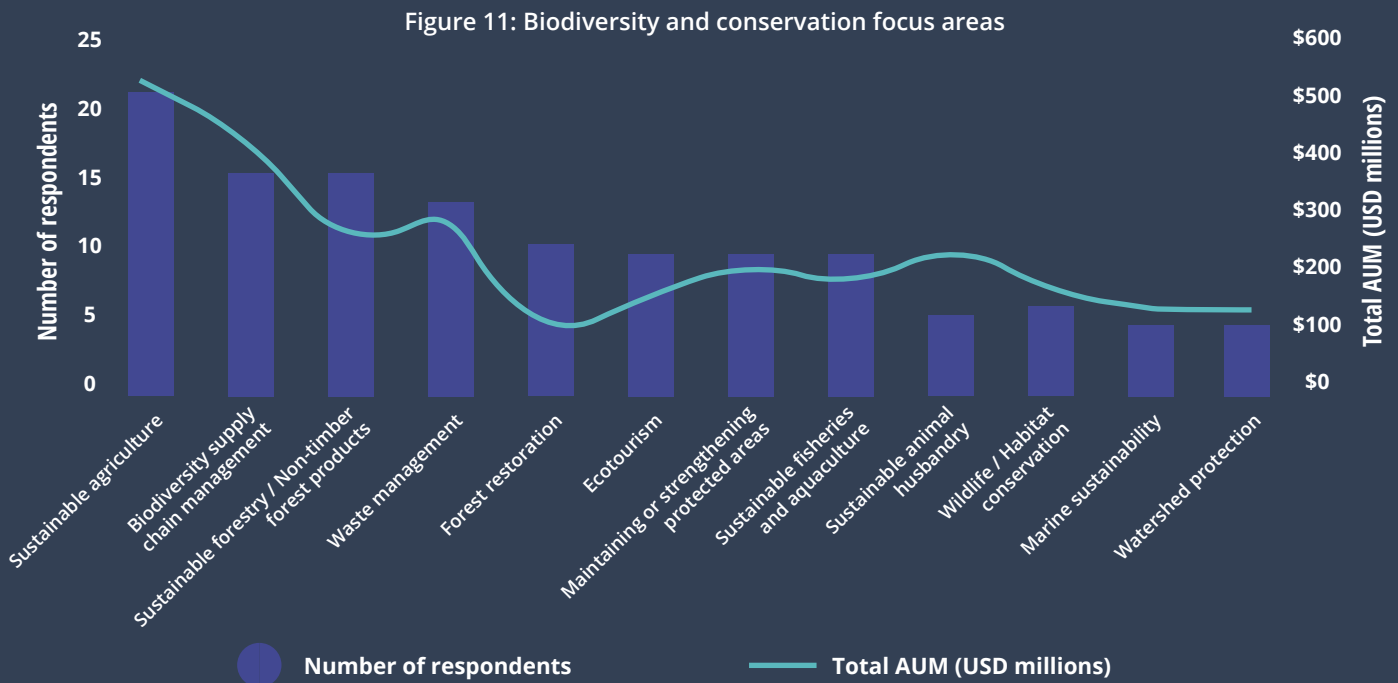
Figure 10: Top 5 sectors with largest average deal sizes (average ticket size in USD millions)



Sector Spotlight: Biodiversity and Ecosystem Conservation

Latin America is known as a “biodiversity powerhouse,”¹⁵ with over 30% of the world’s species and the planet’s most well-known biome, the Amazon rainforest. There is growing global concern about the pace of deforestation in critical ecosystems like the Brazilian Amazon, as evidenced by 29 global investment firms that collectively manage over \$3.7 trillion calling for change in Brazil’s policies regarding the Amazon.¹⁶ Fund managers in Brazil and elsewhere are taking an active interest in this issue: 30% of impact investors surveyed indicate biodiversity and conservation as a priority sector. These investors reported a total of \$606 million of AUM designated for impact investing in Latin America. However, this interest is not always backed up by action; while investors deployed over \$13 million towards the biodiversity and conservation sector in 2018-2019, these investments came from only five investors. Two-thirds of investors indicating an interest did not make any deals with companies working in biodiversity and conservation.

Biodiversity and ecosystem conservation cover a broad range of more specific focus areas, commonly referring to sustainable land use and including a variety of sub-sectors (see Figure 11). Among investors with this focus, the largest share by both number and total AUM have a specific interest in sustainable agriculture, followed by supply chain management and sustainable forestry/non-timber forest products. Marine sustainability and watershed protection were the least common focus areas by number of investors, though the investors focused on forest restoration represent the lowest total AUM. This suggests that within biodiversity and conservation, impact investors in the region are heavily focused on the use of agriculture, forestry, and integration of sustainably harvested products into supply chains, while there is less focus on using investments to protect waterways in the region.



N=25 respondents with total AUM of \$606 million

15 Moyer, E. (2018). “Latin America and International Biodiversity.” Natural Resources Defense Council.
 16 Spring, J. (2020). “Global investors demand to meet Brazil diplomats over deforestation.” Reuters.

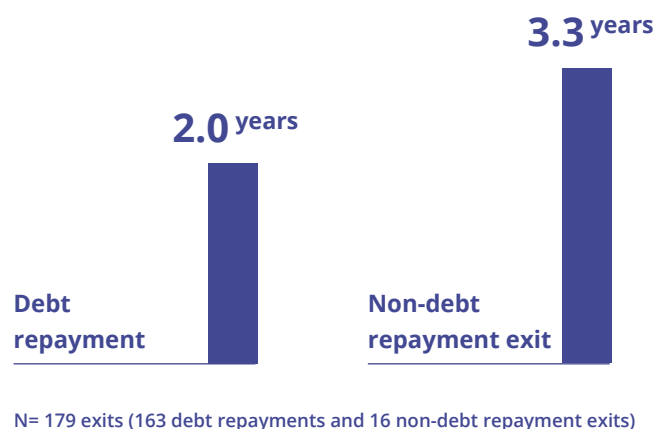
In the past two years, activity has been picking up among impact investors focused on environmental sustainability. An example is Mirova Natural Capital Limited, which recently closed its Althelia Biodiversity Fund Brazil (ABF Brazil) that aims to deploy \$100 million of blended capital towards activities in conservation, agriculture, and reforestation, with the goal of generating market rate returns.¹⁷ Collaborations between impact investors and NGOs also represent a pathway to action. NESsT, in partnership with the World Wildlife Fund (WWF) and with funding from USAID, is leading the Indigenous Economy part of the Amazon Indigenous Rights and Resources (AIRR) Project to support indigenous entrepreneurs who are creating jobs and protecting the environment. This “allows [NESsT] to use the resources that are already there, such as the WWF team and partners in the region and internationally, [while our] organization provides business expertise, investments, and access to markets” according to NESsT’s portfolio director Renata Truzzi.

Deforestation is one of the Latin America’s greatest environmental challenges, and impact investors are actively identifying paths to financial return that protect rather than degrade the region’s natural resources. MOV Investimentos is raising a new fund with the thesis that the conservation of the Brazilian Amazonian ecosystem should be integrated into the Brazilian economy. “We see opportunities related to agroforestry systems in the deforestation frontier. That is, in systems that conserve critical ecosystems but also produce food staples...[such as] the replacement of animal protein with vegetable proteins as a means to increase the availability of alternatives to conventional livestock and animal protein systems”, shared founder and executive director Paulo Bellotti. Even investors without a specific biodiversity or conservation focus are accounting for their role in sustainability. For example, while the Acumen Pioneer Fund does not have an explicit environmental mandate, its investments in companies sustainably harvesting cacao and acai aim to help communities find a livelihood through the conservation of critical ecosystems.

Exits in 2018-2019

In 2018 and 2019, impact investors reported 163 debt repayments and 16 exits, including strategic sales, buybacks, and mergers and acquisitions. The non-debt repayment exits averaged 3.3 years from investment to exit, with the quickest exit taking 1.5 years and the longest eight years (Figure 12).

Figure 12: Average years from investment to exit by exit type



17 (2019). “First closing of the Althelia Biodiversity Fund Brazil.” Althelia Funds News & Press.

Total proceeds from non-debt repayment exits totaled over \$12 million, with a median value of \$0.6 million.¹⁸ Debt repayments totaled \$97 million and averaged \$0.6 million. The average internal rate of return (IRR) from debt repayments averaged 8%. Non-debt repayment exits averaged 22%, which matches cases of “responsible exits” catalogued in other research.¹⁹

Within this sample of investors, Brazil and Mexico saw the greatest number of non-debt repayment exits at eight and three, respectively (Table 3).

Table 3: Non-debt repayment exits in Brazil and Mexico

	Brazil	Mexico
Number of non-debt repayment exits	8	3
Average time from investment to exit	3.5 years	2.0 years
Total proceeds from exits	\$ 2.8 million	\$ 6.8 million
Average proceeds	\$0.7 million	\$2.3 million



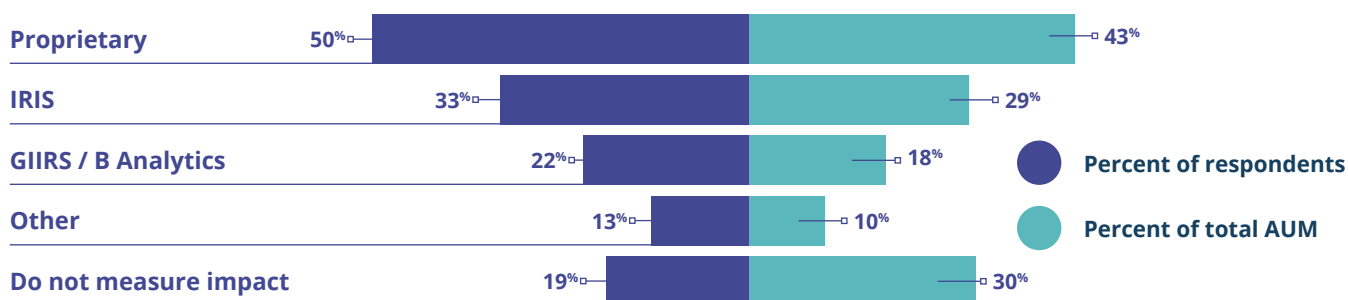
18 A small number of exits were reported in aggregate and are therefore left out of any calculations of average or ticket size.
 19 Schiff, H., Dithrich, H. (2018). “Lasting Impact: The Need for Responsible Exits.” The Global Impact Investing Network.

Impact Measurement

A critical distinction between traditional investment and impact investment, beyond the mission and intention of the investment, is the practice of measuring impact. The GIIN calls this “a hallmark” of the sector, with measurement serving as a credibility check on investors’ true commitment to impact.²⁰

The vast majority (81%) of respondents measure the impact of their investments. Approximately half do this through the use of proprietary measurement tools, while a third use the GIIN’s Impact Reporting and Investment Standards (IRIS+) system. This use of IRIS+ in the region is generally in line with the impact investing industry globally; GIIN’s 2020 investor report found that 36% of all investors are IRIS+ users.²¹ Other systems used by investors include the Impact Management Project framework, theory of change approaches, and environmental and social governance (ESG) metrics. When comparing the percent of investors that use each tool against the percent of total AUM they represent, no trends stand out in terms of larger or smaller investors gravitating toward a particular approach (Figure 13).

Figure 13: Use of impact measurement tools

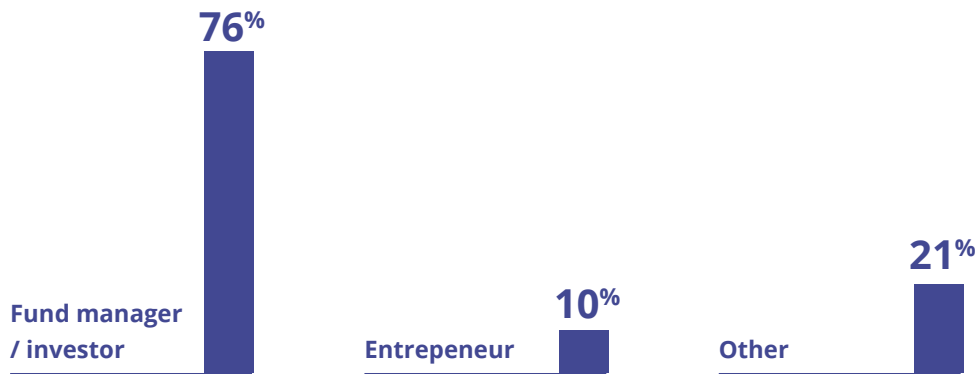


N = 83 respondents with total AUM of \$3.7 billion (respondents could select more than one)

One of the principal challenges associated with impact measurement is cost, and which stakeholder should bear that cost. Of the investors in this study, 61% indicated that the fund manager or investor pays for impact measurement, whereas only 9% put the onus on the entrepreneur to pay (Figure 14). This is fairly consistent among both investors headquartered in Latin America and elsewhere, and among for-and non-profit fund managers. Many of those who specified “Other” indicated that impact measurement is paid for by donors or the umbrella organization of the fund.

20 (2019). “Characteristics of Impact Investing.” The Global Impact Investing Network.
 21 Hand, D., Dithrich, H., Sunderji, S., Nova, N. (2020). “Annual Impact Investor Survey 2020.” Global Impact Investing Network.

Figure 14: Who pays for impact measurement?



N = 67 (only includes respondents that measure impact; respondents could select more than one)

The United Nations Sustainable Development Goals (SDGs) have become increasingly important in the impact investing sector for both strategic and measurement alignment. Seventy percent of the impact investors in this sample align their impact measurement and management strategy with the SDGs. Of the 17 SDGs, investors most often incorporate into their impact measurement and management (IMM) strategies SGD8: Decent Work and Economic Growth (57%), SDG1: No Poverty (51%), SDG5: Gender Equality (49%), SDG10: Reduced Inequalities (49%), and SDG4: Quality Education (41%).



Decent Work and Economic Growth



No Poverty



Gender Equality



Reduced Inequalities



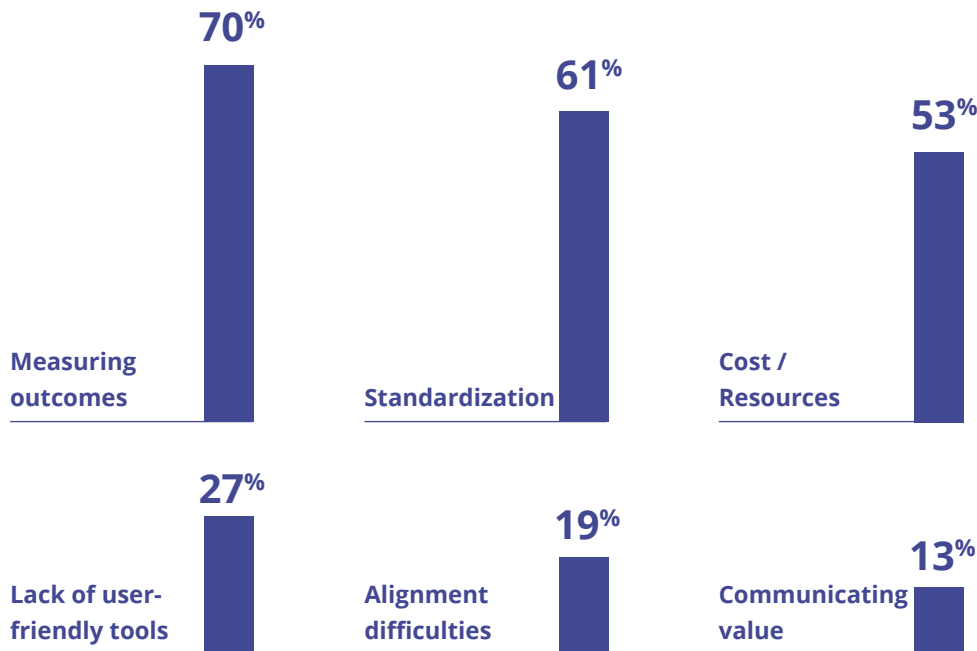
Quality Education



While in general investors based in Latin America were less likely to align their IMM strategies with the SDGs (66% versus 76% of those headquartered outside the region), locally-based investors were more likely to align with SDG4: Quality Education (48% vs. 30%), SDG12: Responsible Consumption and Production (42% vs. 24%), and SDG11: Sustainable Cities and Communities (30% vs. 15%). Investors headquartered outside the region were more likely to align with SDG2: Zero Hunger (42% vs. 18%).

Besides cost, over half of impact investors cited measuring outcomes and standardization as ongoing challenges (Figure 15). On a positive note, only a quarter of investors cited a lack of user-friendly tools as an issue, which suggests that the development of tools such as IRIS+ has made a significant difference in giving investors what they need to measure impact. Additionally, only 13% of investors saw communicating the value of impact measurement as a challenge, showing that the effort over the past decade to highlight the importance of measurement in the sector has garnered broad alignment.

Figure 15: Challenges in impact measurement

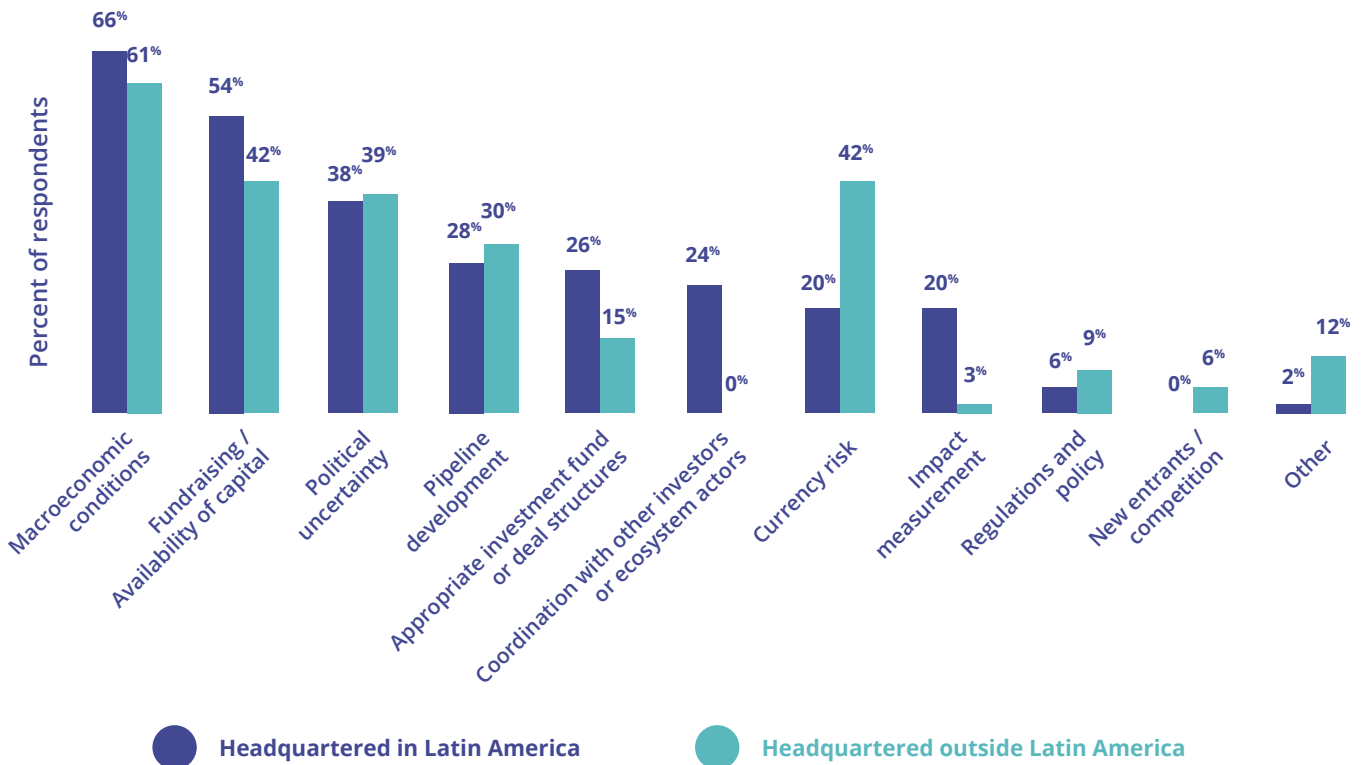


N = 83 (respondents could select more than one)

Looking Forward...

The COVID-19 pandemic will clearly change the trajectory of impact investing in the region in 2020 and beyond, and is a major source of concern for investors. Not surprisingly, macroeconomic conditions and availability of capital were the two most-cited challenges foreseen by investors in the study (Figure 16). Approximately two-thirds (64%) of investors see macroeconomic conditions as a top concern, compared to only 16% in 2018.²² In terms of fundraising, many investors shared concerns that the donors who provide much of their funding will redirect their attention to projects in direct response to the pandemic and will be working with overall reduced budgets. One investor noted, “We expect to have a decline in funds invested in socioenvironmental issues due to the migration of capital to the health sector. Moreover, international donors and aid agencies might have more restricted amounts of funding in the future.”

Figure 16: Expected challenges in 2020 - 2021



N = 83 (respondents could select up to three)

22

(2018). “The Impact Investing Landscape in Latin America: Trends 2016 & 2017.” ANDE, LAVCA: The Association for Private Capital Investment in Latin America.

In addition to macro-level concerns, currency risk remains an increasingly important issue. While only 6% of investors listed this as a concern in 2018, nearly one-third (29%) did so this year. Pipeline development also represents a challenge, with 29% noting this as an issue. On a more positive note, there seems to be overall satisfaction with coordination in the sector: only 14% of investors selected coordination with other investors as a concern. However, this is more of a challenge for those based in the region, with 24% of respondents headquartered in Latin America citing this challenge compared to 0% of those headquartered outside the region. This indicates a possible need for locally-focused coordination efforts.

While some investors are concerned about the decrease in economic activity as a result of COVID-19 and the potential increase in failure rates among ventures, others have found additional opportunity as a result of the crisis thanks to the nature of their investees. Some believe that more actors will turn their attention towards impact investment rather than traditional investment as the need for positive socioeconomic and environmental impact becomes a priority globally. One impact investor expects that “it will raise the awareness level, increasing impact investing activity expectations in the next two years.” Another noted, “It’s a moment of opportunity for dynamic and innovative companies. Our role is to support them in the process of understanding those opportunities, with guidance and with working capital.”

Still, those with a positive outlook are in the minority. While surveyed investors reported fundraising expectations totaling \$3.4 billion in 2020-2021 (\$30 million on average), interviews exposed that many are preparing to hold off on future investments to focus on their current portfolios and restructure investments in anticipation of higher default rates given the shock from the pandemic.



Conclusion

The impact investing sector in Latin America showed significant activity and

major progress in 2018 and 2019. As new capital continues to move into the impact space from a variety of sources, the increasing proportion of locally headquartered investors represents a particularly positive development to build on. In addition, the prevalence of deals with ticket sizes under \$250,000 shows that smaller impact investments can indeed be commercially viable. Exits have also become relatively commonplace, providing many examples that are critical to attracting more commercially oriented capital. While in industry discussions investors continue to point to the identification of high-quality deal pipelines as a constraint, the level of overall deal activity and number of successful exits for impact investment in the region show that there are a significant number of investment-ready enterprises. Finally, impact measurement using tools such as IRIS+ and alignment with the SDGs is becoming truly mainstreamed into investor practices.

Nevertheless, investment activity in 2018 and 2019 also demonstrated the gaps and challenges that will only be more difficult to address given the fallout of the pandemic from 2020 onward. While there were many smaller deals, these deals tended to focus on more established small firms in the agriculture sector, rather than earlier-stage impact enterprises across a variety of sectors. Additionally, the use of alternative investment structures such as quasi-equity remains nascent despite being a major focus of the global industry over the past several years. Impact investing activity is also largely focused on a relatively small number of sectors, most notably agriculture, microfinance, financial services, and ICT. Despite investors' stated interest in a much wider swath of sectors including biodiversity and conservation, impact investment activity in these areas remains an opportunity that has yet to be fully realized.





Country Profiles

The following section investigates trends in three focus countries: Brazil, Colombia, and Mexico.



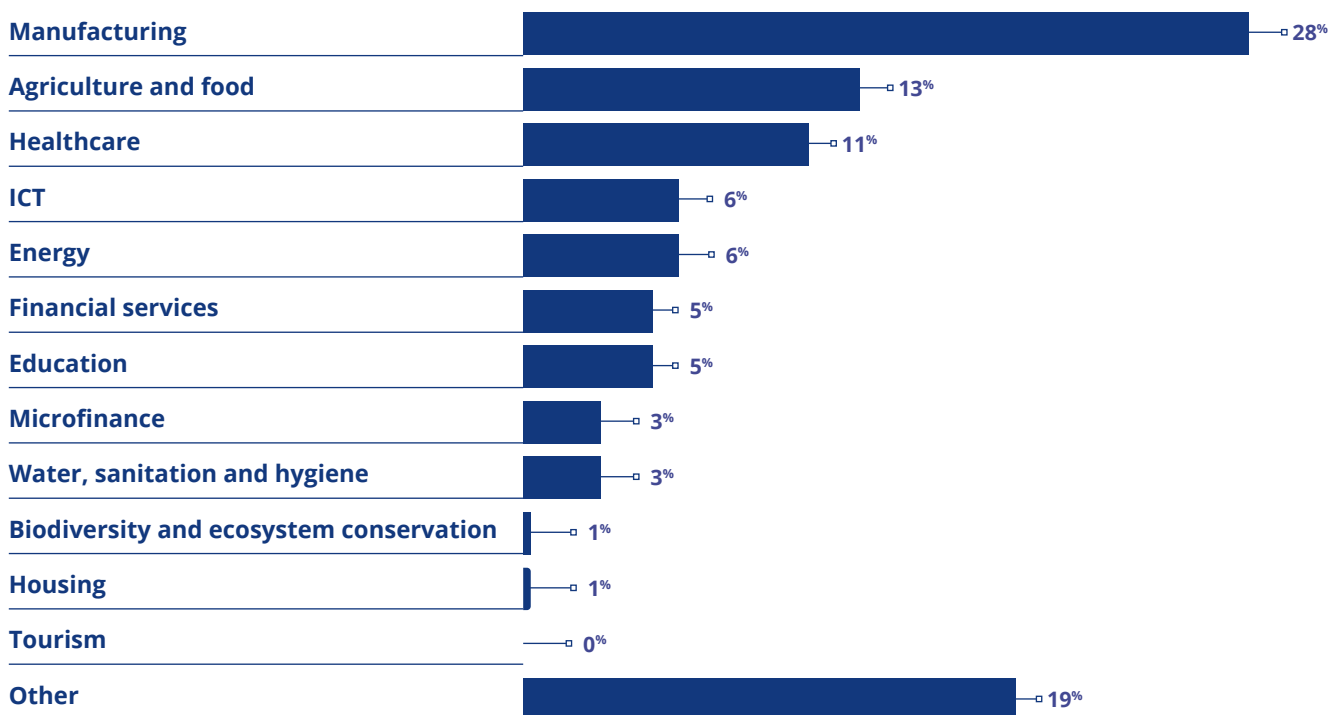
Brazil



This study includes 34 impact investors who have dedicated AUM to investments in Brazil; 23 are investors based in Brazil and 11 are based outside of Latin America. No other respondents based in Latin American have AUM dedicated to the country.

Twenty-eight investors shared their AUM specifically dedicated to Brazil, totaling \$785 million.²³ As shown in Figure 17, roughly one quarter (28%) is targeted toward companies in the manufacturing sector, followed by agriculture and food (13%) and healthcare (11%).

Figure 17: Percent of AUM directed toward Brazil by sector

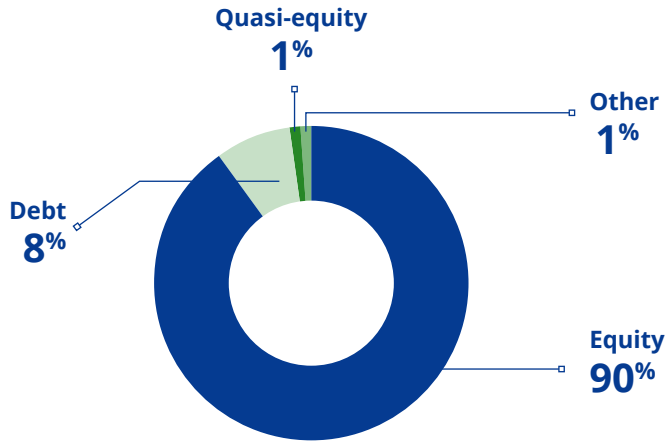


N=27 investors with AUM of \$735 million targeting Brazil

While a similar number of investors use debt and equity, because of a few larger investors that use equity, this instrument makes up over 90% of total AUM targeted toward Brazil (Figure 18).

²³ Not all respondents shared their AUM broken down by country. When considering the total AUM for impact investing in Latin America reported by investors headquartered in Brazil, total AUM increases to \$1.26 billion

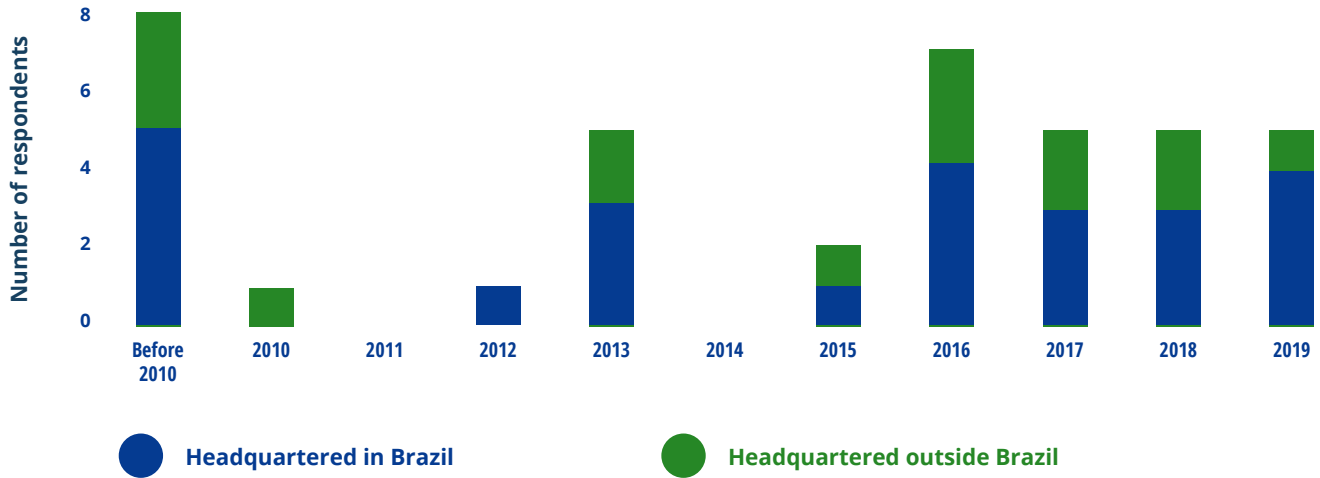
Figure 18: Percent of AUM directed toward Brazil by instrument



N=26 investors with total AUM of \$434 million targeting Brazil

Impact investors active in the country have been investing for decades; however, the majority only started investing in Brazil within the last four years (Figure 19).

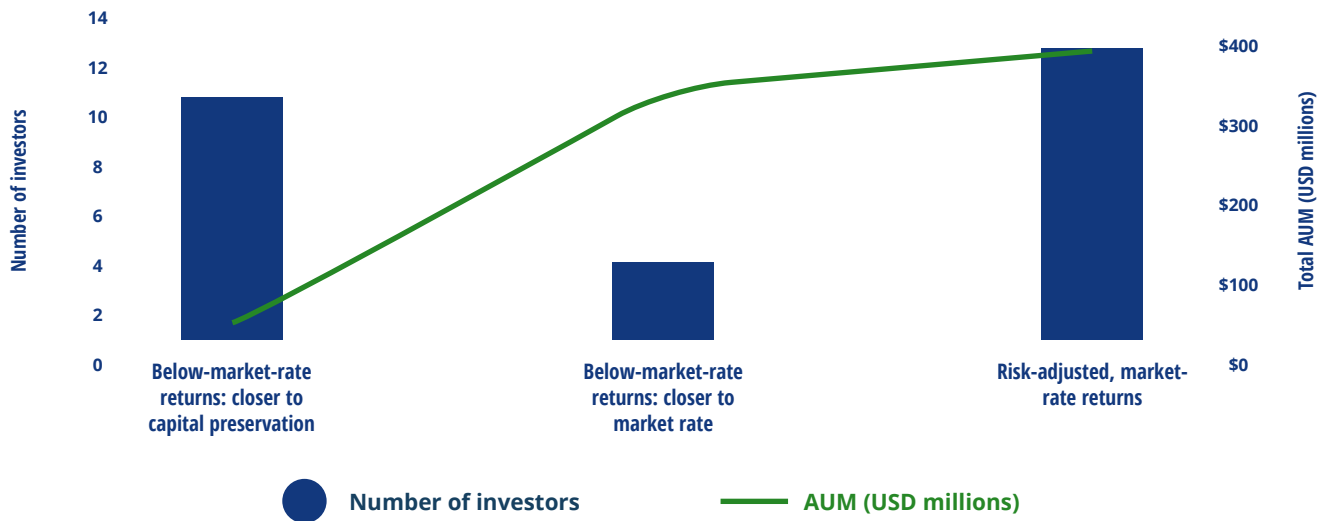
Figure 19: Year of first investment in Brazil by investor headquarters location



N=39 (includes some investors that no longer have AUM directed toward Brazil)

Investors are most likely to be targeting market-rate returns, both in terms of the number of investors and the total AUM represented by these investors (Figure 20). A slightly smaller number of investors are targeting below market-rate returns, though these investors represent significantly less AUM allocated for Brazil, suggesting that investors in this group tend to have smaller pools of capital. While both return targets represent important parts of the impact investing industry, the smaller amount of AUM in below market-rate funds may present a challenge in terms of the availability of truly patient capital, especially during the current crisis.

Figure 20: Target returns by number of investors and AUM

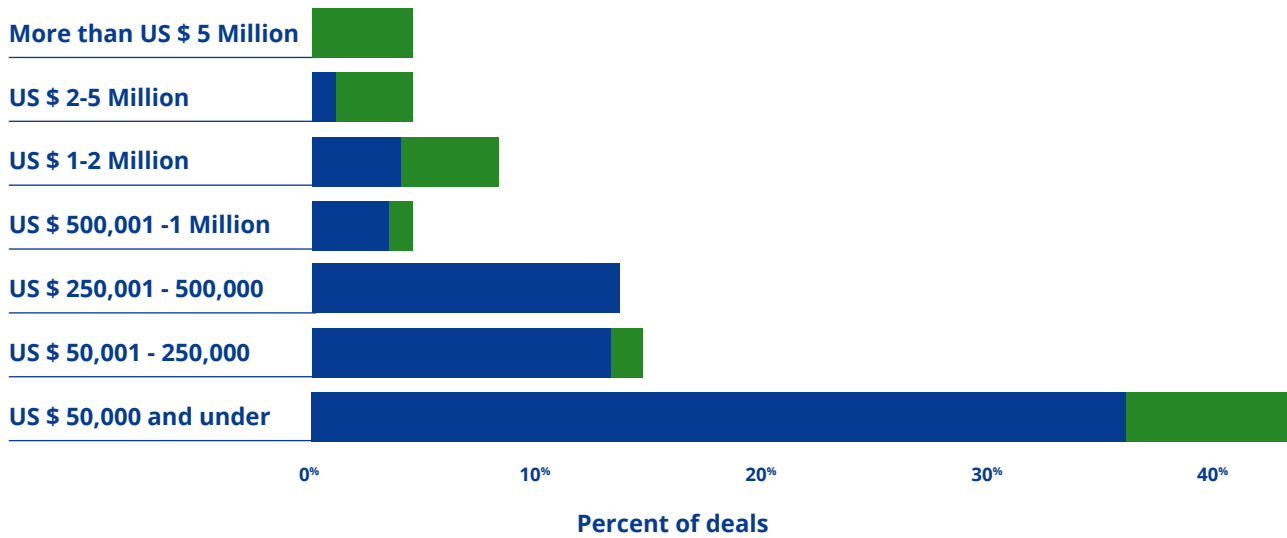


N = 28 investors with total AUM of \$785 million targeting Brazil

Twenty-three investors shared information about individual deals made in Brazilian companies in 2018-2019, including 107 deals totaling \$65 million. Half of these investments went to early stage companies, which is a notably higher proportion than across the regional sample as a whole. Thirty-seven percent of deals were directed towards expansion/growth stage companies, and only 11% of deals toward seed/incubator stage. Most deals were completed using debt (57%), followed by equity (36%) and quasi-equity (7%).

While the majority of deals were made by Brazilian investors, the majority of capital was deployed from investors based outside Latin America (Figure 21). This is largely due to non-Brazilian organizations investing with larger ticket sizes, making up the majority of deals over \$1 million.

Figure 21: Deals in Brazil by ticket size and headquarters location



● **Headquartered in Brazil**
● **Headquartered outside Brazil**

N = 100 deals

The sectors that received the most deals were education (23%), ICT (13%), and agriculture (13%). The sectors that received the greatest proportion of funds invested were ICT (30%), microfinance (16%), financial services (9%), and healthcare (9%).

Of the investors based in Brazil, just over half (52%) measure their impact. Of those that measure their impact, proprietary measurement tools are most common (67%), followed by GIIRS/B Analytics (33%), and IRIS+ (17%). This reliance on proprietary measurement tools indicates that uptake of standard metrics systems lags in Brazil relative to the region as a whole.



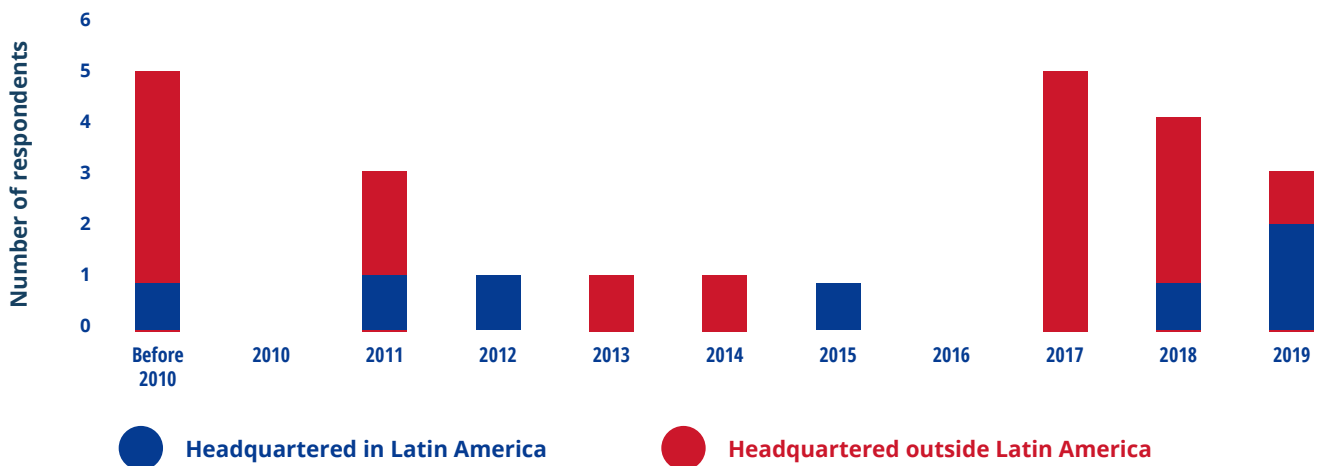
Colombia



This study includes 27 impact investors who have dedicated AUM to investments in Colombia; five are based in Colombia, five are based in other Latin American countries, and 17 are based outside the region.

Impact investors that participated in this study began investing in Colombia as early as 2002 (Figure 22). The impact investing sector was relatively nascent in the early 2000s and appears to have developed more in the last decade, with almost four times as many new entrants as in the previous decade.

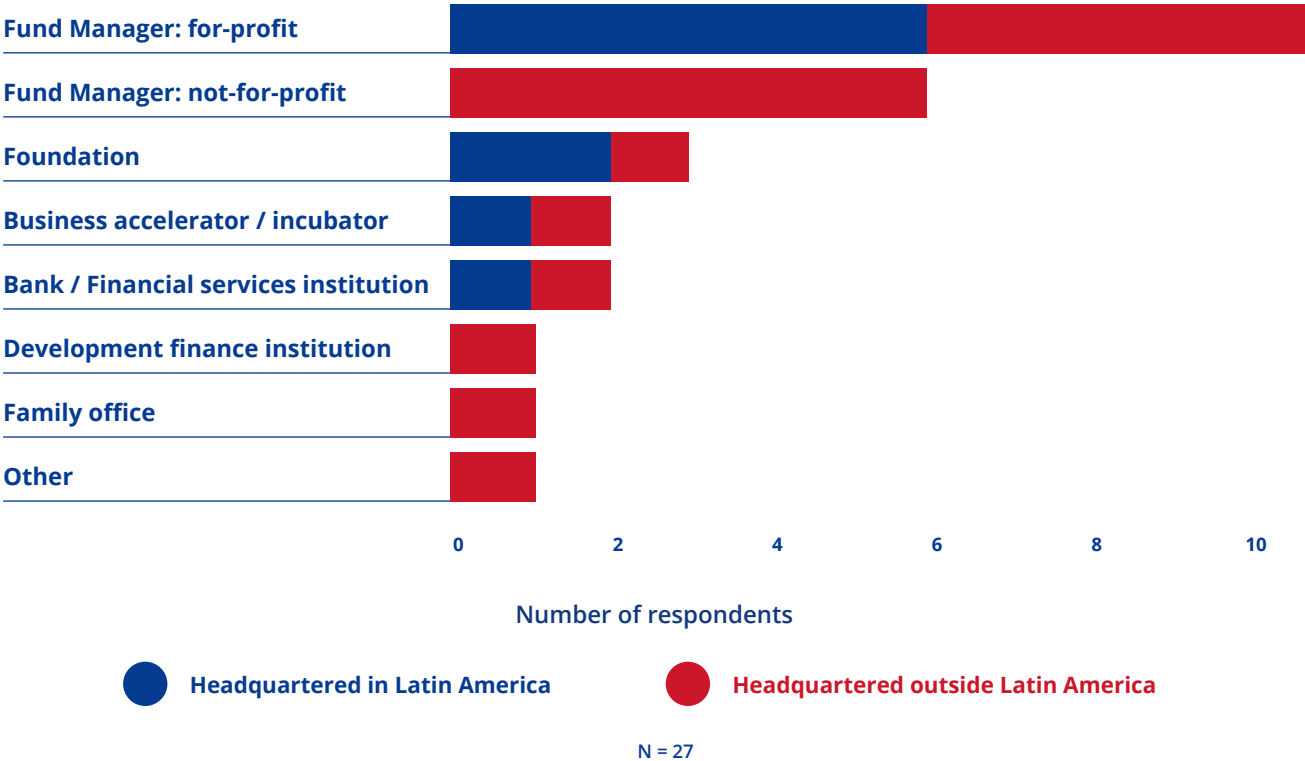
Figure 22: Year of first investment in Colombia by investor headquarters location



N = 24

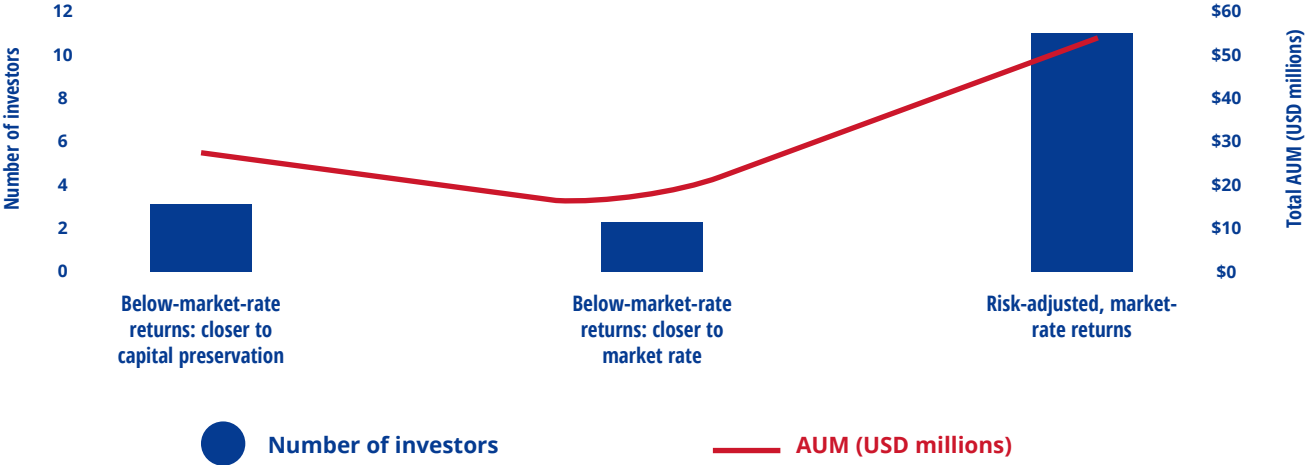
As shown in Figure 23, most of the investors with AUM targeting Colombia are for-profit fund managers (41%), followed by non-profit fund managers (22%). This breakdown is very similar to the region as a whole.

Figure 23: Investor type by headquarters location



Respondents were most likely to target market-rate returns, both in terms of the number of investors and the total AUM represented by these investors (Figure 24).

Figure 24: Target returns by number of investors and AUM

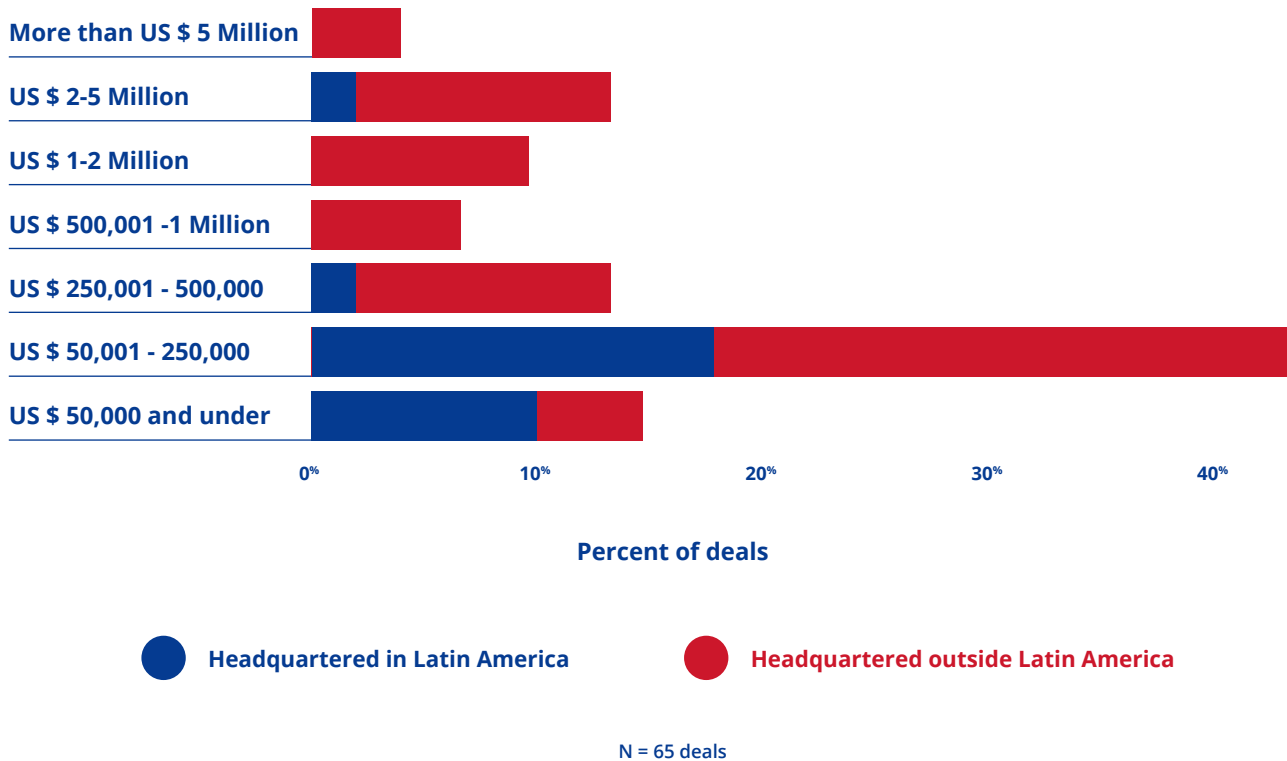


N = 20 investors with total AUM of \$89 million targeting Colombia

Sixteen investors shared information about individual deals made in Colombian companies in 2018-2019, including 65 deals totaling \$67 million. Deals targeting expansion/growth stage companies were most common in Colombia, with 95% of capital and 74% of deals made to companies in this stage. Sixty-three percent of the deals in the country used debt, 20% used equity, and 11% used quasi-equity.

The majority of deals were made by investors headquartered outside Latin America, particularly among deals above \$250,000 (Figure 25).

Figure 25: Deals in Colombia by ticket size and headquarters location



The sectors that received the greatest number of deals in Colombia were agriculture (58%), financial services (11%), and microfinance (9%). When looking at capital disbursed, ICT moves to the top of the list at 37% of total funds invested in Colombia from 2018-2019.



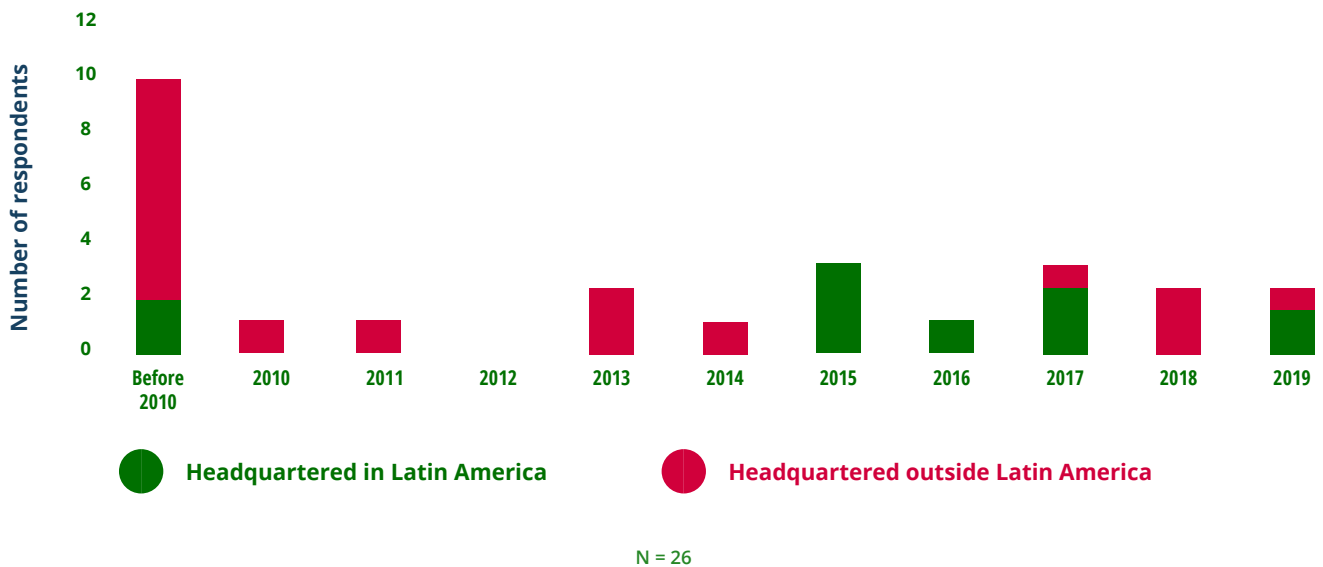
Mexico



This study includes 31 impact investors who have dedicated AUM to investments in Mexico. Eleven are investors based in Mexico, three are based in other Latin American countries, and 17 are based outside the region.

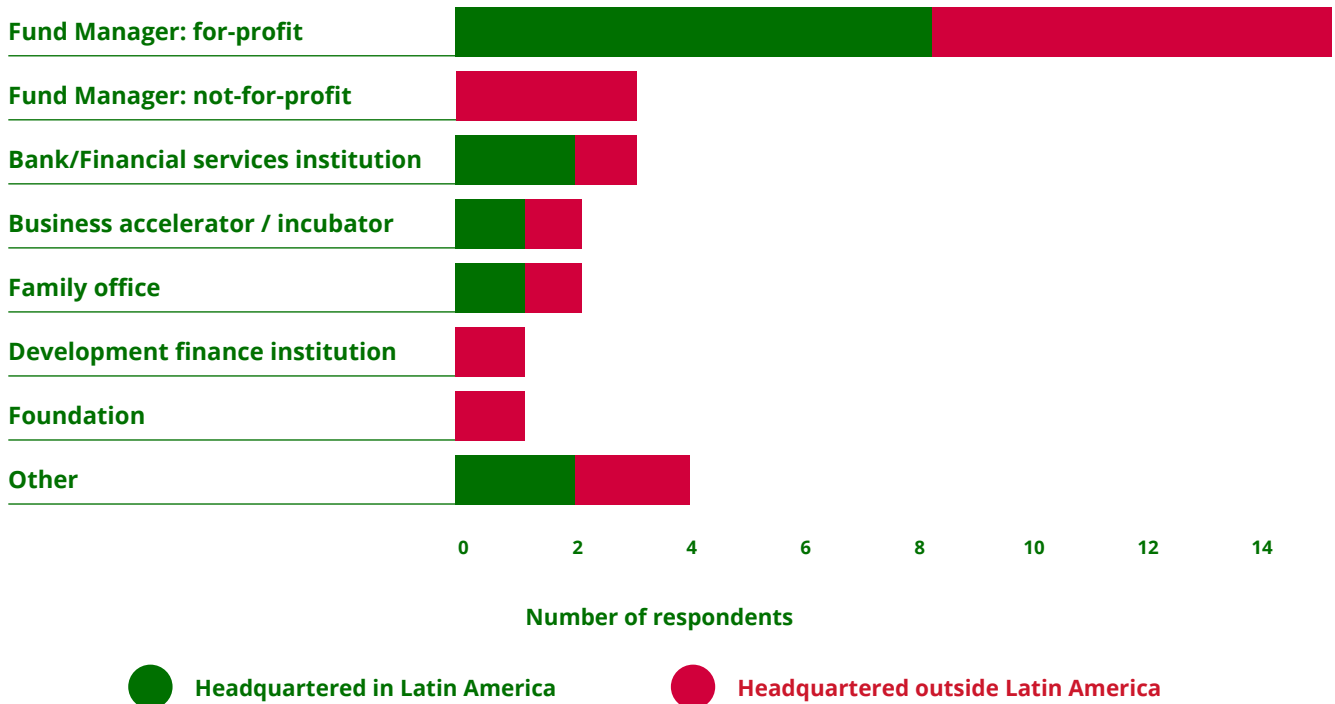
Impact investors that participated in this study began investing in Mexico as early as 1999. Respondents based in Latin America mostly began investing in Mexico the last five years, while those based outside the region have been consistently entering the market for the past decade (Figure 26).

Figure 26: Year of first investment in Mexico by investor headquarters location



As shown in Figure 27, most impact investors with AUM targeting Mexico identify as for-profit fund managers (48%), followed by not-for profit fund managers (10%) and bank or financial service institutions (10%).

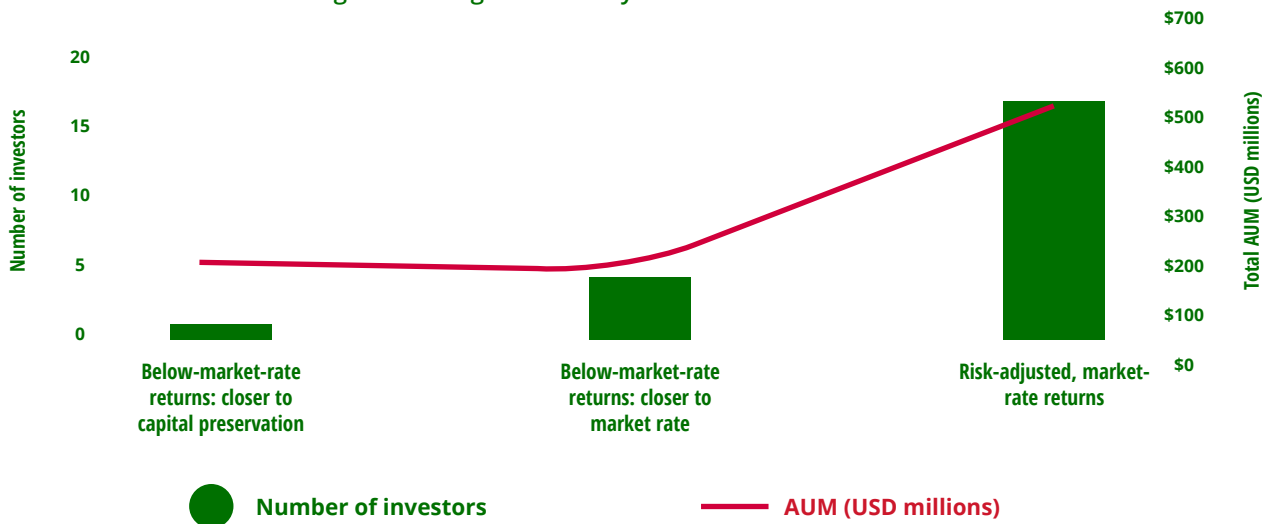
Figure 27: Organization type by investor headquarters location



N = 31

Respondents are most likely to target market-rate returns, both in terms of the number of investors and the total AUM represented by these investors (Figure 28).

Figure 28: Target returns by number of investors and AUM

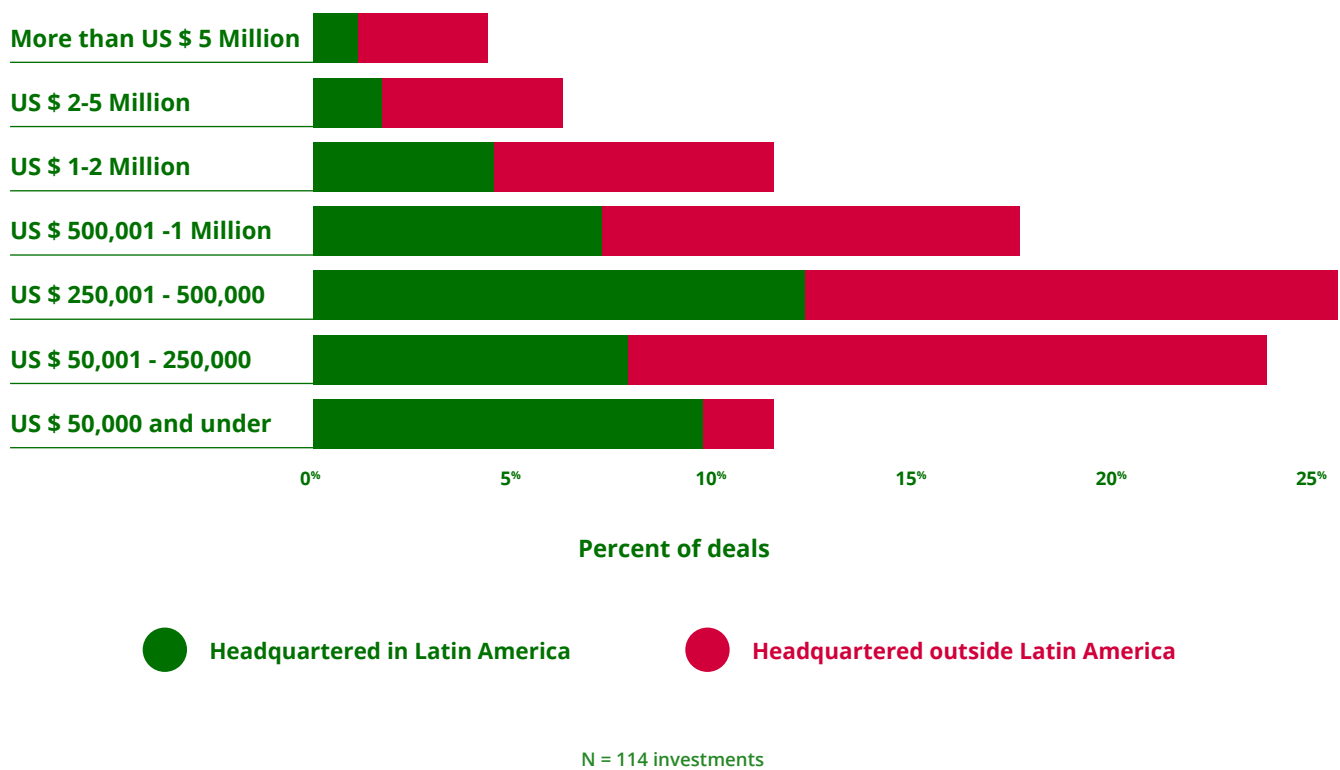


N = 24 investors with total AUM of \$718 million targeting Mexico

Seventeen investors shared information about their individual deals made in Mexican companies in 2018-2019, including 114 deals totaling \$107 million. More than three-quarters (77%) of the impact investments made in Mexico in 2018 and 2019 were directed towards expansion/growth stage ventures. These deals accounted for 93% of the capital disbursed. The next most common deal stage was early, with 14% of deals and 7% of capital deployed. Most deals were made using debt (79%), followed by equity (13%) and quasi-equity (8%).

While a similar number of deals were made by investors headquartered in and outside of Latin America, the majority of capital deployed came from investors headquartered outside the region, as these investors tended to invest using larger ticket sizes (Figure 29).

Figure 29: Deals in Mexico by ticket size and headquarters location



Agriculture (25% of deals), biodiversity (21%), and microfinance (18%) were the most common sectors targeted by investments in Mexico. In terms of capital disbursed, financial services and microfinance received more than half (54%) the total capital invested in Mexico in 2018-2019.

Of the eleven impact investors headquartered in Mexico, all measure their impact and eight (73%) use the IRIS+ system. This is significantly higher than the region as a whole, suggesting that Mexican investors are regional leaders in uptake of standardized measurement systems.

Survey Participants

The following list shows those investors that participated in this survey and that agreed to having their name published in this report.

- Acadia Investimentos
- Accion Venture Lab
- Acumen Fund Inc.
- Acumen LatAm Capital Partners
- Adobe Capital / New Ventures
- Agora Partnerships
- AlphaMundi Group
- Alterna
- Althelia Funds
- Ameris Capital (Fondo de Inversión Social)
- Antera Gestão de Recursos
- Athena impacto
- Balance Capital
- Bamboo Capital Partners
- Bemtevi Investimento Social
- Bratus Natural Capital
- Capital Indigo
- Catholic Relief Services
- CO Capital de Impacto Social Mexico SAPI de CV
- COLABORATIVO
- Conservation International Ventures LLC
- Cordaid Investment Management B.V.
- CREAS Ecuador
- Creation Investments Capital Management, LLC
- Din4mo
- EcoEnterprises Fund
- Ejido Verde
- Elevar Equity
- Finep
- Fundação Tide Setubal
- Fundación IES
- Fundación WWB Colombia
- FUNDA-PRÓ
- Gag Investimentos
- Garnier&Garnier
- Global Partnerships
- Grassroots Business Fund
- Grassroots Capital Management PBC
- Heifer International
- IC Fundación
- ICE - Institute for Corporate Citizenship
- Ideas y Capital
- IG4 Capital
- Ignia
- Imaginable Futures (Formerly ON Education)
- Instituto Conexões Sustentáveis
- International Finance Corporation
- Inversor
- Kaeté Investimentos
- Kiva
- KPTL
- LGT Lightstone
- Linked Foundation
- Luxembourg Microfinance and Development Fund
- Mercy Corps Ventures
- MOV Investimentos
- NESSt
- Oikocredit
- OXFAM Intermon
- PC Capital Management, S.C.
- PG Impact Investments
- Pomona Impact
- Positive Ventures
- Promotora Social Mexico
- Provence Capital
- Rise Ventures
- Root Capital Inc.
- Salkantay Partners
- SITAWI Finanças do Bem
- Synthase Impact Ventures
- Trê Investing with cause
- TriLinc Global, LLC
- VilCap Investments
- VIWALA
- Vox Capital
- World-Transforming Technologies
- X8 Investimentos
- Yunus Social Business Colombia
- Yunus Social Business Brazil

Interview Participants

Santiago Alvarez, Managing Partner, Acumen LatAm Capital Partners (now ALIVE)

Paulo Bellotti, Founder and Executive Director, MOV Investimentos

Antoine Cocle, CEO and Founder, Kaya Impacto and Interim CFO, Ejido Verde

Juan Carlos Iturri, Executive Director, Fundación IES

Daniel Izzo, Executive Director and Co-founder, Vox Capital

Nathalie Prado, Managing Director, Investments, EcoEnterprises Fund

Renata Truzzi, Portfolio Director, Brazil & the Southern Cone Region, NESST

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