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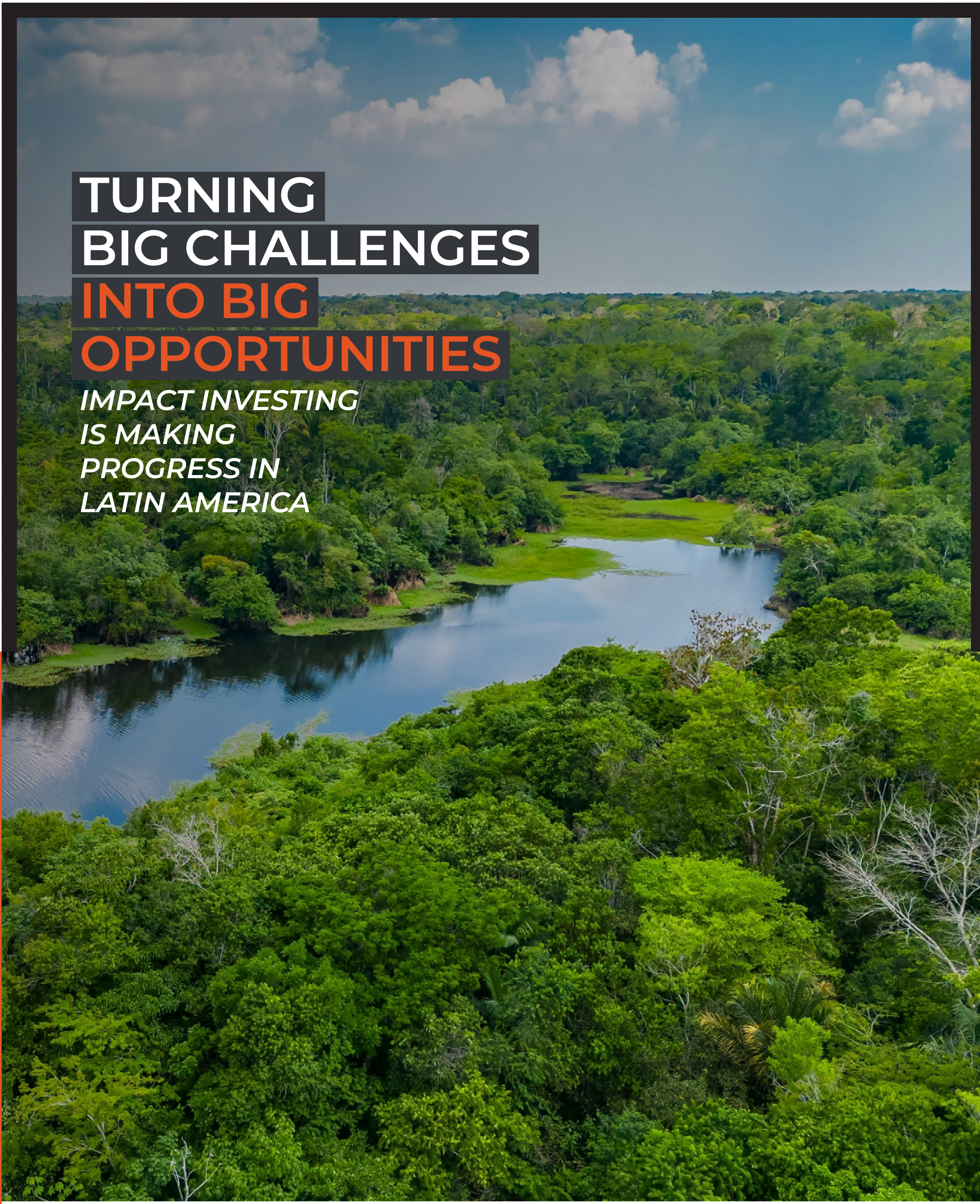

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Center for Social Impact

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IDB Invest

IDB Invest is a multilateral development bank committed to promoting the economic development of its member countries in Latin America and the Caribbean through the private sector. IDB Invest finances sustainable companies and projects in order to achieve financial results and maximize economic, social and environmental development in the region. With a portfolio of US$21 billion in assets under management and 394 clients in 25 countries, IDB Invest provides ground-breaking financial solutions and advisory services that respond to the needs of its clients in a variety of sectors. Visit our website at **www.idbinvest.org**

Latimpacto

Latimpacto is the community of providers of capital committed to increasing the flow of human, intellectual and financial capital in order to generate impact in Latin America and the Caribbean.

With a firm commitment to foster a strategic deployment of capital, as of August, 2024, it brings together 212 members based in 16 countries in Latin America, Europe, the United States, Asia and Canada. Driven by a strong sense of community, Latimpacto fosters collaborations, learning opportunities and connections across the capital continuum. Its international network is strengthened by its connection with sister networks in Europe (Impact Europe, formerly EVPA), Asia (AVPN) and Africa (AVPA), which all bring together more than 1,300 members globally. Latimpacto operates under three fundamental pillars: learning, connecting and acting.

Esade Center for Social Impact (ECSI)

ECSI carries out rigorous, far-reaching and relevant research on and for social impact. The center's mission is to create the conditions of interaction in order to understand current problems in depth, ask difficult questions to stimulate thinking and innovative ideas, and generate knowledge, tools, solutions and leaders that enable social change through research, education and debate. ECSI works for a world where people and organizations have the capacity to better understand and advance the solution of complex global challenges to renew the environment and reduce social inequality.
www.esade.edu/impact

Cover: Rainforest in the Brazilian Amazon

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Authors

Teresa Picardo
Manuela Jiménez
Catalina Herrera

Contributions

Esade: Lisa Hehenberger, Dalia Silberstein, Suzanne Jenkins, Guillermo Casasnovas, Doménica Díaz.

Latimpacto: Carolina Suárez, Samir Hamra.

Edition

Bernardo González

Design

Azoma - Colombia

Index

ECSI Foreword

The Esade Center for Social Impact (ECSI) is proud to present this report on impact investing in Latin America, a region rich in diversity but also full of social and environmental challenges. This study aims to highlight how impact investing can be a powerful tool to transform the region's major challenges into major opportunities, mobilizing private capital to generate positive, measurable and sustainable changes.

Latin America faces a significant gap in meeting the Sustainable Development Goals (SDGs). Despite the efforts of the public sector and traditional philanthropy, it is clear that they are not enough to close this gap. This is where impact investing emerges as an innovative solution, combining the intention to generate social and environmental impact with the goal of obtaining financial returns.

This report, developed in collaboration with IDB Invest and Latimpacto, explores the state of the impact investment market in the region, identifying both the advances and the barriers that still persist. It also highlights opportunities in key sectors such as biodiversity, renewable energy and gender equality, highlighting how the region can lead with creative and scalable solutions to global challenges.

Impact investing is capable of finding and supporting the most innovative business projects with the potential to generate sustainable and scalable changes in social and environmental problems. It is a powerful tool in the fight against inequalities and environmental deterioration.

At the Esade Center for Social Impact, we reaffirm our commitment to fostering a solid ecosystem for impact investment, promoting rigorous research, innovation and collaboration between key actors. We thank all the people and organizations that participated in this research: their contribution deeply enriched this project and helped to draw a roadmap towards strengthening this market in Latin America.

With the development of this report, we hope to inspire investors, entrepreneurs and policymakers to join this movement and work together for a more equitable and sustainable future. We are convinced that it is possible to build transformative change in this region and the entire world. Let us work together to channel more resources towards the growing impact investment sector.

Dr. Lisa Hehenberger
Director, Esade Center for Social Impact

Latimpacto Foreword

Since April 2020, Latimpacto has been working to mobilize more capital for impact in Latin America and the Caribbean, strengthening ties with impact investors and philanthropists who invest across the capital continuum. From this perspective, the network accepted the invitation from IDB Invest and Esade Center for Social Impact (ECSI) to illustrate the status and relevance of impact investment in the region, as a key strategy to address its social and environmental challenges, without neglecting the search for financial sustainability and the generation of returns.

Based on a review of secondary sources and valuable interviews with 27 experts in the field, the study offers an exhaustive qualitative analysis of the progress made in impact investing, while identifying the areas that require greater attention to strengthen the regional ecosystem. Its approach highlights a fertile region full of opportunities for investments with an impact lens, where greater commitment and determination is needed from different actors, from families, corporations, donor foundations and impact investment funds, to institutional actors, governments, multilateral organizations, international cooperation and development financial institutions.

Latin America, being the most inequitable region in the world, faces significant obstacles, such as social inequality, poverty and limited access to financing. This is contrasted, as we see permanently at Latimpacto, by the wealth that the region offers in terms of biodiversity and human capital, reflected in the capacity for innovation and creative disruption of both impact investors and entrepreneurs, together with a high level of local commitment, all willing to pioneer new ways of investing and generate social and environmental transformations.

This study also offers a call to action to continue promoting collaboration between different actors in the ecosystem, which, together with innovation and commitment, motivates greater attraction of local and international capital, as well as stimulates the implementation of innovative financial mechanisms to increase the number of investments, their scalability and the strengthening of alliances that are so necessary in impact investment.

At Latimpacto we sincerely thank all the experts who participated in this study, whose perspectives were essential to enrich our understanding of the opportunities and challenges of impact investment in the region. Their collaboration has been fundamental to build a roadmap that drives sustainable growth in Latin America.

Looking to the future, I must highlight the need for more active participation from the public sector and adequate legal regulation that encourages impact investment, as well as the need to have more precise data on investment amounts in the short term and strengthen transparency based on accurate impact assessment.

Through research, education and the promotion of strategic alliances with different actors in the ecosystem, we at Latimpacto will continue to be committed to promoting investment with an impact lens along the capital continuum, to maximize the impact in Latin America and the Caribbean.

María Carolina Suárez
CEO, Latimpacto

About this Report

Despite the efforts made by public and private agents throughout its recent history, Latin America continues to face significant social and environmental challenges. This is demonstrated by the gap that separates the region from achieving the Sustainable Development Goals. This situation has generated a broad opportunity for impact investment, an investment strategy whose objective is precisely to contribute to solving these challenges, while seeking a financial return and measuring and managing the impact generated on people and the planet.

With this motivation, IDB Invest, Latimpacto and Esade Center for Social Impact joined forces to conduct a study on the current reality of the impact investment market in Latin America. The study describes the trends observed throughout the research and the opportunities that this market offers to investors. In addition, it proposes ways to promote market development, while maintaining rigor regarding the concept of impact investment.

Given the size and heterogeneity of the region, this study was a challenge that has been worth addressing in order to contribute to generating a Latin American narrative with regard to impact investment and to boost this market in the region. It aims to serve as a guide and invitation to those who want to consider this investment strategy and to those who are already successfully following this path.

This study qualitatively reviews the Latin American impact investment market to offer a nuanced view of its current state, framed within the broad view set out in its first part. It seeks to infer a regional perspective on the topic, as well as to propose recommendations on how to ensure the integrity of impact as the market consolidates. In the long term, the study aims to foster the growth of the volume of local capital managed in the region to solve its social and environmental challenges, as well as to raise awareness of the opportunities offered by impact investment to attract new investors, and to encourage the diversification of the financial instruments offered and the sectors and types of companies eligible to receive this type of financing.

The second part summarizes the main conclusions drawn from this research on impact investment in Latin America. The third part details the methodology and scope of the report. The fourth part analyzes the structure of the regional market; Specifically, it advances in the quantification of the volume of capital managed in the region, identifies the diversity of actors that offer impact capital and the financial instruments they use, as well as shows the articulation of the ecosystem in Latin America. The fifth part contrasts the theoretical concepts that define impact investment with the practical reality of the region; more specifically, it describes the trends identified in the selection criteria for companies to be financed, in the tools for measuring and managing impact, and in the contribution or additionality of impact investors. Finally, the report investigates the challenges and opportunities that arise for the growth of the impact investment market in the future, with a view towards advancing the establishment of a route for impact investment in the region. The report also includes eight brief cases in order to illustrate in a practical way how different actors have faced challenges and developed good practices.

1 *Impact Investing*

Fields in the Maule region of central Chile

Impact investment aims to contribute to solving social and environmental challenges without neglecting the achievement of financial returns. It is a global phenomenon that has acquired its own characteristics in Latin America.

Although impact investment has been around for years, its definition, and specifically its difference from sustainable investment, continues to generate debate. Below are the main differences between both strategies and the most significant elements of the debate.

Sustainable investment, responsible investment or investment with ESG (Environmental, Social and Governance) criteria

Sustainable investment is a model based on the study, analysis and investment decision-making with criteria that go beyond the search for profitability and integrate environmental, social and corporate governance (ESG) factors. According to the CFA Institute, Principles for Responsible Investment (PRI) and the Global Sustainable Investment Alliance (GSIA), sustainable investment is based on the idea that environmental, social and good governance criteria can affect the profitability and risk of investments and that ESG factors are not fully reflected in asset prices[1]. This intentionality in searching for projects and companies that meet certain ESG criteria differentiates sustainable investment from traditional investment, which is focused on maximizing risk-adjusted financial returns.

Over the years, different sustainable or responsible investment strategies have proliferated; a certain international consensus classifies them as follows:

1 CFA Institute, PRI, GSIA, Definitions for Responsible Investment Approaches [pdf]. November, 2023. https://rpc.cfainstitute.org/-/media/documents/article/industry-research/definitions-for-responsible-investment-approaches.pdf

- **Negative screening:** This involves excluding companies or sectors that do not meet certain ESG criteria or are involved in activities considered unethical or harmful, such as tobacco, weapons or fossil fuels. For example, an investment fund that avoids companies involved in coal mining or child labor.

- **Norm-based screening:** investments are selected based on compliance with international standards and regulations, such as the United Nations Global Compact, International Labor Organization (ILO) standards or the OECD Guidelines for Multinational Enterprises. In this case, companies that violate human rights or labor rights standards would be excluded.

- **Best-in-class:** focuses on investing in companies or sectors that perform better than their peers on specific ESG criteria. For example, a fund that invests in technology companies with the best environmental practices.

- **ESG integration:** ESG factors are systematically integrated into financial analysis and the investment decision-making process. For example, an investment analyst includes ESG risks and opportunities when evaluating a company's potential financial performance.

- **Corporate Engagement and Shareholder Action:** Investors use their rights as shareholders to influence corporate behavior through voting at general meetings, submitting resolutions or engaging with management. For example, an investment firm that actively engages with the management of the funded company to improve its environmental practices or labor policies.

- **Thematic Investing:** This strategy targets investments in sectors or industries that play a particularly important role in protecting society or the environment, such as renewable energy, education or clean technologies. An example could be a fund focused on companies that develop sustainable water management solutions.

- **Impact/community Investing:** Investments are made with the intention of generating positive and measurable social or environmental impacts, along with financial returns. For example, investments in microfinance institutions that provide loans to underserved populations.

These categories are not free from confusion and debate. For example, US SIF recently changed its methodology for identifying which funds can be considered within the ESG Integration category, so that it is not enough to market them under the language of sustainable investment, but rather specific practices must be met.

Another relevant issue is the consideration of impact investment as a category of sustainable investment. The following section explores this aspect in more depth.

Impact investment

According to GIIN[2], GSG[3], IFC[4], IDB Invest[5] and the CFA Institute[6] impact investments are those made with the intention of generating a positive and measurable social and environmental impact, together with a financial return (which must be at least the preservation of capital). These investments can be made in both emerging and developed markets and usually aim for a variety of returns with respect to the risk-adjusted market rate, depending on the objectives of the investors. Different financial instruments are used to advance them: equity, debt and hybrid instruments.

Beyond this generic definition, there are some elements that raise debate regarding the scope of impact investment. For some organizations, if the incorporation of ESG criteria generates positive effects, the investment can be classified as impact investment. For others, only a subset of ESG investment that meets certain more demanding criteria (in terms of intentionality, impact measurement and management, and additionality) can be considered impact investment. The latter rely on the difference between investing in companies that "do good" and investing in companies that "do well." According to this position, impact investment is not about distinguishing how the invested companies behave but what these companies do. Although the behavior of companies (i.e., compliance with ESG criteria) is the focus of sustainable or responsible investment, this is often taken for granted in impact investment.

While it should not be disregarded that the impact investment market is an evolving market undergoing rapid change[7], the motivation of those advocating for a more demanding and restrictive definition is to preserve the integrity of the idea of impact and avoid impact washing practices (see definition in *Glossary of Terms*). Indeed, impact washing is one of the main risks to mobilizing capital towards neglected social or environmental challenges, as it generates mistrust in asset owners. It is clear that the growing global interest in impact investing demands greater standardization of terminology to allow investors, regulators and other actors in the ecosystem to communicate accurately.

Some of the organizations that advocate for a more precise definition of impact investment include, for example, Impact Frontiers, Impact Europe (formerly EVPA), Latimpacto and SpainNAB (the National Advisory Board or Ally for the GSG in Spain). These are joined by impact investors such as IDB Invest, who have signed the Impact Principles, thereby publicly demonstrating their commitment to the adoption of a global standard for the management of impact investments.

For these organizations, impact investors are those who measure and manage the impact generated by their investments, and finance

[2] *GIIN, What is impact investing. January, 2023. https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing*
[3] *GSG, Impact investment perspectives and opportunities to support the social agenda. GSG input paper to the G20 Sustainable Finance Working Group (SFWG). March, 2023. https://g20sfwg.org/wp-content/uploads/2023/03/Impact-investment-perspectives-and-opportunities-to-support-the-social-agenda-GSG.pdf*
[4] *IFC, Creating impact. The Promise of Impact Investing. 2019. https://www.ifc.org/en/insights-reports/2019/promise-of-impact-investing*
[5] *BID Invest, Qué significa invertir con impacto https://idbinvest.org/es/como-trabajamos/efectividad-en-el-desarrollo#:~:text=Qu%C3%A9%20significa%20invertir%20con%20impacto&text=Una%20cosa%20es%20integrar%20 los,medible%20junto%20con%20retornos%20financieros*
[6] *CFA Institute (2021 and 2022): Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 3rd ed. and 4th ed. (Charlottesville, VA).*
[7] *For example, in Europe there is currently a debate about whether or not listed assets can be part of impact investing. For more information, please consult the following opinion article: https://impact-investor.com/pggm-impact-investing-in-private-equity-funds-not-*

companies (or projects) whose main mission is to contribute with relevant solutions to social or environmental challenges that would otherwise be neglected[8].

For this group, impact investment is characterized by three elements:

- **Intentionality.** This refers to the specification of the social or environmental problems that the investment thesis seeks to solve, as well as the development of logical reasoning on how the investments will positively impact such challenges, for which the Theory of Change can be used. According to the CFA Institute, GSIA and PRI, to classify an investment as an impact investment from the point of view of intentionality, the investor should disclose, among other issues, its impact objectives associated with indicators, the groups that will benefit from achieving the impact objectives, the period in which the impact is expected to be achieved, the proportion of the portfolio that is committed to generating social or environmental impact, the way to achieve the impact results, the risks that could threaten them, and the process to evaluate and monitor the potential negative effects on society and the environment, which could occur throughout the investment[9].

Impact measurement and management. Measurement should include "impact criteria throughout the investment process" and "the results should be used to learn from and improve the management of the organization itself and of the invested organizations"[10]. Impact measurement is often supported by commonly accepted metrics, such as those of IRIS+ (published by GIIN) or the Global Reporting Initiative (GRI)[11].

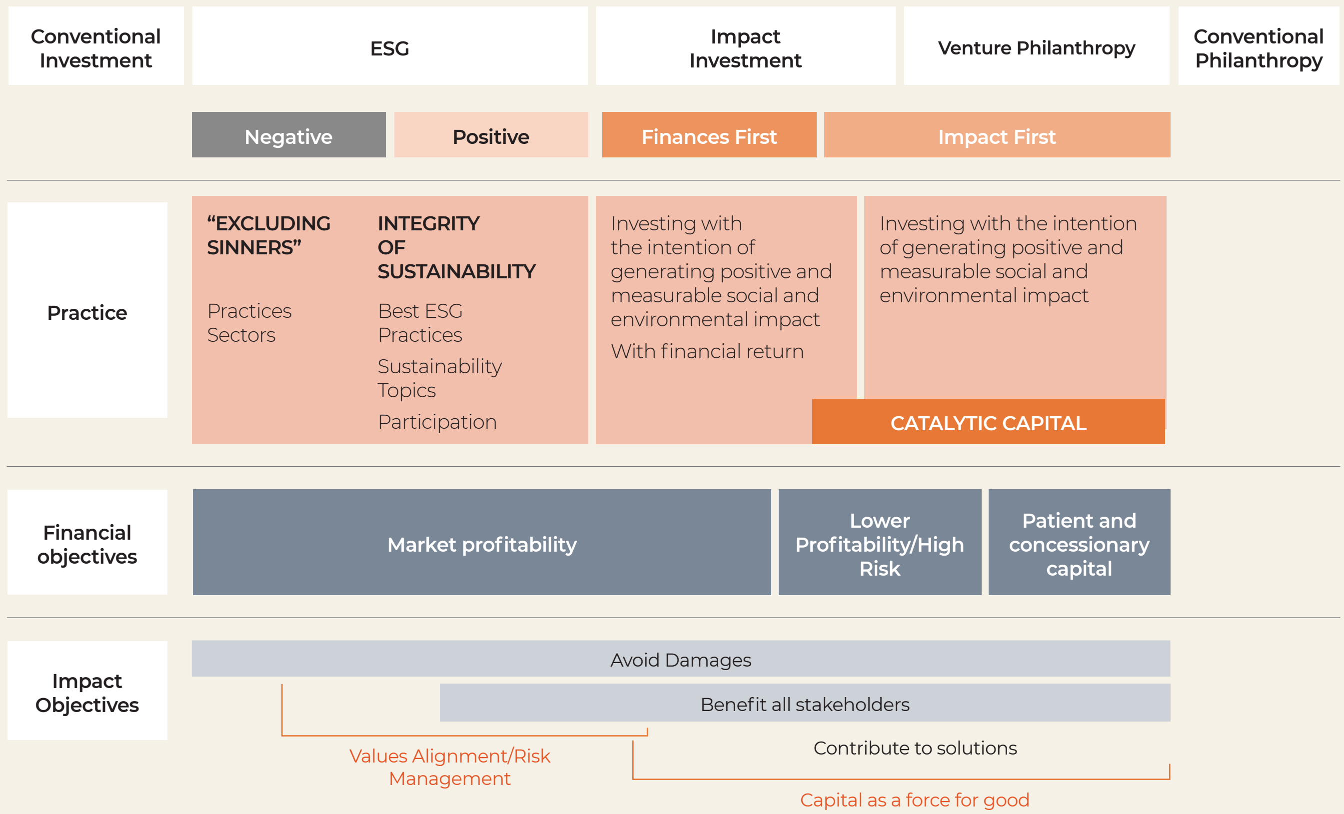
Additionality of the company. It is manifested in that "character of a 'relevant' solution and a 'neglected' challenge based on variables such as who is benefiting, how much benefit they are obtaining, or what contribution is being made, which would probably not otherwise take place"[12], following the five dimensions of impact of the IMP[13] .

The financial return that impact investing can generate is another common topic of confusion and debate. Although some claim that impact investing should always pursue market returns and other experts acknowledge that it is possible to forego a portion of the financial return, the reality is that, in general, this distinction is used not so much to define what impact investing is but to segment the market. Thus, a distinction is normally made between an investment segment with impact (also called finance first), which seeks market returns, and another investment segment for impact (also called impact first), which accepts lower returns, giving priority to generating impact.

[8] *Casasnovas, G., Picardo, T., González Labián, M., Castro Urdin, E., Rodríguez de Munain, J.L.. La oferta de capital de impacto en España en 2022. SpainNAB. September, 2023. https://spainnab.org/publicacion/la-oferta-de-capital-de-impacto-en-espana-en-2022/*
[9] *CFA Institute, PRI, GSIA, Definitions for Responsible Investment Approaches.*
[10] *Casasnovas, G., Jenkins, S., Alarcón, J., González Labián, M., Ruiz de Munain, J.L. Task Force de Fondos. Aprendizajes y resultados. SpainNAB https://spainnab.org/publicacion/task-force-de-fondos-2022/*
[11] *CFA Institute, PRI, GSIA, Definitions for Responsible Investment Approaches.*
[12] *Casasnovas, G., y otros Task Force de Fondos. Aprendizajes y resultados.*
[13] *Impact Frontiers (former Impact Management Project, IMP), A shared logic for managing impacts on people and the planet https://impactfrontiers.org/norms/five-dimensions-of-impact/*

Graphic 1

The Capital Continuum



Source: Adapted from Latimpacto

Investing with Impact or Investing for Impact

According to Impact Europe, an organization that Latimpacto follows closely as a sister network on the European continent, investing with impact is the strategy used by investors who have access to resources and need to guarantee a certain financial return, in addition to the impact they intend to generate. Investors with impact usually invest in proven solutions or with business models that have been proven viable, often helping them to scale while ensuring that impact considerations are part of all investment decisions.

Investing for impact, on the other hand, is a strategy that takes a riskier approach to support organizations by maximizing their social and/or environmental impact. Investors for impact support innovative solutions to pressing socio-environmental problems, providing deep non-financial support and taking risks that most other players in the market cannot or are not willing to take[14]. Throughout this report, the terms *impact first* are used to refer to strategies that prioritize impact results, and *finance first*, for those that prioritize financial returns in addition to pursuing the generation of positive impact.

Both strategies are not mutually exclusive and any investor could adopt them in parallel, according to the characteristics of the investment project.

This segmentation has its own limitations, because it may seem that investments for impact have a greater positive impact than investments with impact, when this is not necessarily the case. In fact, there are many business models in which generating positive impact is not at odds with good business results, but rather the opposite: the better the company's revenues and profits, the better the impact results. For this reason, the market is increasingly segmented between those operations in which the investor has additionality (contributes in a specific way to generating an impact that would not otherwise occur) and those in which it does not.

Additional or Non-additional Impact Investment

Additional impact investment includes those impact investments that contribute financial or non-financial additionality and therefore produce an impact that would not occur without that investor. They can therefore be treated as a specific subset within impact investments[15].

Additionality is a complex quality and can have different sources. Reference organizations in the impact ecosystem, such as Impact Frontiers, have developed a framework to classify the different forms of investor additionality[16]. According to them, additional impact investment is one in which (i) the investor actively engages in a broad and significant way with the aim of maximizing the impact of its investments (non-financial support), (ii) and/or finances underfunded sectors or activities (development of new or underserved markets), (iii) and/or expects a risk-return ratio worse than the market rate (supply of patient, concessional or tailored capital). This last point highlights again that the financial return of impact investments varies in a wide range, from those below the market rate (sometimes called concessional, where the minimum is the preservation of capital)[17], to returns that reach the risk-adjusted market rate.

[14] *EVPA, Impact Glossary. https://www.evpa.ngo/impact-glossary*
[15] *Jenkins, S., González Labián, M. Drawing a Line. Spain makes the case for keeping some so-called impact vehicles out of bounds. Impact Europe, SpainNAB, ECSI. Diciembre, 2023. https://www.impacteurope.net/insights/drawing-line*
[16] *Impact Frontiers refers to the different forms of investor additionality as impact investor contribution strategies. For more information: https://impactfrontiers.org/norms/investor-contribution/*
[17] *If capital is not preserved, there would be no impact investment but rather philanthropic activities or donations.*

2 An Approach to Impact Investment in Latin America

Executive summary

Young people on a street in Bogotá

The main conclusions of this research on impact investing in Latin America are summarized below.

1 *Latin American entrepreneurs and investors are transforming the region's major challenges into great opportunities.*

The financing gap for the Sustainable Development Goals (SDGs) in developing countries reaches USD 4.3 trillion[18]. Against this backdrop, it is projected that only 25% of the SDGs will be achieved in the region in the next six years, positioning it as one of the regions in the world with the greatest challenges in fulfilling the 2030 Agenda[19]. In light of the low growth rates in the regional economy (estimated at 1.6% for 2024[20]), related to trends of limited growth in productivity, instability in public investment patterns, fiscal deficits and high inflation rates, it is expected that the resources and efforts of the public sector and traditional philanthropy alone are insufficient to achieve the SDGs and advance in favor of the well-being of people and the planet.

In this context, it is essential that all sectors of the economy move towards impact investment. In response to this global challenge, a variety of private ventures and projects have emerged in Latin America that address social and environmental challenges in an innovative way, led by Latin American entrepreneurs and organizations with a high capacity to pilot and find alternative solutions.

On the other hand, more and more investors are committed to impact and contribute to the viability and growth of these initiatives, whether

[18] *UNCTAD, SDGs Investment Trends Monitor. 2023. https://unctad.org/publications*
[19] *Naciones Unidas and CEPAL, América Latina y el Caribe en la mitad del camino hacia 2030: Avances y propuestas de aceleración. April, 2023. https://repositorio.cepal.org/items/602094a2-f3f0-4697-8999-f4209a2cc8ed*
[20] *Maloney, William, Pablo Garriga, Marcela Meléndez, Raúl Morales, Charl Jooste, James Sampi, Jorge Thompson Araujo, y Ekaterina Vostroknutova. 2024.* Competencia: ¿el ingrediente que falta para crecer? *Informe Económico América Latina y el Caribe (April). Washington, DC: Banco Mundial. doi: 10.1596/978-1-4648-2112-7. L Consulted at: https://openknowledge.worldbank.org/server/api/core/bitstreams/3d754af9-2d15-4353-9ab7-2bf8bceb899d/content*

from corporations, families and investment funds, development financial institutions (DFIs), multilaterals and traditional philanthropic actors, who find impact investment as an alternative to generate financial returns and impact with due rigor.

According to the experts interviewed, the sectors with the greatest opportunities for impact investment in the region are those that take advantage of its wealth in terms of natural resources (e.g., biodiversity, water resources, sustainable tourism, renewable energy, reforestation, sustainable agriculture) and those that address inequalities (e.g., gender, education and health). These sectors pose great challenges and, of course, important investment opportunities for entrepreneurs interested in developing creative solutions to such challenges.

2 *Increasingly, different types of actors are incorporating impact into their investment strategies to finance relevant solutions.*

Impact investment combines objectives that have been pursued by very different actors: financial return, characteristic of traditional investment, and positive social and environmental impact, typical of the civil and public sectors.

This type of investment is attractive to a wide range of actors. In Latin America, impact capital is offered by foundations, DFIs, venture capital investors and private financial entities. The activity of impact accelerators has been key in this process as a platform for the creation and strengthening of a base of impact companies ready to receive investment.

Thus, the development of the impact investment market in Latin America is making it possible to mobilize capital to finance solutions with a positive impact generated by the market, not only by the State or civil society, which represents a sustainable alternative to those efforts by governments and philanthropy that prove to be insufficient on their own.

In fact, impact investing, in the context of the region, has made it possible to create innovative and scalable solutions that, at some point, can influence public policy.

3 *The impact investment market in Latin America is young and growing.*

Although there is a lack of data on the amount of investment to provide more precise information in quantitative terms, there are signs of a positive evolution in the volume of impact capital managed in the region. However, the market is in its infancy and the volume is perceived to be small compared to the capital required to address the challenges facing the region.

While the pioneers of the sector have played a very important role in the development of the impact investment ecosystem in each of the countries in the region, the actors dedicated to building the market have emerged mainly in the last ten years. Organizations such as ANDE, Latimpacto and the National Partners (formerly called National Advisory Boards, NAB)[21] among others, contribute to the development of an increasingly solid ecosystem, providing knowledge, support networks and training to actors committed to the triple impact, facilitating

[21] *The Global Steering Group for Impact Investment (GSG) is structured into a network of different National Advisory Boards (NABs). NABs bring together experts in the fields of investment, public policy, and social and environmental innovation, and their role is to promote and facilitate the development of impact investment in the countries where they operate to solve national and global challenges.*

Graphic 2

Timeline of the builders of the impact investment ecosystem in Latin America

Source: Own preparation

access to financing and creating an environment conducive to innovation.

This work not only promotes problem solving through local resources, but also attracts international investors and resources, driving the region towards more sustainable and equitable development.

Over the past five years, the market has made a qualitative and quantitative leap. This progress is visible not only in terms of the greater number and variety of impact companies and impact financing operations, but also in the greater variety of impact financial instruments that capital providers are beginning to offer.

On the **impact capital supply side**, it is difficult to quantify the evolution of the market because to date (2024) there is no complete and comparable data on the size of the market (i.e., volume of assets under management) for the different Latin American countries at the regional level. In any case, the existing partial data make it clear that the incipient activity of impact companies and investors in the region is still marginal compared to the volume of investment required to respond to the socio-environmental gaps facing the region.

On the **demand side for impact capital,** although there is no measurement of impact companies in the region, the figures on B

Companies (B System) and the results of the Global Entrepreneurship Monitor (GEM)[22] can provide some guidance. The first case refers to for-profit companies that meet high standards of social, environmental and transparency responsibility. In 2021, more than 4,000 were registered worldwide under this category, of which more than 700 are from Latin America and the Caribbean and 141 were included in the list of Best for The World, by B Lab, a program that recognizes the B Companies with the best scores in the world[23]. On the other hand, in 2023, GEM carried out an analysis of business activity in 49 countries, including eight in Latin America (Colombia, Venezuela, Brazil, Guatemala, Uruguay, Mexico, Chile and Panama).

Furthermore, between 70% and 95% of early-stage and growth companies said they make decisions about the future of the business with social implications in mind. The percentage making decisions about environmental implications increased from 80% to 95%[24].

4 ***Greater transparency and consensus around impact practices would allow for the generation of clearer, more complete and more reliable market data.***

In practice, there are different understandings of what impact is and how to integrate it into an investment strategy. One debate revolves around the type of companies to invest in: some require that the company generates impact specifically on people or neglected challenges through its core business and has a system to measure and manage it (to protect the integrity of the impact), while others emphasize the intention to generate a positive impact overall and the potential to deepen that impact over time (to avoid a disincentive effect for potential new participants). Another similar debate revolves around investor additionality.

Impact measurement and management also remains a challenge, with the main obstacles being complexity and lack of resources to do so. There are standardized tools and indicators, but many investors find it necessary to combine them with their own. Experts call for greater transparency, depth and standardization in impact measurement and management in order to be able to speak a common language.

At the global level, it can be seen that in order to identify and quantify the volume of impact investment supply in a rigorous and comparable manner between countries and regions, it is necessary to move towards greater consensus. There are different forums for dialogue; for example, the Global Impact Investing Network (GIIN) leads one at a global level[25], and in Europe the regional community of impact investors, Impact Europe, sister network of Latimpacto, and the European National Partners (NAB), have formed a consortium to work together and agree on harmonized criteria to measure

[22] *The Global Entrepreneurship Monitor (GEM) focuses on the analysis of entrepreneurial activity throughout the life cycle phases (conception, creation, start-up and development of entrepreneurial initiatives).*

[23] *System B, the "Best For The World™" companies in Latin America and the Caribbean (2021) were announced. https://www.sistemab.org/regionales/se-dieron-a-conocer-las-empresas-best-for-the- world-de-america-latina-y-caribe/*

[24] *GEM (Global Entrepreneurship Monitor) Global Entrepreneurship Monitor 2022/2023 Global Report: Adapting to a "New Normal". London: GEM. 2023. https://gemconsortium.org/report/20222023-global-entrepreneurship-monitor- global-report-adapting-to-a-new-normal-2*

[25] *For example, one fruit of this work is the guidance published by GIIN for the treatment of listed assets in impact investing. GIIN, Guidance for pursuing impact in listed equities. The GIIN's Listed Equities Working Group. 2023. https://thegiin.org/assets/Guidance%20for%20Pursuing%20Impact%20in%20Listed%20Equities_Final%202023.pdf*

the market in each country. A similar process of articulation in Latin America could guarantee that the particularities of the region are taken into account, to work in alignment with different actors and add databases for the benefit of the sector.

5 *There is ample opportunity for active involvement of governments in fostering an enabling environment for impact investing.*

The impact investment ecosystem in Latin America currently depends on the efforts of the private sector. One of the findings of the research is the limited participation of the public sector in the countries – overcoming the distances between them and excepting specific and isolated cases of public initiatives that are discussed throughout the report.

This situation offers a window of opportunity to develop strategies that favor public-private collaboration in order to promote the development of the impact investment market in the countries and the region.

Below are some general guidelines on how the public sector could contribute to boosting market growth, both on the demand and supply sides of impact capital.

6 *Financial innovation is key to achieving impact capital flows that meet the needs of the companies and projects that demand them.*

Impact investment can be carried out through a variety of financial instruments, which is another of its attractions. In Latin America, as highlighted by the Latimpacto Impact Survey 2022-2023, equity and debt instruments are the main instruments, and hybrid instruments are beginning to gain increasing strength. Available data indicate that, in markets with more mature characteristics, such as Brazil and Colombia, equity financing is more common, while in less developed markets, debt financing is more common. That said, investment through debt or equity does not depend only on the maturity of the financial markets, but on the needs of demand and the mandate and interest of each type of investor.

According to the actors interviewed, there is a financing gap, particularly for early-stage impact companies and for early-growth impact companies, where the risk is higher, although innovative instruments are being experimented with to help make these projects suitable for investment. A clear example is blended finance, which combines concessional financing (which absorbs more risk by accepting a lower or longer-term financial return) with other sources that require a market rate of return. There are also increasingly formalized non-financial support programs, with an emphasis on early stages.

Hence the importance of strengthening, as Latimpacto insists, the connection between the actors that work along the capital continuum.

7 *The regional ecosystem must be strengthened and a Latin American narrative on impact investment must be communicated to attract more local and foreign capital.*

It is a challenge to get Latin American asset owners to invest more decisively in and for the region, as well as to attract more impact capital from other regions.

In addition, it is still evident that there is a great lack of knowledge about impact investment and the opportunities offered by the Latin American market among the various asset owners.

The experts interviewed note that at the local level there is an exodus of Latin American capital to other countries due, among other causes, to the political and macroeconomic uncertainty in the region. Given this situation, it is necessary to continue strengthening the systematization and dissemination of successful impact investment cases in Latin America, with information about financial returns and impact results, as well as training in these topics and connections between actors with the capacity to invest with this clear determination to generate impact with financial returns.

Hence the importance of strengthening the capacity of ecosystem builders to include the diversity of capital owners in the market (private equity investment funds, foundations, family offices, pension funds, insurers, banks) in the conversation, attract more actors and accompany them on their path to impact (to prevent the risks of impact washing).

8 *Learning by doing to boost market development.*

In a global context where impact investment is becoming a driving force for social and economic change, Latin America has the opportunity to take ownership of it. We must not lose sight of the fact that, as this is a nascent and developing market, a lot of patience is needed: recognizing that there is still a need to innovate more, to be more creative, to create incentives, to deploy more local capital and attract more international capital.

3 Methodology and Scope of the Report

A local bakery in Uruguay

Methodology

This study has gathered information through primary and secondary research. 27 semi-structured interviews were conducted with key market players, with questions about the structure of the market on the supply side, the type of actors offering impact capital and the financial instruments used, the process of selecting companies, financial and non-financial additionality, the process of measuring and managing impact, and the barriers and opportunities of the current market. This information has been completed by consulting external experts. Secondary research has included the analysis of existing literature in the region, including market reports, quantitative and qualitative data sources, and case studies. The definitions used for the analysis can be found in the attached glossary.

Scope and Limitations

The main challenge of the study has been to cover the chief trends of an emerging market, given that it concerns a region of considerable size, made up of very different countries (in terms of social and environmental challenges, political stability, economic structure and regulatory framework, among other aspects), and that complete data is not available for all countries.

To manage this situation:

- We have tried to maintain a certain heterogeneity in the selection of both the secondary information sources and the actors to be interviewed. Specifically, heterogeneity has been sought in the type of actor offering impact capital and in the type of financial instrument used. People belonging to private equity impact investment funds, foundations, accelerators, family offices, banking financial institutions, microfinance institutions and market-building organizations have been interviewed. The choice of sources was made strategically, to invite actors recognized for their track record and commitment to impact investment.

- The research has focused on countries where an impact investment market with a certain degree of development and available information was found, considering, as described throughout the report, that there are major differences between them. The eight countries analyzed are the following: Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico and Peru.

However, it should be noted that this study does not measure the volume of the impact investment market in the region, nor does it map it, but rather focuses on the analysis of the main current trends, regional particularities and opportunities for the development of the impact investment market in Latin America.

Furthermore, research based on interviews with individuals involves a relevant subjective bias, which has been qualified by contrasting the information with secondary sources (or by associating some specific ideas with specific cases, avoiding generalizations).

Thirdly, one of the methodological challenges identified during the research, which is also considered a finding, has to do with the existence of different interpretations of what impact investment is in the region. Initially, the definition of GIIN was used to define the concept (see About this Report). However, when comparing this definition with the interviewees and secondary sources, it has been observed that, in practice, different conceptions are used and that there is no consensus that allows for a precise definition of the impact investment market in Latin America. Among the questions that remain under debate, the following could be mentioned:

- How can we differentiate in practice between investments made through an impact investment strategy, regardless of which actor is undertaking it, or what type of financial instrument they use?

  There are actors who are dedicated exclusively to impact investment, but also those who undertake a variety of investment strategies, including impact investment, socially responsible investment or traditional investment. At the moment, there is no clear, agreed and consistent way among the countries of the region to differentiate what part of the activity of these actors can be considered as impact investment. In *part 5 The role of the investor in generating impact*, different keys are offered on the impact practices of investors in Latin America.

The question of which types of actors should be considered as impact investors depends directly on the answer to that first question. Should the activity of DFIs be included? And the activity of actors who offer donations without seeking a financial return? They should be included as long as they have an impact investment strategy, according to the agreed definition.

- How to define the geographical boundaries of the regional market? There are different flows of capital between the investors who provide it, the managers who mobilize the investments and the companies that receive them. For example, should the criterion be that the owner of the impact capital is based in a country in the region, that the funds are directed to companies based in the region, or that the funds are directed to companies run by Latin Americans, even if they are in third countries? It would be desirable to identify all the capital that originates, is managed and/or is invested in Latin America, but today this is not feasible and there is a high risk of double accounting around the same capital that passes through different hands.

In any case, the data found use different criteria. Consequently, providing comparable quantitative and qualitative data in each country, and even more so between different countries, is still a challenge. Therefore, this study is limited to analyzing the existing data and suggesting that they could serve as a guide and basis for new studies, and for the development of the market based on a Latin American narrative.

Finally, it is important to note that the study focuses on the impact investment market from the capital supply side, so it does not represent a complete X-ray of the sector. It is expected that this report will be complemented by other studies focused on the demand for impact investment to obtain a broader view.

4 Structure of the Impact Capital Offer

Impact investment is, in essence, an investment strategy that seeks to generate positive socio-environmental transformations along with a financial return. It is, therefore, a strategy that can be adopted by different actors and done so through multiple financial instruments, to respond to the needs of the demand for capital.

The impact investment market has two sides: that of the supply of impact capital and that of the companies that demand this type of capital to grow and scale. In the middle are market-building organizations, accelerators and incubators[26], business support organizations and consulting firms, while the basis of the market is the regulatory framework developed by the public sector. Likewise, in Latin America, the role of development financial institutions (DFI) is fundamental[27].

This section analyses the diversity of financial actors and instruments used in the region, as well as the ways that these actors are linked to the ecosystem.

4.1 Volume of Capital under Management in Latin America and Sources of Capital

Volume of Capital under Management

Various studies have produced very different estimates of the volume of impact investment in the region, and specific estimates only exist for some countries. This is due, on the one hand, to the lack of consensus in the different institutions on the methodology for measuring the impact investment market and, on the other, to limitations in terms of coverage (surveys do not reach all countries or all actors that carry out impact investment). The divergences are found in questions such as which actors

[26] As long as they do not also offer financial services, because if they do, they are part of the impact capital offering.
[27] On development finance institutions (DFIs) see: https://www.ohchr.org/es/development/development-finance-institutions

to include as providers of impact capital or what is the geographical delimitation of the market. Beyond these, the main challenge is the lack of agreement on what impact investment is, regardless of the actor that carries it out or the financial instrument it uses (see 3. Methodology and Scope of the Report).

According to GIIN estimates[28], based on its latest Impact Investing Market Measurement report (2023), **the global impact investing market** manages USD 1.571 trillion[29] in Assets Under Management (AUM), of which USD **48.8 billion** is allocated in Latin America and the Caribbean[30]. This estimate (defined by the GIIN's definition of impact, based on intent, measurement and disclosure) is likely the baseline for a growing impact market that is far from reaching its full potential[31].

It should be noted that the GIIN sample includes DFIs and several financial institutions in developed markets that allocate part of their capital to Latin America. Specifically, 64% of assets under management (AUM) in the GIIN sample are DFIs, leaving approximately $7 billion of AUM managed by other types of organizations.

The **ANDE** (2023)[32] report, points to a figure of **USD 3.7 trillion[33]** in AUM in the region. However, this sample does not include the AUM of DFIs, which –among other characteristics of the sample– differs significantly from other measurements of the impact investment market in the region.

According to **Latimpacto's** Ecosystem Panorama (2023), which analyses impact investment alongside venture philanthropy, **USD 4.3 trillion** of self-declared[34] invested and/or donated capital was managed in the region between 2021 and 2022. The figure corresponding to impact investment (excluding philanthropy) would be lower.

As regards **the volume of capital managed in impact investment in each country**, the following figures –although not directly comparable– reflect the degree of development of national markets.

In light of these data, it can be concluded that a consensus is still pending among the different ecosystem builders to define a methodology with which to measure the volume of impact capital managed in the region and in the different countries, so that it can be possible to analyze the evolution of the market. Beyond the numbers, it can be concluded that the regional market is still incipient and insufficient compared to the size of the challenges posed by social and environmental gaps. Therefore, the importance of working to mobilize more capital towards impact, with the fundamental and most decisive contribution of the public sector.

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[28] *GIIN, Hand, D., Ulanow, M., Pan, H., Xiao, K. Sizing the Impact Investing Market 2024. The Global Impact Investing Network (GIIN). 2024. https://thegiin.org/publication/research/sizing-the-impact-investing-market-2024/*
[29] *Sample of 2,767 organizations worldwide that directly invest in impact.*
[30] *GIIN, Hand, D., Sunderji, S., Ulanow, M., Remsberg, R., & Xiao, K. State of the market 2024. Trends, performance and allocations. Global Impact Investing Network (GIIN). 2024. https://thegiin.org/publication/research/state-of-the-market-2024-trends-performance-and-allocations/*
[31] *GSG, Impact investment perspectives and opportunities to support the social agenda. GSG input paper to the G20 Sustainable Finance Working Group. 2023. https://gsgii.org/reports/impact-investment-perspectives-and-opportunities-to-support-the-social-agenda/*
[32] *ANDE, Inversión de impacto en América Latina. Tendencias 2020-2021. 2023. https://andeglobal.org/publication/inversion-de-impacto-en-america-latina-tendencias-2020-2021/*
[33] *Sample of 92 organizations with AUM directed towards Latin America.*
[34] *Sample of 129 organizations that reported the amount invested and/or donated in 2021 and 2022. Does not include responses from DFIs.*

Table 1:

Volume of capital managed in impact investment in each country (in alphabetical order)

Country	Impact investment capital volume	Date	Source	Comment
Brazil	USD 1960 million	2021	ANDE (2023): Impact investing in Latin America. Trends 2020-2021.	Measurement based on a survey of investors investing in Brazil, whether foreign or local.
Colombia	USD 167 million	2021	NAB Colombia (2022): Measuring the Impact Investment Market in Colombia 2021.	NAB Colombia has been the first actor to prepare a measurement of the national market. To strictly define impact investment, "investments with an explicit objective of social or environmental impact, with an expectation of financial return or at least capital preservation, and making their investments using any instrument (debt, equity, quasi-equity, guarantees, etc.)" were considered. Some evidence of impact measurement was also required. Using the IMP framework, they consider impact investment to be investments in type C companies, that is, those that contribute with solutions to social and environmental challenges.
	USD 139 million	2021	ANDE (2023): Impact investing in Latin America. Trends 2020-2021.	Measurement based on a survey of investors who invest in Colombia, whether foreign or local.
Guatemala	USD 88 million	2021	ANDE (2023): Impact investing in Latin America. Trends 2020-2021.	Measurement based on a survey of investors who invest in Guatemala, whether foreign or local.
Mexico	USD 185 million	2016-2017 This is the most recent data found, which must be updated to reflect the current reality of the market.	ANDE and LAVCA (2018).	According to the II Impact Investment Summit in Mexico (2022), organized by the Alliance for Impact Investment in Mexico, between 2016 and 2017, 108 impact investments of that value were closed.
There is no comparable figure available for the volume of impact capital managed in Chile, Argentina, Ecuador and Peru.				

Source: Prepared by the authors based on the indicated sources, 2023

Different Degrees of Market Development

Based on the analysis carried out in this study, different stages of market development can be observed in the countries of the region.

1. **A more incipient phase in Ecuador, Guatemala, Peru and Argentina.**
   In these countries where the market is just starting, as Daniela Peralvo, co-founder and co-CEO of IMPAQTO, points out, it is necessary to be especially agile and adapt to take advantage of capital opportunities when they arise. In addition, actors value witnessing the steps taken by neighboring countries with similar markets, to learn from the measures that work, share experiences and reinvest. Impact investment is gaining prominence in Ecuador, where the first venture capital funds are emerging, and with them the first impact funds. On the demand side, lack of financing is the main factor in the failure of early-stage impact companies. In Guatemala, progress is beginning to be made in impact investment with the help of Alterna and its network of allies and with the support of the Regional Advisory Board[35]. In Peru, the NAB Aliados de Impacto was launched in 2024[36]. In Argentina, on the other hand, there is a developing ecosystem with few impact capital providers due to the difficulties represented by the country's macroeconomic context. The sustainable finance market is more developed there (for example, through the issuance of green, social and sustainable bonds[37]).

2. **A relatively more advanced phase in countries like Chile.**
   In 2010, the first impact fund, FIS Ameris, was created as an initiative of the traditional Chilean fund Ameris. In recent years, other impact funds have been created, such as Kayyak Ventures. In 2019, the NAB of Chile was created, seeking to strengthen the ecosystem in the country by disseminating knowledge and seeking actors on the impact capital supply side.

3. **A more effervescent phase in Brazil, Colombia and Mexico**.
   In these three countries, impact investors have been able to experiment with different financial instruments to finance impact projects. The latest market measurements (NAB Colombia[38], ANDE[39]) show the advanced level of maturity of the Colombian market compared to other regional markets, due to the existence of deals made more than a decade ago. In this country, there are numerous impact investment funds (local and foreign) that offer debt or equity instruments to impact companies in Central America (Mexico, Honduras and Guatemala) and South America (Argentina, Ecuador, Colombia). Brazil, for its part, is positioned as one of the most mature impact investment markets in the region thanks, among other things, to the robust and internationalized financial sector that supports it.

[35] *Also present in El Salvador, Honduras, Nicaragua, Costa Rica and Panama.*
[36] *Impact Allies, We catalyze impact investment in Peru, https://aliadosdeimpacto.com/*
[37] *"Here, the Green Bond issued by Banco Galicia stands out, as does the first issue of a Sustainable Bond set forth by BICE, focused on investments in energy efficiency, renewable energies, companies led by women, SMEs with a high capacity to generate employment, Simple ONs for SME financing and Financing for the Development of Northern Argentina." Acrux Partners, Impact investment in Argentina. 2020. http://www.acruxpartners.com/assets/publicaciones/Inversion-de-impacto-en-Argentina-2020.pdf*
[38] *NAB Colombia, Medición del Mercado de Inversión de Impacto en Colombia 2021. https://nabcolombia.com/documentos/*
[39] *ANDE, Impact investments in Brazil 2021. May 2023. https://andeglobal.org/wp-content/uploads/2023/07/ANDE_2023_INGLES_FINAL.pdf*

Sources of Impact Capital

Depending on the country, the ratio between local and foreign capital varies[40]. In countries such as Chile, Brazil[41] and Ecuador, the majority is local capital. In contrast, in Colombia the majority is foreign capital from the United States, Canada and Europe. In fact, one of the actors interviewed presented as a great achievement having accomplished in his first impact capital fund that a third of the funds raised came from local capital owners. On the other hand, the sources of impact capital directed to Mexico and Guatemala[42] have variable proportions between local and foreign capital; that is, there is no general trend and the distribution varies in each case.

There is ample scope to attract more international impact capital to Latin America, especially from Spain, which could be boosted by taking advantage of the cultural proximity and economic relations between both regions. Most of the impact investment capital managed from Spain by private equity funds, foundations and other actors goes to impact organizations in Europe. Only 13% of the resources managed by private equity impact funds in Spain are allocated to Latin America (8% to Africa and 7% to Asia)[43].

On the other hand, several actors (such as Daniel Izzo, co-founder and CEO at VOX Capital, and Fernanda Camargo, founding partner at Wright Capital) have pointed out in interviews that development financial institutions (DFI) do not allocate as much impact capital to countries such as Mexico and Brazil, compared to what they allocate to other countries in the region, identifying them as developed markets or middle-income countries. However, they claim the need to attract more international capital for impact, with which to face the social and environmental challenges that these two countries still endure.

Case Study
The Alphamundi Group makes Recommendations to Increase the Volume of Impact Capital

AlphaMundi[44] offers impact capital in the regional market. After eight years, it has managed to adapt to the dynamics of the ecosystem, mobilizing more than USD 120 million in markets that include Colombia, Brazil, Peru, Mexico and Ecuador.

AlphaMundi is a Swiss-based organization dedicated to impact investing. It was founded in 2007 by a group of partners with extensive experience in the financial industry, responsible investments, microfinance and philanthropy. With regional offices in Colombia and Kenya, AlphaMundi has managed to expand its portfolio of impact investments

[40] *It should be noted that impact investment actors in Latin America in general are considered, without restricting them to those based in the region. This makes the information different from that found in other reports, such as that of ANDE (2023), where, when limiting the actors based in the region, it is stated that "80% of the participants whose headquarters are in Latin America reported having raised funds within the region."*
[41] *ANDE, Inversión de impacto en América Latina. Tendencias 2020-2021. 2023. https://andeglobal.org/publication/inversion-de-impacto-en-america-latina-tendencias-2020-2021/*
[42] *ANDE, Inversión de impacto en América Latina*
[43] *Casasnovas, G., Picardo, T., González Labián, M. La oferta de capital de impacto en España en 2022.*
[44] *For more information on AlphaMundi: https://www.alphamundigroup.com/*

with a gender lens[45] to Africa and Latin America, in sectors such as financial inclusion, sustainable agriculture and food, social housing and renewable energy. In Latin America, the organization has faced lawsuits, slow legal processes, social unrest, political uncertainty and the COVID-19 pandemic. The group has delivered eleven years of positive audited returns and three years of negative returns, with more than sixty small and medium-sized companies financed through debt and equity instruments. The loan portfolio was restructured during the pandemic years, achieving a high level of collateral (70% +) and monthly or quarterly amortizations.

Challenges have never meant a change in investment plans in the region, since according to its founder and managing partner, Tim Radjy, Latin America is a region full of opportunities in sectors such as education and artificial intelligence, climate change, sustainable agriculture and rural productivity, renewable energy, biodiversity conservation, protection of the Amazon and lithium as a fundamental resource for the energy transition. Likewise, Radjy affirms that, to increase the volume of impact capital in the region, it is essential to (i) qualify the perception of risk for new investors through public policy and tax incentives that allow investing in Latin America in a more ambitious way, (ii) get local investors to participate further in the Latin market for impact investment, use blended finance by leveraging the capital of the philanthropic sector to reduce the risk of impact investments and (iii) strengthen legal systems to resolve legal problems quickly, effectively and fairly.

4.2 Types of Actors offering Impact Capital

The development of the regional impact investment market has led to the emergence of a variety of actors offering impact capital.

By volume of activity, the most prominent are private equity impact investment funds, foundations, family offices, impact accelerators or incubators, and financial banking entities. In addition to the activity of the various public organizations, DFIs play a very relevant role in the market.

Private Equity Impact Investment Funds

These are managed by private equity or venture capital fund managers who pool resources from different investors in companies that contribute to solving social or environmental challenges, in addition to seeking financial returns. The first to offer impact capital were Promotora Social (Mexico, 2009), an impact investment fund, and Vox Capital (Brazil, 2009), a venture capital and debt fund.

Colombia is perhaps the Latin American country with the largest presence of impact investment

[45] *In 2017, AlphaMundi began integrating gender-lens investing into its entire investment process. https://www.alphamundigroup.com/*

funds in view of the available data. According to the latest measurement of the impact investment market in the country carried out by NAB Colombia (2022)[46], 65.5% of the actors that carry out impact investment are investment funds. Also in Brazil, more than half of the impact investment (around 52%) is made by for-profit fund[47] managers; then there are non-profit fund managers who represent 12% of the market in that country[48]. In Mexico, there are at least sixteen for-profit impact funds and three non-profit ones[49].

In Chile, the supply of impact capital comes mostly from investment funds. Previously, there were only traditional investment funds, which had a very small percentage of their portfolio for impact investments, but funds specializing in impact investment are beginning to appear.

In Ecuador, the first impact funds are emerging (such as IMPAQTO Capital[50] and Creas Ecuador[51]), which manage capital from individual investors and families. In the case of Guatemala, funds such as Catalyzer[52] (debt fund) and Acceso Impact[53], are emerging.

Foundations

Foundations play a crucial role in supporting companies and impact projects. Although they are the philanthropic actors par excellence, some are beginning to make impact investments.

In Colombia, corporate foundations (20.7%) are the second most frequent type of actor[54], followed by family foundations, which represent 6.9% of the market. In Brazil, foundations represent 12% of the market[55]. In Mexico, Citibanamex explained in the interview for this study that regulation prevents foundations from having financial returns, which restricts their activity to philanthropy and non-financial support, and prevents them from making impact investments. However, their support for impact companies is crucial.

Family offices

According to the study carried out by Latimpacto and UBS[56] (2023) "(...) it is clear that, for some families, the generation of financial returns begins to play a relevant role because it allows them to produce social and/or environmental impact and at the same time, recover capital to reinvest in projects and expand the impact. The challenge will be to achieve greater participation of families and their new generations." According to Linda Rincón, Director of Experiences at The ImPact, family offices have had a historical interest in education, from early childhood to education for work, which has been addressed mainly through philanthropy. However, new initiatives are currently being identified on topics such as energy, sustainable and regenerative agriculture, sustainable land use, climate change, financial inclusion and gender. They are also exploring new

[46] *NAB Colombia. Medición del mercado de inversión de impacto en Colombia.*
[47] *It should be noted that it is not possible to directly compare the proportion represented by each type of actor in different countries, since the measurement methodology is different. For example, in the ANDE report for the Brazilian market, multilateral development organizations are included in the calculation (representing 9%), while they are not included in the NAB Colombia 2022 report. ANDE Investimentos de Impacto no Brasil 2021.*
[48] *ANDE. Investimentos de Impacto no Brasil 2021. 2023.*
[49] *This data refers to the number of actors, without weighting by the volume of assets they manage. ANDE. Inversión de impacto en América Latina. Tendencias 2020 – 2021.*
[50] *Impaqto Capital, https://www.impaqtocapital.com/*
[51] *Creas Ecuador, https://creasecuador.com/*
[52] *Alterna, Fondo Catalyzer, https://alterna.pro/fondo-catalyzer/*
[53] *Acceso, https://www.accesoimpact.com/*
[54] *NAB Colombia. Medición del Mercado de Inversión de Impacto en Colombia.*
[55] *ANDE, Investimentos de Impacto no Brasil 2021.*
[56] *Latimpacto, UBS, Latin American families with a vision of impact. 2023. https://latimpacto.org/publicaciones/familias-latinoamericanas-con-vision-de-impacto-2/*

financial vehicles and instruments throughout the capital continuum.

Along the same lines, The ImPact's report on family impact portfolios in Latin America (2023)[57] reveals that "the region has active investors with the potential for growth in capital allocation." According to the results of the study, eight out of ten families report impact investments, although the amounts are still very small compared to total assets.

In Brazil, family offices play a very important role. They participate in the sector by creating and operating impact companies, investing in impact funds, building an ecosystem (founding think-tanks and research centers, among others) and/or catalyzing the sector through philanthropy[58]. They represent 5% of the Brazilian market[59]. In Argentina, there are family offices such as Puerto Asís Investments, which invest in profitable and purposeful businesses, as a way of contributing to a competitive, responsible and equitable economy. In Chile, family offices are cautiously entering the market.

Accelerators and incubators that also offer financing

In Latin America, accelerators and incubators, which offer support and acceleration services to small impact companies, have been playing a crucial role in the development of a base of ready-to-invest impact companies, which did not exist a few years ago. The oldest accelerators and incubators (for example, Agora Partnerships, founded in 2005) today play an important role in supporting and, above all, in seeking financing for local startups (see *5.3 Impact investor contribution: additionality*).

In many cases, the training and consulting programs of the accelerators or platforms serving impact companies existed before the financing services, and over the years they have allowed them to create their own list of potential investment proposals or projects (pipeline). Many of these accelerators or platforms are evolving, so that their main business activity is financial services to the companies that they themselves helped to grow (see Case Study: *The transformation of CO_*). This path is being followed by other actors in more emerging markets, such as Alterna in Guatemala. There are cases in which both types of services coexist in the same company, where one philanthropic branch is responsible for the consulting and support part and another for impact financing; and others in which the services are provided by two different companies.

In Ecuador, companies such as IMPAQTO Lab[60] support impact initiatives with accelerator programs that have favored the emergence of several impact companies that are now seeking financing. In particular, they offer training and mentoring to accelerate growth, help strengthen business models, reach new clients and markets, scale their social or environmental impact, and raise capital.

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[57] *AEF, BID Invest, GSG, Impact Investment. Report on family impact portfolios in Latin America. 2023. https://www.theimpact.org/library*
[58] *The ImPact, Impact Investing in Brazil. A primer for families. 2017. https://sinapse.gife.org.br/download/impact-investing-brazil-primerfamilies*
[59] *ANDE. Investimentos de Impacto no Brasil 2021.*
[60] *IMPAQTO, We have the right program for you. https://www.impaqto.net/lab*

Other impact business support organizations, such as Agora Partnerships, partner with different types of organizations to provide growing small businesses with market and financing opportunities through private sector partners. To support entry into new markets, with the goal of maximizing sales, they maintain alliances with actors such as retailers, e-commerce platforms and marketplaces, among others; and to facilitate access to financing, they form alliances with crowdlending platforms, banks and microfinance institutions.

Alterna, an organization focused on Central America with a rigorous impact strategy, supports and strengthens micro and small businesses in complex or isolated contexts with business models that have the clear purpose of improving their environment. Its activity focuses on germinating, developing and enhancing impact business models, and in the next stage, connecting them with investors and other actors that provide solutions and market access.

Case Study
CO_'s Transformation

CO_ was born in 2011 as a family initiative to make direct impact investments in Mexico, with special emphasis on investment with a system transformation lens. However, as they could not find enough impact projects that could receive the resources made available, they decided to reorient their efforts towards promoting and strengthening the impact ecosystem. Thus, in 2011, CO_Plataforma was created, with the intention of supporting impact companies to strengthen and scale their businesses while maximizing impact. CO_Plataforma also dedicated resources to training and raising awareness among investors on how to mobilize more capital towards impact generation and in the generation of systemic maps of their focus areas to identify key points for investment, including education, oceans, gender-lens investment, and agriculture.

After seven years of work through CO_Plataforma and more than three hundred companies supported by incubation, acceleration and consulting programs, a pipeline of impact projects was identified, as well as other families interested in diversifying their investment portfolio through this vehicle. Thus, in 2018 CO_Capital was founded as an initiative from which the first fund of the CO_ group was born with a focus on poverty and climate change at a regional level. Currently, CO_Capital operates as a fund operator that invests in impact companies in the growth stage in Mexico and Latin America, guaranteeing a triple impact return (environmental, social and financial), as well as investment in global funds aligned with its theory of change. Its transversal lines of work are poverty, inequality, gender and climate change, with a focus on education, health, basic infrastructure and regenerative agriculture.

After CO_Plataforma and CO_Capital, the consulting firm CO_360 was created, with the aim of supporting different families and foundations in their transition towards sustainable and triple-impact investments, completing its three current lines of business. After more than a decade of its creation, 1,100 supported companies and USD 20 million invested in impact companies, the CO_ group has proven to be a visionary organization, capable of adapting and responding to the needs of the local and regional ecosystem. Currently (2024), the group is working on the launch of a global systemic transformation initiative in the biodiversity, agriculture and food sectors.

Financial Banking Institutions

Banking financial institutions, with their vast financial and non-financial resources, are beginning to experiment with different impact investment strategies. At the moment, sustainable investment is more common than impact investment among banks, but there are pioneering examples that have developed investment vehicles and credit lines similar to those perfected by impact investment funds, directly or through their foundations, which in most cases are those that make such investments. In addition, it is worth highlighting the activity of microcredit entities, which finance social and environmental impact projects with local and foreign capital, according to statements by Matías Kelly (founder of Sumatoria and partner at Beta Impacto VC). The microcredit entity segment is highly developed in Argentina compared to other impact investment segments, and has strong public and private support (Acrux Partners, 2020)[61].

In Brazil, banks and financial institutions represent 9% of the market[62]. Since 2022, Vox Capital is the manager responsible for Banco do Brasil BB's corporate venture capital fund, Impacto ASG I, an impact fund focused on fintech, agtech and govtech companies (which promote access to financial services or find solutions to improve the credit offer).

Another case is Citibanamex, which is part of the Alliance for Impact Investment (the Mexican NAB), and which joins its efforts to promote impact investment in Mexico. However, for now, Citibanamex offers sustainable investments, such as the "sustainable business"[63] credit, backed by the Inter-American Development Bank, and focused on renewable energy projects to promote the socially responsible development of companies (see *5.3 Contribution of the Impact Investor: Additionality*). For its part, the Citibanamex Foundation develops multiple philanthropy programs with social and environmental companies, but does not expect a financial return, since regulations in Mexico prevent foundations from obtaining it.

In Argentina, Banco Galicia is the leader in sustainable finance, having been active in the country's sustainable development in recent

[61] *Acrux Partners. Inversión de impacto en Argentina. 2020.*
[62] *ANDE. Investimentos de Impacto no Brasil 2021. 2023.*
[63] *Citybanamex, We promote your sustainability projects, https://www.banamex.com/pymes/financiamiento/negocios-sustentables.html*

decades with its strategic social investment activity (own programs and support to third parties in the areas of education, employment, health and volunteering) and offering financing and training to triple-impact companies[64].

In Colombia, Bancolombia has various lines of credit focused on promoting different sustainable objectives, such as Agro Sostenible y Agro para Todas [Sustainable Agro and Agro for All].

Development Financial Institutions (DFI). Organizations such as the IDB Group or CAF[65] play a very important role as capital providers that complement and promote private sector impact investments through different alternatives, such as donations (it should be noted that donations, on their own, would not be impact investments, as they do not expect a financial return), concessional capital or investments with flexible capital. The key to their performance lies in the ability to (i) catalyze more impact investments and (ii) mitigate the risk in impact investments. In addition, as will be seen later, they play a role as developers of the ecosystem, strengthening confidence in this emerging market**.**

Other less represented actors. Other organizations such as **crowdfunding platforms** are less represented in the market. For example, crowd-equity financing is gaining traction in Brazil. It makes it easier for small capital owners to participate in operations as impact investors. Brazilian market players such as Marcel Fukayama, co-founder of Din4mo and head of Global Policy at Sistema B, see a trend towards the democratization of impact investment in Brazil, partly thanks to regulatory developments[66] that have allowed individuals (small investors) to invest with small capital contributions through crowdfunding platforms without the need for intermediaries. On the other hand, **funds of funds** are an actor that is gaining importance in the market. Those interviewed recognize their potential to mobilize impact investments, seeking the operational efficiency that comes from bringing together different funds**.**

Philanthropy's support for impact investment. In the capital continuum, beyond the impact capital providers, there are other actors that are not specifically part of the impact investment ecosystem. **Philanthropy** is the activity carried out by different organizations focused on social or environmental impact without expecting a financial return. In Latin America, philanthropy plays an important role in impact management due to its knowledge **and its ability to deploy catalytic resources that promote the contribution of other actors, such as impact investors.** According to the results of the Latimpacto Ecosystem Panorama survey (2023), 71% of the foundations in the region report being fifteen years old or older, evidencing a solid track record that impact funds and other organizations in the ecosystem can take advantage of to leverage their networks and knowledge.

Other characteristics of the impact actors in the region:

- Impact capital providers in Latin America can be located **within or outside the region**. In Colombia, it is estimated that around 48% of impact investors have their headquarters in the country and the other 52% abroad (including

[64] *Acrux Partners. Inversión de impacto en Argentina.*
[65] *CAF, Banco de Desarrollo de Latinoamérica y Caribe, https://www.caf.com/en/*
[66] *CVM Resolution 88, dated July 2022, replaces the instruction that first introduced this change, CVM 588.*

those based in other Latin American countries or in countries in other regions)[67]. In Brazil, 76% of those offering impact capital are located in the country itself, 6% in other Latin American countries and 18% in the rest of the world[68]. In Guatemala, it is estimated that around 44% of fund managers and foundations have their headquarters in the country, 11% in Latin America and 44% abroad[69].

- **Co-investments** are very common and **encourage the exchange of good practices between different types of actors** (for example, operations in which the funders are an impact fund with a *venture capital fund*, or operations where international investors join forces with local investors who are familiar with the context). These alliances generate positive externalities, since the impact fund works with the company subject to investment in the development of quality impact measurement indicators that will serve to exchange good impact practices with the other allies. In addition, it is a way of distributing the risk between different parties. However, decision-making between the different parties could lead to disagreements.

4.3 Type of Financial Instruments Used

There is a wide range of financial instruments[70] through which resources are offered to impact projects or companies, which are distributed in three categories: debt, equity and hybrid instruments. In impact investment, a crucial part of the financing process is precisely the search for the most appropriate financing vehicle to meet the needs of the company or impact project. This is a process ideally carried out jointly between the investor and the impact entrepreneur and is known as tailored finance.

Debt instruments

Debt financing consists of loans offered to the impact company in exchange for an interest rate. There are many types of loans depending on the conditions they offer. Compared to equity financing, the cost of capital is lower and the return for the investor is known and predictable (as are the obligations for the financed company).

Depending on different variables, such as the risk profile of the company, the availability of collateral, the priority of repayment of the loan and the capabilities of the company's team, the interest rate will be higher or lower. Some impact investors offer impact companies loans at a rate lower than the market reference rate, or with more flexible conditions in terms and payments, adapted to the needs of each company (see *5.3 Impact investor contribution: additionality*).

Impact capital providers use a variety of measures to reduce the risk of financing operations with impact companies, by requiring a certain loan-to-value ratio or designing guarantee schemes tailored to the reality of impact entrepreneurs, for example. The use of extensive loan facility agreements is common, where certain clauses are negotiated and made explicit, such as the list of default events or reporting rights.

Debt instruments in Latin America are of various kinds depending on the financier. Some offer

[67] *NAB Colombia, Medición del mercado de inversión de impacto en Colombia.*
[68] *ANDE, Inversión de impacto en América Latina. Tendencias 2020 – 2021.*
[69] *ANDE, Inversión de impacto en América Latina.*
[70] *Latimpacto, Toolkit de Instrumentos Financieros Innovadores https://finanzasinnovadoras.org/*

innovative vehicles that adapt to the needs of the impact project, such as credits based on income (credits on sales or revenues-based loans). For example, Viwala from Mexico[71] offers *revenues-based loans*, where the loan depends on the monthly payment capacity of the company, so that the payments will be a pre-established percentage (called royalty), which is normally between 2% and 6% of sales. In Ecuador, the revenue-based financing instruments offered by IMPAQTO Capital consist of collateral-free loans that include a grace period and flexible payments where the company pays part of its income, without the need to dilute itself. The tickets for these IMPAQTO Capital loans range from USD 50,000 to a maximum of USD 200,000, and the investment amount must represent up to a maximum of 49% of the total value of the company's share capital.

Other vehicles are structured to directly incentivize impact results, such as **impact loans**, aimed at companies that address a social or environmental problem. An example of these is the 2020 PES LATAM[72] Emergency Fund, where Kaya Impacto[73] played a key role in the development as a structuring partner with PES LATAM[74] .This fund, created to provide financial and technical support to fourteen social enterprises in Latin America in the context of the COVID-19 pandemic, used two financial instruments: impact-linked loans and impact-linked donations. During the fourteen months of the program, USD 1,400,000 was delivered in eight loans, where the measurement and verification of compliance with the metrics by Roots Impact[75] played a fundamental role. Beneficiaries could enjoy up to a 35% discount on the total debt for meeting the impact goal.

Social Impact Bonds (SIBs) are an important debt vehicle in the region that involves the public sector. They consist of innovative financing mechanisms that seek to attract private capital to social public policies. They are payment-by-results contracts, which generate a change in the way programs with a social focus operate. Although SIBs rigorously monitor management, which has been traditional in social programs, their main focus is the achievement of measurable results and impacts.

In Latin America, social impact bonds have been registered in Colombia, Argentina, Chile and Peru[76], 67% of them related to training and employment[77]. In Colombia, the SIBs.Co social impact bond program (now known as "MÁS Pago por Resultados") stands out, with the support of BID Lab, the Swiss embassy in Colombia (SECO), the Government of Colombia and the Corona Foundation, among other actors. The program has positioned Colombia as the main implementer of this mechanism with four social impact bonds, through which + USD 3.7 million have been mobilized through the private sector and + USD 2.5 million by the Government. The four SIBs, together with a performance-based contract, have generated employment for more than 4,000 people in vulnerable situations[78], of which 10% receive a minimum wage higher than the country's average and 70% are formally employed women. In Colombia, in 2022, 36% of

[71] *According to those interviewed, in Mexico, impact financing via equity, rather than debt, seems to be a minority issue. However, it is relatively common to find impact companies there that receive capital investment from private impact equity funds in the region, and particularly, from Colombia.*
[72] *For more information about the PES LATAM Emergency Fund: https://www.ecosistema.latimpacto.org/kaya-impacto-mexico*
[73] *Kaya Impacto is a company that provides its financial and strategic expertise to socio-environmental entrepreneurs so that they can structure and scale their businesses and impact.: https://kayaimpacto.com/*
[74] *PES LATAM is a comprehensive program that has the mission of accelerating the growth of social enterprises in Latin America and the Caribbean.*
[75] *Roots of Impact is a fund manager and advisor linked to impact. https://www.roots-of-impact.org/*
[76] *There are cases in Mexico and Brazil, but they have not yet reached the implementation level. For more information: ECLAC, Cipoletta Tomassian, Georgina Villarreal, Francisco G. Abdo, Tarek, Impact bonds: coordination and innovation for financing investments with social results. 2023*
[77] *Figures taken from SIBS.co http://www.sibs.co/*
[78] *Figures taken from SIBS.co http://www.sibs.co/*

the country's impact investment was channeled through different debt instruments. 29% of debt investments correspond to loans, 6% to SIBs and 1% to other types of bonds or income-based payment agreements[79].

In the case of Argentina, the first BIS, also known as the Social Impact Link (VIS, for its acronym in Spanish)[80], financed the "Plan Your Future" ["Proyectá tu futuro"] initiative, which began operating in 2018 and sought to contribute to the reduction of the youth unemployment rate in the Autonomous City of Buenos Aires. Because it corresponded to a payment-by-results scheme, this BIS, in particular, aimed to get the State to invest in youth employment more efficiently and safely. To achieve this, the project had the participation of sixteen partners, among which were the Government of the City of Buenos Aires, Puerto Asís Investments, IDB - FOMIN, Banco Galicia, IRSA, ACRUX, Beccar Varela, Banco Ciudad, AMIA - Servicios de Empleo, Fundación Forge, Fundación Pescar, Fundación Reciduca and Alimentaris, among others. A group of four NGOs specializing in the subject were in charge of implementing the program in which, as the established results were achieved, the Government paid the investors who contributed to the implementation of the program.

This first exercise had the participation of around a thousand young people between 17 and 24 years old, of which 89% completed the program, 36% found employment, 76% kept their job at 4 months and 59% kept it at 12 months[81]. Proyectá tu futuro received the Environmental Finance IMPACT Award 2020[82] in the Impact Project / Investment of the Year category.

The IDB has played a fundamental role in the development of the aforementioned SIBs, as well as in the consolidation of the SIB market in Latin America since 2014. After the development of the first SIB figure in 2010 in the United Kingdom[83] became known, the IDB identified an opportunity to replicate the mechanism in the region. Thus, the SIB Facility[84] was created with the objective of "...achieving a greater focus on the results of social programs, increasing commissions based on results, and attracting private investors" through technical assistance, investment, and knowledge management. The IDB Lab, in particular, had a specific interest in piloting different mechanisms that would allow for increased responsibility for donations and the social impact of loans. Finding in the SIBs an opportunity to contribute to the solution of urgent social and environmental problems through private financing, and in some cases, private and public, it decided to support the development of said mechanism in countries such as Colombia, Chile, and Argentina. In this way, BID Lab has adopted a flexible and decisive role in supporting the creation of SIBs in the region, knowing how to read the context and proposing solutions based on the reality of each country.

Another form of debt financing where the public sector plays a key role is **blended finance operations** (see Case Study: *The catalytic potential of blended finance). Solution to attract capital towards opportunities where the perception of risk is high*[85].

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[79] *NAB, Medición del Mercado de Inversión de Impacto en Colombia.*
[80] *For more information: https://www.ecosistema.latimpacto.org/puerto-as%C3%ADs-investments*
[81] *Information taken from Alimentaris: https://alimentaris.org.ar/2023/08/vis-proyecta-tu-futuro-vehiculo-de-impacto-social/*
[82] *For more information: https://www.environmental-finance.com/content/awards/impact-awards-2020/impact-project/investment-of-the-year-education-argentinas-first-social-impact-bond.html*
[83] *For more information: https://repositorio.cepal.org/server/api/core/bitstreams/34be384a-8d87-4fe4-9bfc-a26773342988/content*
[84] *For more information: https://publications.iadb.org/es/bonos-de-impacto-social-en-america-latina-el-trabajo-pionero-de-bid-lab-en-la-region-lecciones*
[85] *Blended finance can be structured in the form of equity, rather than debt. However, it is a less common scheme.*

Blended finance operations combine concessional and non-concessional financing, with the general objective of mobilizing private investments in high-impact projects. Thus, capital from public or philanthropic sources acts as catalytic capital to increase private sector investment (the so-called crowd-in effect). The concessional part can be formalized in different ways; for example, by offering more flexible terms that do not exist in traditional banking commercial financing, subsidized interest rates, guarantees or subordinated debt[86]. This part often assumes potential losses. The long-term objective is to foster sustainable and inclusive growth, since a project may have high potential from an economic and impact point of view, but may face difficulties in accessing capital due to a lack of familiarity with a certain technology, a limited track record in the market (or even a non-existent market), an uncertain revenue stream, or being located in a country with a limited investment history. All of this means that impact investments tend to be perceived as having a disproportionate risk for the investor.

The success of blended finance operations is determined, on the one hand, by the leverage ratio[87], but, on the other hand, and more importantly, by the generation of positive impact thanks to the project[88]. In other words, the basic idea is that, thanks to blended finance operations, impact projects can be developed, demonstrate their viability and scale up, so that they attract new private investors and the concessionary part ceases[89]. According to some Brazilian experts, blended finance is one of the specific financing options for early-stage impact companies.

Thus, DFIs, development agencies and actors with philanthropic activities can partner with private investors (private equity funds, commercial banks and others), so that the risk is distributed in a way that is acceptable to all parties and the type of interest is moderated for impact projects or companies that need financing. Therefore, the role of these actors is to change the risk perception of the asset (de-risking), so that private or institutional commercial financing is eventually available for the project, and at a lower price. Beyond this, they also contribute to the development of the set of potential investment projects (pipeline) as well as to the training of the invested companies.

In Latin America, DFIs have been pioneers in the use of blended finance, largely directed towards sustainable investments, but also towards impact investments. Meanwhile, some local actors interviewed pointed out that blended finance operations are in a niche state, because they require a lot of sophistication and complex management between the actors that provide it. However, Fernanda Camargo, founding partner of Wright Capital, says that, although in the case of Brazil it took some time for the actors to understand what this financial instrument was about, now blended finance is common and widely used to test models and reduce the risk of investments.

[86] *Donations can form part of impact investing in blended finance schemes, where one part is non-refundable and the other part expects a financial return.*
[87] *Ratio that relates the proportion of concessional capital (below market value) to total commercial capital (at market value) in a financial transaction. Commercial capital includes capital from private, public and philanthropic sources.*
[88] *IDB Invest, Pegon, M.: Beyond leverage ratios. A strategic approach to blended finance. April, 2023. https://www.idbinvest.org/en/publications/beyond-leverage-ratios-strategic-approach-blended-finance*
[89] *More information about different blended finance structures can be found in the Convergence report (2022).*

Three case studies on the catalytic potential of blended finance.
Impact investors currently represent a small proportion of actors conducting blended finance transactions compared to other groups. However, in recent years there has been an increase in the participation of impact investors. Between 2016 and 2018 they carried out 7% of these transactions, and between 2019 and 2021 their share has increased to 11%[90]. Looking at the market as a whole between 2019 and 2021, the largest proportion of these investments comes from commercial investors[91] (33% of transactions). In second place are DFIs and multilateral development banks (29%) and development agencies (19%). Finally, foundations and NGOs account for 8% of transactions.

Below are three notable cases in the region.

1 **Acumen Early Growth Fund (ALEG I)** *is a USD 27 million[92] private equity investment fund raised by ALIVE, a Colombia-based impact fund manager, to invest in equity and mezzanine debt. It had its first closing in 2018. The focus of financing was companies that provide solutions to the major challenges faced by low-income communities in Latin America. The objective was to finance approximately ten early growth companies in the energy, agriculture and education sectors; companies that have already achieved a product with commercial traction and that have difficulties finding the necessary resources to grow.*

The resources were provided by public and private institutional investors, including IDB Lab, Dutch Good Growth Fund, MacArthur Foundation, WWB Colombia Foundation and Bancóldex. The fund was accompanied by a technical assistance facility for USD 1 million.

The blended structure of ALEG I was organized in two parts: the fund has market return targets and the technical assistance facility (TAF) covers the granting of grants. In particular, the TAF is intended to support companies in measuring impact, developing gender projects, developing projects to support beneficiaries' adaptation and resilience to climate change, conducting sectoral gender studies and developing other strategic initiatives for the portfolio companies. By 2024, ALEG I is fully invested and has a life of ten years. Following its success, it has been taken over by ALEG II, a new investment fund that had its first closing in March 2023 and is already in operation. This is a USD 80 million fund[93] which has USD 43 million in commitments from renowned investors from Latin America, the United States and Europe, and is still raising capital.

[90] *Convergence Blending Global Finance State of blended finance. 2022. (p.37). https://www.convergence.finance/resource/state-of-blended-finance-2022/view*
[91] *For proper interpretation, it should be noted that these data only take into account climate-focused blended finance operations. In addition, Convergence's definition of blended finance requires attracting at least one commercial investor.*
[92] *MacArthur Foundation, Catalytic Capital Consortium. https://www.macfound.org/media/files/c3_acumen_latin_america_early_growth_fund_fact_sheet.pdf*
[93] *Virgilio Barco, of Acumen y Alive Ventures.*

2 ***Estímulo***[94] *is a private, non-profit social fund from Brazil that was born during the pandemic as an emergency credit fund for small businesses and which, in 2021, was transformed into a credit rights investment fund (FIDC). Its strategy is based on a blended finance model, where one part is philanthropic capital that absorbs the risks of the operation without expecting a financial return, and the other is private capital committed to impact and seeking a financial return. The idea, according to Fabio Lesbaupin, its CEO, is to multiply the social impact of donations by maintaining them as perpetual capital that can be reinvested, in addition to changing the risk perception of these companies to attract more private capital*[95]*. Estímulo currently offers fixed-rate loans that are lower than those offered by traditional financial institutions (Estimulo's average interest rate is 1.5%, compared to a market rate of 4.1%)*[96]*, with a three-month grace period, without requiring collateral, and with a maturity of up to two years.*

Its target companies are small businesses with a monthly revenue of between USD 1,995[97] *and USD 79,838, at least two years old. By April 2022, USD 11.9 million in donations had already been converted into USD 24.9 million in credit*[98]*. In 2023, according to its latest report*[99]*, the fund already has USD 13.4 million, of which 9.8 million comes from philanthropic capital that absorbs possible losses and 3.6 million from impact investors seeking financial returns. It is a conservative scheme and its objective is to be able to reverse the equation in the future, so that donations make up one third and paid capital completes the remaining two thirds. In terms of impact, in 2023, 2.9 million micro and small businesses have already been supported, 89% of which are located in low-income regions.*

3 *The **Huruma Fund,** managed by Gawa Capital, one of the largest social impact funds in Spain (USD 126.8*[100] *million)*[101]*, finances small-scale farmers in impoverished rural areas of Latin America and the Caribbean, sub-Saharan Africa and Asia. Resources are distributed in a three-tier blended financing structure. In the first tier, the European Commission through the AgriFi*[102] *thematic facility provided USD 10.6 million to cover initial losses. In the second tier, FONPRODE*[103] *and Cofides*[104] *have contributed USD 21.1 million in subordinated debt at 2.75%. Finally, private investors have provided the remaining USD 95 million with an expected internal rate of return between 9% and 11% per year. In addition, to reinforce the impact of the fund, the European Commission is contributing an additional USD*

[94] *Estimulo, https://www.estimulo2020.org/*
[95] *According to Fabio Lesbaupin, this is a model that allows philanthropic capital to be multiplied up to eleven times over a period of five years. UOL, Como o Estímulo quer multiplicar crédito barato para PMEs.*
[96] *Estimulo, Informe de transparencia (p.36). https://www.estimulo2020.org/transparencia*
[97] *Original values in Brazilian real. Exchange rate as of October 28, 2023: 1 BRL = 0,199594 USD.*
[98] *UOL, Como o Estímulo quer multiplicar crédito barato para PMEs.*
[99] *Estimulo.*
[100] *Original values in Euros. Exchange rate as of October 28, 2023: 1 EUR = 1.05657 USD.*
[101] *Fondo Huruma. https://fondohuruma.com/en/presentation/*
[102] *Agrifi, https://www.agrifi.eu/*
[103] *FONPRODE is one of the main financial instruments of Spanish Cooperation, belonging to the Ministry of Foreign Affairs and Cooperation. Its objective is to contribute to eradicating poverty, reducing inequalities and promoting gender equality, the defense of human rights and human and sustainable development in impoverished countries. It is managed by the Spanish Agency for International Development Cooperation (AECID) with the support of COFIDES. The fund can finance both non-reimbursable and reimbursable operations (debt or capital).*
[104] *COFIDES is a public-private company that manages funds from the State of Spain, as well as its own resources and those of third-party institutions with different orientations: internationalization of the Spanish economy, promotion of economic development and strengthening the solvency of companies affected by COVID-19.*

8.1 million in the form of a technical assistance facility, aimed at providing consulting and training services and contributing together with the companies targeted by the investment to strengthen the impact on the rural population. The fund has already made several investments[105]. The first two were in the microfinance institutions INSOTEC and FACES, in line with the objective of having 70% of them directed to microfinance institutions focused on rural development. Both are based in Ecuador and have extensive experience in financing small-scale farmers.

Equity Instruments

Equity investment vehicles consist of the transfer of shares from the impact company to the investor, so that the latter begins to participate in the strategic decisions of the business and benefits proportionally from its growth. Depending on the stage of development of the company, a distinction is made between private equity and venture capital vehicles. Private equity investors typically focus on mature companies, while venture capital investors focus on early-stage companies with high growth potential.

Direct investment funds (see *Glossary of Terms*) in impact companies, such as New Ventures Capital, use procedures such as the following[106]. First, they work with impact companies to design an investment thesis based on data and impact milestones to be achieved, as a way of defining the scope of the impact. They also design the technical assistance framework for the acceleration program. Then, they assess the capital needs of the selected companies and monitor their performance to structure an appropriate investment vehicle. The negotiation process between the fund and the recipient company also includes agreeing on the latter's exit plan.

Case study
Corporación Inversor, the first impact fund manager in Colombia

Corporación Inversor is an impact investment manager in Colombia that since its creation in 2009 has managed to mobilize USD 37 million towards impact, capture and/or avoid the emission of 75 million tons of CO_2 and benefit 23,608 people directly and indirectly[107], through the Fondo Inversor. In addition to the financial support offered through debt and/or equity capital, they also offer non-financial support to organizations receiving financial resources on issues such as impact management and measurement, strategy and/or business model, governance, financial management and operational issues (marketing, logistics, sales, legal, etc.).

[105] *For more information: https://fondohuruma.com/en/category/investments/*
[106] *New Ventures Capital, https://nvcapital.vc/our-work/*
[107] *Data taken from: https://www.inversor.org.co/*

This fund seeks to channel resources from investors with social and/or environmental impact objectives to directly finance small and medium-sized companies in growth, expansion or consolidation stages in Colombia[108]. As a requirement to receive financial support, companies must have a profitable business model with high potential for impact generation. Some of the companies that have benefited since 2011 are: Hotel Waya (tourism), Gaia Vitare (environmental services), Groncol (construction), Fruandes (agribusiness) and Mejor en Bici (urban mobility). These companies correspond to different sectors, but are characterized by producing large, measurable and verifiable socio-environmental impacts. Although all cases correspond to direct investment transactions, some of them combine equity capital and debt, while others only use one of the financial instruments in question. In Hotel Waya, an investment of 100% equity capital was made; in Gaia Vitare, an initial investment of 9% equity capital and 91% debt was made; Groncol received 72% equity and 28% debt; the investment in Fruandes was 22% equity and 78% debt; and Mejor en Bici had the most even investment, with 43% equity and 57% debt.

Likewise, the Inversor Corporation has participated in the development of three of the four SIBs in Colombia, as a manager, intermediary and investor. The role of the Corporación Inversor in the development of the SIBs has been crucial, due to the flexibility of its functions and its ability to identify and articulate actors from different sectors for the development of this mechanism, so innovative in the region. It is estimated that, thanks to the program, 8,672 people were strengthened in job search skills, 3,853 new jobs were generated and 2,671 jobs were retained for at least three months[109]. In addition to the satisfactory results and the fulfillment of the initial goals of the bonds, this mechanism has facilitated the participation of public and private actors in the generation of solutions to structural problems such as unemployment and inequality in Colombia. The SIBs in Colombia and the participation of actors such as Inversor have left many lessons that today serve as a roadmap for the development of similar mechanisms in other Latin American countries.

On the other hand, there are **funds of funds** such as the Mexican Fund of Funds[110], which makes indirect impact investments. Created in 2006 as a private equity fund, in 2018 it began to develop its impact investment strategy together with SONEN Capital[111]. This strategy consists of investing impact capital throughout Latin America[112] and in eight main sectors: health, education, financial inclusion, support for SMEs, environmental infrastructure, sustainable agriculture, green buildings and clean or renewable energy. At least 50% of the capital is invested in other impact funds and the other 50% in impact companies. One of the selection criteria when choosing the impact funds in which to invest is that they provide support to entrepreneurs on issues such as gender, sustainability and impact measurement, among other aspects.

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[108] *For more information: https://www.ecosistema.latimpacto.org/fondo-inversor*
[109] *Data taken from: https://www.ecosistema.latimpacto.org/inversor-colombia*
[110] *For more information: https://www.fondodefondos.com.mx/*
[111] *For more information: https://sonencapital.com/*
[112] *Except for Venezuela.*

For their part, "impact first" type impact investment funds address specific problems such as the well-being of young people (**Fund for the Youth** in Mexico), or address the main issues of women's health in Latin America, offering capital investment to startups with high scalability potential and seeking to expand their business in the region (**Empodera Impact Capital** in Mexico). As will be seen in section 5.3 *3 Impact investor contribution: additionality*, private equity impact funds remain close to the companies in their portfolio, supporting their acceleration and the measurement of their impact, in addition to facilitating connections with mentors, other investors and actors in the impact ecosystem[113].

SEAF[114] is an impact fund of US origin that has had an agribusiness fund in Colombia called SCAF[115] (for its acronym in English) since 2017. Its investment thesis is to provide capital[116] to medium and small companies that operate in the country, promoting rural development and improving the quality of life of the population. The fund was created to serve a sector that had historically been neglected until then, in part due to the armed conflict. Its criteria for selecting companies include financial sustainability and social and/or environmental impact, with the former having the greatest weight in the final decision. This characteristic makes SCAF an impact fund with a "finance first" approach that promises to achieve great results in terms of profitability and socio-environmental impact.

Depending on the characteristics of the financial markets and the degree of development of impact companies in each country, two different trends are observed. In the most mature impact investment markets in Latin America, such as Brazil and Colombia, equity financing prevails, while in the less developed markets, actors offering debt financing are more frequent. In Colombia, according to NAB (2022)[117], the most commonly used instruments are equity (56%) rather than debt (36%). In Brazil, according to ANDE (2023)[118], 67% of investors finance through equity capital, while 33% do so through debt[119]. In any case, debt or equity financing is not a sign of market maturity, since they are two forms of financing that meet different needs.

In any case, the main difficulties for the development of equity capital instruments, according to those interviewed, are the lack of depth of the financial markets in the region (which makes it difficult for investors to exit and can put companies under stress) and the lack of awareness of the interest in financing in this manner. Many entrepreneurs are interested in debt as opposed to capital, arguing that in this way they can obtain financing without diluting themselves and without the pressure of looking for an exit.

Hybrid Financial Instruments

Finally, impact investors can offer hybrid financial instruments such as convertible notes (convertible loans or convertible debt), mezzanine financing (quasi-equity), returnable grants, or soft loans[120]. These are vehicles that combine characteristics of debt and equity instruments

[113] *It should be noted that this is an example of granting non-financial support in the case of equity instruments but, as will be seen in section 5.3, non-financial support can be provided in conjunction with any type of financial instrument.*
[114] *For more information on SEAF, consult https://www.seaf.com/*
[115] *For more information on SEAF, consult https://www.seaf.com/investing/latin-america/seaf-colombia-agribusiness-fund/*
[116] *SEAF also invests in debt.*
[117] *NAB Colombia, Medición del mercado de inversión de impacto en Colombia.*
[118] *ANDE, Investimentos de Impacto no Brasil 2021.*
[119] *These data do not include microcredit operators.*
[120] *See definitions in Glossary of Terms.*

in order to achieve the best possible alignment between risk, financial return and impact for a specific investment.

An example of impact investment through a convertible note is the case of CO_Capital and Sistema.bio[121] where, after a successful capital raising round in 2018 (Series A), the biodigester company Sistema.bio decided to raise a bridge round in 2020 through a convertible note, getting three investors, including CO_Capital, to contribute USD 1 million to finance its operation until the next round of capital raising (Series B)[122]. In this particular case, a discount rate of 20% of the company's valuation and a valuation cap of USD 16.8 million were agreed. The convertible note would accrue 8% effective annual interest within twelve months, or conversion into shares upon a triggering event (whichever occurred first). This time, instead of returning the cash in regular payments, interest was accrued on the invested capital, thereby increasing the number of shares issued at the time of conversion in the next round of investment, which took place in 2021 (Series B).

Incofin[123] is a fund and investment manager in emerging countries founded in 2001, with a long track record in providing financing via equity, debt and mezzanine financing (quasi-equity) to more than 300 companies in 65 countries. In the case of quasi-equity operations, to minimize risk Incofin diversifies its portfolio and uses different hedging instruments and insurance policies, in addition to carrying out strict due diligence processes. This has allowed them to achieve an average annual credit loss rate on the total loans disbursed of only 0.04%.

On the other hand, an example of the use of **soft loans** is the ICE Investments for Impact Program[124], which invested USD 1 million between 2017 and 2018 in sixteen companies from various sectors, with an interest rate of 2% for five years and an initial grace period of two years. After the credit was granted, companies began to pay the corresponding installments starting in the third year on a quarterly basis. Additionally, due to the COVID-19 pandemic, they were given the option of suspending payment of the installments for six months during 2020.

4.4 Development of the Ecosystem

According to the actors interviewed, collaboration between funders, intermediaries and other stakeholders in the impact investment market, as well as networks working to strengthen the ecosystem, is extremely important to achieve progress on the path to impact. Working together favors the search for leading impact companies or projects, promotes the deployment of capital, strengthens trust, facilitates the training of small impact companies and learning from each other, and ultimately allows for greater impact.

The participation of international organizations such as the IDB Group, CAF, UNDP, USAID and SECO has been fundamental for the development of the ecosystem in the region, especially thanks to their support for research and knowledge initiatives, technical support to local governments and impact companies, and generation of confidence in international investors.

121 Sistema.bio is a manufacturer and distributor of easy-to-use biodigesters that allow small and medium-sized agricultural producers to transform organic waste into biogas and organic fertilizer, increasing the productivity of their farms.
122 For more information on this case: https://finanzasinnovadoras.org/instrumentos/instrumento-convertible/
123 For more information about Incofin: https://incofin.com/impact/
124 For more information on this case :https://www.ecosistema.latimpacto.org/ice-brasil?lang=en#:~:text=El%20programa%20ICE%20Investimentos%20de%20Impacto%20es%20una,de%20impacto%20en%20sus%20primeras%20etapas%20en%20Brasil

The development of competitions that mobilize the market is also interesting, such as the global initiative 2x Challenge, in which Alive Ventures[125], among others, participates and which consists of classifying funds and investment operations based on compliance with requirements related to investment with a gender lens[126].

Ways to Bring Supply and Demand Together

There are many ways to make yourself known and attract demand. Among the most common is participation in ecosystem networks and events. Through these, you get to know the different actors and build trust for future operations. Rodrigo Villar (founding partner of New Ventures) points out that it is crucial to remain close to the impact ecosystem (network of contacts, events, etc.), but also to the sectors in which you work (actors who work in the sectors of the economy outside the impact ecosystem, such as companies, funders, researchers). Only in this way can you understand the particularities of the sector and its companies.

- At a global level, the participation of Latin American market players in the GSG Global Impact Summit[127], the Skoll World Forum, Socap, the IDB Lab Forum, Spriint, the Impact Investor Global Summit and the different Endeavor training events stands out.
- In the region, the most important sector events are: the Latin American Impact Forum (FLI) and FLI Central America; the annual Latimpacto Impact Minds: Standing Together Conference; and the Latin American Impact Investment Summit (CLIIQ NEXUS Latam in Ecuador), as well as the GLI Forum led by Pro Mujer to attract capital providers and demand with a gender lens.
- At a national level, the events of each NAB in their countries stand out.

There are also other alternatives such as press conferences, publications, activity on digital networks and working with allies in the private sector (banking, fintechs), with local governments, with economic secretariats or with business associations.

Despite the multiple channels that exist, fundraising is one of the most difficult tasks in the sector. According to Andrés Pesce (CEO of Kayyak Ventures and member of the board of directors of NAB Chile), although actors have various ways to find impact companies or projects to finance, the most successful way is usually word of mouth, that is, recommendations from impact companies that already know the funder. In any case, several actors, particularly those with more experience in impact investment, point out that there are many costs (time, travel, personnel) associated with finding projects that fit their investment thesis. For this reason, some actors are dedicating resources to facilitate this crucial task, as is the case of GSG Chile and Latimpacto through their respective platforms[128] *Impact Matching* and *Porimpacto*.

[125] *BID Invest, ECSI, Cumpliendo con la promesa de inversión con lente de género (GLI) en América Latina y el Caribe. 2024.*
[126] *The requirements are structured into four areas: entrepreneurship (for example, the proportion of female partners), leadership (for example, the proportion of women on the management committee), employability (for example, having an indicator of the quality of employment for women in the workforce) and consumption (for example, offering a product or service that specifically benefits women). For more information: https://www.alive-ventures.com/2022-impact-report*
[127] *GSG Impact. Impact Leaders to Gather in Málaga for the GSG Global Impact Summit on 2-3 October 2023. June, 2023. https://gsgii.org/gsg-global-impact-summit-2023/*
[128] *Another example would be Innpactia, a platform that facilitates the flow of financial resources into the social impact ecosystem. In particular, its objective is to facilitate connections and articulation between organizations, companies, consultants/experts and financiers/investors, helping the latter to manage their project portfolios and investment processes through technology.*

Case study
Impact Matching Platform to Link Supply and Demand (GSG NAB Chile)

Impact Matching by GSG NAB Chile[129] is a digital platform that seeks to contribute to the construction of effective impact projects, democratizing access to financing and facilitating the search for investors. The instrument allows impact companies to apply by specifying their impact objectives, profitability, required financing and measurement parameters/tools. The project may be accepted and loaded automatically, or it may be subject to an improvement request by the GSG NAB Chile team or the network of professionals/enablers. Investors receive an invitation to be part of the platform and, if accepted, must provide information about their investment interests, which social and/or environmental problems they want to contribute to and how much capital they can invest. According to María de los Ángeles *Ferrer, executive director of GSG NAB Chile, based on the information uploaded by users, the platform will offer a "match" between impact projects and investors seeking to connect actors who have the same objectives in relation to themes, impact and capital. To date, they have a network of more than 40 impact projects in Latin America and 37 investors.*

Case study
Porimpacto peer-to-peer platform (Latimpacto)

Porimpacto[130] is a platform for linking impact capital providers in Latin America and the Caribbean, whose main objective is to facilitate collaboration and co-investment processes in the region. Actors upload and share their impact projects specifying the country, sector, target population, type of financing, type of support and SDGs they target, and under these same categories they can search for initiatives they wish to support. Latimpacto promotes monthly meetings to share cases with the impact ecosystem and thus promote new collaborations, alliances and knowledge of specific cases led by capital providers that are part of Latimpacto.

Since its launch in 2021, Porimpacto has managed to store 82 multi-thematic projects published by Latimpacto members and give them visibility in 14 Deal Share Sessions that have resulted in 146 connections between organizations affiliated with Latimpacto.

[129] *For more information on Impact Matching de GSG-NAB Chile: https://www.inversiondeimpacto.cl/impactmatching*
[130] *For more information on Porimpacto of Latimpacto: https://www.porimpacto.org/views/home/home.html*

Regulatory Frameworks

The legal culture in Latin America is based on positive law and *hard law*, which implies the constant creation of new legislation. However, current laws, broadly understood as the regulatory framework in the countries of the region, do not respond to the challenges of the market and to impact investments. These investments play a fundamental role in attracting local and international capital to leverage strategic actions aimed at decisively closing the gaps in the Sustainable Development Goals, which are and should be the pillar of government programs.

Latimpacto, in partnership with Trust Law (Thomson Reuters), GAIL and Keidos, and with the support of various Latin American law firms, is developing research that aims to address the legal information gap in Latin America regarding regulatory frameworks related to the impact economy and environmental, social and governance (ESG) trends. Some advances in this study show that, in the field of impact investment, government intervention is presented as a key catalyst to establish an attractive market infrastructure, capable of attracting both private resources and international cooperation. In this sense, some countries have made progress in government participation and in defining a regulatory framework to promote impact issues.

In the case of Colombia, public policies aimed at promoting environmental, social and governance (ESG) criteria, as well as the Environmental Impact Index (EII), are examples of regulatory progress. Likewise, the Green Taxonomy, published in 2022, has been developed, which provides a classification system to facilitate the identification and evaluation of investments aligned with environmental and sustainable objectives. Furthermore, the country has been a pioneer in "the issuance of thematic or specific-purpose bonds (Green, Social, Sustainable and Orange Bonds) in the domestic securities market, which have been used since 2017 by entities such as Bancóldex, the Mayor's Office of Bogotá and financial entities"[131].

In Mexico, the Sustainable Taxonomy, presented by the Ministry of Finance in March 2023, has recently been introduced, which establishes a reliable system to define which economic activities are considered sustainable, and the Sustainable Financing Mobilization Strategy, presented in September 2023, which proposes financial policy and regulation actions to mobilize and reorient financing towards activities and projects that generate positive impacts on the environment and society. These instruments seek to classify sustainable economic activities and guide the transformation of the financial system towards sustainability.

Finally, in the case of Brazil, the National Strategy for Impact Investments and Businesses (ENIMPACTO) was created in 2017 through Presidential Decree 9244, which positioned the country as a leader in the development of a legal framework for impact investments and businesses at a regional and international level. This strategy sought to generate a favorable environment for impact investments and businesses based on the articulation of the public, private and civil society sectors, based on five main axes: i) expansion of the impact capital offer; ii) increase in the number of impact businesses; iii) strengthening of intermediary organizations;

[131] *NAB, GSG, FEDESARROLLO, IDRC-CRDI., Recomendaciones para fortalecer el papel del gobierno en la promoción de un ecosistema de inversión de impacto en Colombia. 2023. Page 11.*

iv) promotion of a favorable institutional and regulatory environment for impact investments and businesses; and v) inter-federative articulation with states and municipalities for the promotion of impact investments and businesses. The initiative arises from the recognition of the inability of the National State to efficiently address all urgent social and environmental problems, and from the need to invite other actors to get involved in the search for innovative solutions (EUROsociAL, 2022).

Together, these cases exemplify progress in shaping regulatory frameworks that foster sustainable finance and impact investing in Latin America, highlighting the regional commitment to sustainability and the creation of social and environmental value.

5 The Role of the Investor in Generating Impact

Young peasant woman on a farm in Mexico

5.1 The Selection of Companies to be Financed: In Search of Intentionality

Although the selection criteria for companies to be financed vary for each project, there are certain common requirements among impact financiers for selecting companies, in addition to the typical requirements of traditional finance (such as having a sustainable financial model where there is a clear competitive advantage, the capabilities and consolidation of the team or the potential for growth, among others). It should not be forgotten that the impact investor pursues a financial return along with the impact. In addition to these common requirements, certain differences have also been identified between actors and countries.

Based on impact

Impact investors, by definition, should select companies that are focused on solving neglected social or environmental challenges, identifying this intentionality in the company's business model, its theory of change, or its impact objectives. Such companies should also have an impact measurement and management system that details indicators to assess compliance with impact objectives and the process for managing this information. However, diverse practices in company selection were found in the field, some of them controversial.

Many impact investors are aware that purpose-driven or impact-driven companies are not perfect, even less so those in the early stages, as pointed out by Daniel Buchbinder, founder and CEO of Alterna; in fact, an important part of their work is to accompany them on their path to impact (see 5.3 *Impact investor contribution: additionality*), as long as they meet the essential impact criteria[132]. Actors such as Rodrigo Villar, founding partner of New Ventures, and Sebastián Welisiejko, managing partner of New Ventures and director of Policies at GSG, also defend this position and demand as minimum requirements, on the one hand, the specific declaration of the social or environmental challenge that is intended to be resolved (intentionality) and the detail of the impact objectives, expressed in theories of change and consistent impact measurement and management systems[133]. On the other hand, other actors such as Creas Ecuador and IMPAQTO Capital, pay special attention to whether the company is certified as a B Company by Sistema B.

This position is opposed by the argument of other actors, who claim that companies can change in the future towards impact, so that the impact requirements can initially be more lax (for example, aligning with a sustainable development objective or demonstrating their interest in being more sustainable), in order to welcome and attract new actors and increase the impact. It is necessary to distinguish between impact companies, which are those with an explicit intention of contributing with their main activity to solve a neglected social or environmental challenge, and companies that want to incorporate measures that are responsible with society or the environment (ESG measures). In fact, some actors point out that companies that are not born with impact embedded in their business model face more difficulties in integrating it later, and these are the cases in which dilemmas can arise between business incentives and impact incentives. This is an open debate in any case.

The company's impact objectives must be consistent with the investor's or financier's investment thesis. Investment thesis can be as varied as the number of investors, but the following challenges have been identified as being particularly common: employability, poverty, gender, climate change mitigation and adaptation, and biodiversity. For example, some actors focus on financing business models that benefit people living in poverty. In this case, one of the investment criteria is that the clients of the companies in their portfolio live below the poverty line -according to the World Bank- or below the vulnerability line -according to the IDB. Other actors, for example, focus on companies with business models that offer climate change mitigation or adaptation solutions, understanding this as a source of disproportionate risks for the most vulnerable population.

By sector

Most impact investors do not focus on any particular sector (sector agnostic). This is typical in the current Latin American impact investment market. On the one hand, not focusing on specific sectors allows addressing local opportunities, but there is a risk of not developing expertise in better contributing to the needs of companies or in driving systemic changes in each sector. In any case, traditional sectors for impact investment such as education, health, agriculture and financial services (financial inclusion) continue to be attractive for impact investment, especially when they integrate technological components and artificial intelligence (EdTech, HealthTech, AgriTech). In addition to these traditional sectors for impact investment, more and more actors identify opportunities in others related to the

132 Some actors, especially private equity impact funds, are aware of the ABC framework of Impact Management Project (IMP) but no evidence has been found of its use in the selection processes of companies in which to invest or finance. https://impactfrontiers.org/norms/abc-of-enterprise-impact/

133 For impact investors who develop training programs for impact entrepreneurs (where they work on the theory of change and impact metrics, among other things), the process of selecting companies is simplified, since they already know the reality of the companies that have participated in their programs.

environment: protection of biodiversity and natural resources, water resources management, forestry, renewable energy and energy transition, rural development and sustainable tourism[134]

Depending on the stage of development of the company

As an aggregate result in the region and according to the actors interviewed[135], there is a need for more impact financing for companies in the *early stages* (pre-seed and seed), and *early growth*, due to the greater risk of these operations, transaction costs (these are small tickets that require the same procedures as larger ones) and uncertainty regarding the return. At these stages there is a greater participation of philanthropic capital and the impact investment ecosystem is well below its potential. According to Virgilio Barco, from Acumen and Alive Ventures, most of the resources are accumulated in the growth stages (series B and later), where there is less risk and lower transaction costs. However, in countries such as Ecuador, according to Daniela Peralvo, co-founder and co-CEO of IMPAQTO, impact companies are relatively new, so there is a relatively higher proportion of investment in seed capital.

Depending on the geographical origin of the Project

Some actors focus their investments on companies from their own country or from neighboring countries (or at least look for founders from those countries, even if they operate in other countries), prioritizing local businesses.

Case study
The selection of impact companies in Alterna

Alterna[136] is a Central American organization that promotes inclusion and impact business models and connects them with capital, solutions and the market. Due to the multiplicity of financial and non-financial services they offer to companies, they have developed tools to evaluate the businesses that apply to their programs and to determine which service best suits their needs. This evaluation has several criteria such as stage of development, value proposition, formalization, financial control, growth and impact strategy or willingness to generate impact, among others. Based on this, companies are directed towards the most convenient service for their growth and development.

[134] *To compare quantitative data derived from a survey on the sectors where the most impact capital is invested in different countries, as well as the most frequent tickets of the operations, it is recommended to consult the following report: ANDE (2023). Inversión de impacto en América Latina. Tendencias 2020-2021. https://andeglobal.org/publication/inversion-de-impacto-en-america-latina-tendencias-2020-2021/*
[135] *Marcel Fukayama and other actors interviewed agree on this point.*
[136] *For more information about Alterna, visit their website: https://alterna.pro/ https://alterna.pro/*

Additionally, they have a cross-organizational monitoring system that allows them to track companies and determine when they are ready to migrate from one service or program to another. In many cases, companies that enter business strengthening or capacity development programs end up accessing opportunities to receive impact capital once they are prepared for it through their impact financing structures (Devela and Acceso). At Alterna, they start from the premise that they cultivate companies, taking into account a series of changing needs and different contexts that exist in the region.

The acceptance rate of businesses is high (compared to a traditional accelerator) because there is a range of services for companies that apply (except for companies in the ideation phase, for which they normally do not have specific programs). However, there are two main selection criteria that determine the entry of impact companies: that they have a business model approach and that they have at least a clear disposition to generate impact. By measuring these two variables, Alterna seeks to ensure high levels of commitment from the people who lead companies and projects, optimization of the value received and greater generation of impact in the short, medium and long term.

5.2 Tools for Measuring and Managing Impact

Impact measurement and management (see definitions in *Glossary of Terms*) is one of the essential characteristics of impact investing. Investors committed to impact, like the companies in which they invest, want to know whether their activity is achieving the desired change, as well as to establish how to maximize the positive impact and minimize the negative impact. Measuring and managing impact is the only way to know this, and to prevent impact washing. Measurement is also useful for impact companies to understand the needs and preferences of their customers –especially to better reach underserved segments–, to understand how to improve their products and services, and to maximize their positive impact. In short, analyzing the commitment to impact measurement and management appears as a clear proxy for the degree of commitment of investors and entrepreneurs to impact.

“Companies are interested in developing impact indicators to the extent that they have an intention to generate change and seek solutions to challenges through their products or services. In fact, not having interest in measuring impact is a very clear sign. Demanding an impact measurement and management system is not demanding something that an impact company does not want to know,” says Tania Rodríguez, co-founder and CEO of CO_, Mexico.

The **impact KPIs** that are measured should analyze not only the scope or breadth of the impact (for example, number of beneficiaries), but above all its depth. In addition, the indicators should primarily measure the impact related to the company’s main activity. While it is important to know, for example, the number of beneficiaries of a project (which represents a great advance in Latin America), the actors interviewed agree that there is much room for improvement in the exercise of reporting impact indicators.

The reality observed in the market is common to that observed in other regions: impact measurement and management remains a challenge, among other reasons due to the number of resources it requires. Some actors do not yet have a methodology in place to measure their impact, the vast majority use their own indicators and only a few have an impact measurement and management system. The standardized tools most mentioned by the interviewed actors are the **B Impact assessment** (Sistema B) and the **IRIS**+ metrics. According to Marcel Fukayama, the B Impact assessment, offered by Sistema B Brazil, is one of the most utilized tools in the country, as a way of working on impact measurement and management and having an external impact certificate[137] although he recognizes that not all ventures have impact measurement tools. ANDE's report on impact investment in Brazil (2023)[138] follows this same observation, reflecting that 43% of respondents used their own metrics, while 38% used Sistema B, the IMP framework and/or IRIS+. Some players like Alive Ventures use the **Impact Management Project (IMP)[139] five-dimension impact framework**, first, because it is a globally recognized framework, and second, because it allows them to actually compare the impact results of different types of businesses and different sectors with some consistency.

Case study
The continued development of ALIVE Ventures' impact measurement and management system

Impact measurement and management in the regional ecosystem still faces challenges such as standardization, rigor and comparability, just to name a few. The depth of impact measurement has also started to gain importance to the extent that the figure on the number of beneficiaries does not reveal the extent of the impact. This is why ALIVE Ventures[140] has been striving since 2018 to sophisticate its way of measuring and managing impact, testing different tools and methodologies, and asking more difficult questions about the impact of its investments.

According to Santiago Álvarez, one of the managing partners of ALIVE, the measurement exercise must provide information that allows determining how much impact is being generated, how much is being contributed to the solution of socio-environmental problems and how better decisions can be made based on this information. Before presenting a company to the investment committee, the ALIVE team conducts field visits to assess the current state of the impact, the business model and its potential. During the first year of the investment, surveys are conducted with end consumers through a third party in order to validate the impact and the business model. The measurement aims to reach the final beneficiary, first to determine whether impact is being generated and what type of impact

[137] *Fukayama explains that all the companies in his portfolio at Din4mo seek the B Company certificate, that is, they have an impact certification verified by an independent third party.*
[138] *ANDE, Investimentos de Impacto no Brasil 2021.*
[139] *The organization's name was previously Impact Management Project (IMP). For more information: https://impactfrontiers.org/norms/five-dimensions-of-impact/*
[140] *For more information about ALIVE Ventures: https://www.alive-ventures.com/*

is being generated; and second, to identify possible gaps between the beneficiaries as part of their gender lens strategy. From this exercise, insights are generated for the performance of companies and business models (use of products, customer experience, opportunities for improvement, etc.).

To finance the impact measurement and ensure its rigor and prevalence over time, a technical assistance fund was created, financed primarily by the fund's investors. At the beginning, ALIVE used Acumen's conceptual framework to measure impact: depth, breadth, and economic profile of the beneficiary. They leveraged the experience of third parties such as 60 Decibels to carry out their measurements and prioritize the importance of reaching the final beneficiary to understand and evaluate the depth of the impact. The gender lens strategy was built in the first years, and today ALIVE applies it at each stage of the investment, from origin to post-investment support (including impact studies). In 2022, with the launch of its second fund and to strengthen its impact strategy, ALIVE developed a strategy to contribute to climate adaptation and resilience in low-income communities in Latin America. At the same time, in the construction of the second fund, the ALIVE team looked for a more holistic way to measure and manage impact, and a tool that used best practices in this regard. For this reason, after rigorous research, it was decided to use the IMP as an impact measurement model.

ALIVE's secret to maintaining rigor in measuring and managing impact lies in constantly rethinking its tools and methodologies, in asking how to obtain richer information and get more out of it, and in ongoing training.

According to Sebastián Welisiejko, "It is important to reconcile objectives of robustness, integrity and pragmatism in impact measurement, following international best practices, adapted to the reality of our region, and being aware that we still do not have a "gold standard" in terms of impact measurement, as there has been for decades for financial and risk parameters." Cecilia Foxworthy, general director of Agora Partnerships, points out that global impact measurement standards are aimed more at large companies and do not respond to the needs of small, growing companies in the region. In her opinion, global standards are not sufficiently actionable and are not grounded in the reality experienced by these small companies in Mexico and Central America. At the same time, Foxworthy recognizes the need to work faster and jointly in the development of more effective measurement standards. To this end, Agora Partnerships is developing different functionalities for its **information exchange platform**, which will allow users (this is a project aimed at businesswomen in Latin America) to register their data and share their practices on creating and measuring the impact of their business. It is a way to break through the information barrier, which is often one of the reasons financial institutions and corporations give when declining demand for financing from growing small businesses.

Therefore, the ideal would be to advance in the reporting of this type of indicators that **generate impact data, with which companies and investors can make strategic decisions**. Investors who have impact measurement systems, whether developed internally or with external support from advisors such as 60 Decibels,[141] explain that impact measurement and management allows them to understand in depth the impact of different business models on beneficiaries and adjust to better meet the needs of stakeholders. In the long term, having impact data allows them to analyze whether they are fulfilling their investment thesis, understand what support they can offer companies to achieve better performance, as well as report to LPs (limited partners).

Particularly in Europe[142], but increasingly in North America[143], some fund managers are integrating impact-linked incentive schemes, such as the **practice of impact carry**, where at least part of the variable remuneration of fund managers depends on the impact achieved according to a previously established indicator (see definition in *Glossary of Terms*). In Latin America, ALIVE Ventures will begin to link part of its carry to impact results, as it raises its new fund[144].

Second, interviewees say that there is a great diversity in the impact measurement and management systems of market players, and **a lack of transparency in measurement methodologies**, which makes it difficult for investors to make decisions based on impact. **Standardizing** impact measurement and management instruments would allow us to speak a common language and establish **minimum measurement criteria** for investments that prioritize impact. According to the general manager of NAB Colombia, María Elvira Tamayo, there is an urgent need for a standardization of impact measurement parameters and/or tools so that all actors in the ecosystem can speak the same language[145]. Data and transparency are essential for successful impact investment. Through data, trust is built between investors and stakeholders. **Transparency is the currency of trust in the field of impact investment.**

5.3 Impact Investor Contribution: Additionality

As noted in Chapter Two, additionality exists when impact investment leads to effects that would not have occurred without the intervention, i.e., it refers to achieving a positive impact that would not have been achieved without that particular investment. Following the IMP framework, additionality can result from (i) offering financing in new or underserved financial markets, (ii) offering flexible capital by accepting a lower financial rate of return compared to the risk assumed, or (iii) actively engaging through non-financial support to impact companies. The first two cases refer to financial additionality, while the third refers to non-financial additionality. Non-financial support consists of different services aimed at maximizing the impact of the company's work on society or the environment, increasing its financial sustainability or strengthening its governance structure, among others.

141 *60_decibels, https://60decibels.com/*
142 *In Spain, we could cite the case of Creas, where the incentives of the entire team are linked to the impact achieved. https://creas.es/impacto/*
143 *This is the case, for example, of Drawdown Fund, where the team's remuneration is linked to both financial and impact results. https://www.drawdownfund.com/the-fund*
144 *Impact Alpha, Grados, C. Why this Latin American venture fund is listening to customers to drive impact and returns. December, 2023. https://impactalpha.com/why-this-latin-american-venture-fund-is-listening-to-customers-to-drive-impact-and-returns/*
145 *According to María Elvira Tamayo, impact measurement in Colombia has been advancing more quickly than in other countries in the region. As a result, increasingly rigorous mapping and analysis of the ecosystem has been achieved, although there is still a long way to go. In fact, she points out that now, in addition to raising awareness about the importance of impact measurement and management, it is also urgent to delve deeper into impact data and standardize the tools.*

Impact investment will be additional if there is additionality in any of these three forms, although there may also be a combination of them, as in the case study of additionality in the MAR+ Invest alliance. Additionality is, however, an optional feature (in the sense of non-essential in impact investment), which the impact investment strategy may or may not present.

On the financial additionality side, several actors point out that they **are early investors in the companies they finance** and that without their investment it would be very difficult for them to find other sources. In other words, in their opinion, they support **underserved markets**. In the case of Alterna's Catalyzer fund[146], according to Daniel Buchbinder, its founder and CEO, more than 70% of its financing operations are early loans (outside of friends and family). Many impact investors in Latin America seek to cover the financing gap that exists for this group of companies that cannot find financing in traditional banking. For example, the investment thesis of the SocialAlpha Fund, from the Alphamundi Group, is based on the unmet need for financing of seed and growing companies in Latin America[147], where the expectation of financial return improves due to the limited supply of bank financing (or its terms and conditions, which are unaffordable for this type of company). Local investors, who act as early investors, can sometimes do so precisely because they know the sector, know the risks and are in contact with local companies and impact projects.

Secondly, other investors interviewed offer **more flexible conditions, sometimes tailored to the case of each impact company,** or **patient capital**, which is another form of financial additionality.

Impact investors seek to harmonize risk, return and impact and sometimes agree to finance impact companies despite having a lower return, which is one of the forms of financial additionality. Thanks to this, they manage to ensure that after their investment, the most successful ones receive new rounds of financing from other investors. Some actors report data on the **catalytic capital** raised through their operations[148]. The expansion of family offices of philanthropy towards impact investment may lead to this offer of more flexible conditions in financing operations.

Impact companies often develop or create a service or product that does not yet have a market, and reaching the breakeven point requires longer timeframes than in other types of businesses. "More traditional investors generally look for returns between three and five years, but an impact investor must be aware that some projects need seven to ten years to prosper, especially in very unstructured markets, without a value chain, and/or with regulatory challenges," says Marcel Fukayama. This is where the financial additionality of the investor plays a crucial role, offering **financial support tailored to the unique characteristics of the impact company**.

On the non-financial additionality side, most of the actors interviewed offer **non-financial support that could be classified as intense** to the companies they finance. Non-financial support[149] to impact companies is essential. Without it, investment or impact financing

[146] *Fondo Catalyzer, https://alterna.pro/fondo-catalyzer/*
[147] *AlphaMundi, Socialalpha Portfolio, https://www.alphamundigroup.com/portfolio-social-alpha/*
[148] *This is the case of ALIVE Ventures, which in its 2022 impact report reports USD 20.7 million in catalytic capital. https://www.alive-ventures.com/2022-impact-report*
[149] *Toolkit de Apoyo No Financiero de Latimpacto: https://apoyonofinanciero.org/*

operations would not be developed. In fact, after receiving training, companies leave with a clearer vision of the type of financing they need[150]. Cecilia Foxworthy points out that before receiving her training, most of the entrepreneurs who attend these courses are interested in receiving financing, but, after receiving it, this **demand for financing declines when they recognize that they must take many steps before seeking external capital** (exploring different sales channels, training for the effective management of that capital, having a better negotiating position and/or achieving a more sustainable financial status). In many cases, non-financial support is offered as a non-reimbursable facility. The format of the trainings is diverse and depends on the type of organization that offers them, but there is a wide variety (digital trainings, one-to-one trainings, group mentoring, webinars, workshops and platforms for the exchange of information among peers).

Non-financial support **is becoming more sophisticated**. Interviewees mentioned a number of areas in which they provide non-financial support:

- **Strengthening impact.** Investors and entrepreneurs often work together to further explore the theory of change and/or the impact measurement and management system, or to refine the business model with integrated impact. For example, they work on establishing processes to use data in the company's strategic decision-making, or on identifying hypotheses and indicators that, once validated, confirm that they have achieved the positive impact they were seeking. In the words of Sebastián Welisiejko, "many entrepreneurs seek us out not only as investors, but also for the support and accompaniment we give them in order to strengthen their impact practice."

- **Support in other areas for the maintenance and scaling of the business.**

  - **General technical assistance.** Topics such as risk management, strengthening governance and/or internal organization, systems for attracting and retaining human resources, or reporting systems are addressed.

  - **Soft skills training.** Some actors argue that, first of all, soft skills training is also necessary to reinforce entrepreneurs' confidence and their negotiating power, especially when they are women.

  - **Market access.** This point includes multiple support measures, such as validating business hypotheses, the consistency of the business value chain, or developing sales and expansion plans.

  - **(Future) access to capital and financing.** At this point, the company's financing strategy can be outlined. In addition, investors can remain alert to the future capital or debt needs of the companies in which they invested for subsequent rounds, whether with their own capital or from other investors in the market.

[150] *Agora Partnerships.*

Cinthia Varela, executive director of Kunan in Peru, points out that Latin America is a very turbulent region that does not easily offer the conditions for the survival and scaling of entrepreneurships. However, non-financial support appears to be a fundamental tool to guarantee the sustainability of small and medium-sized companies over time. Naturally, the type of non-financial support offered to impact companies varies according to the knowledge and experience of the investor and aims to strengthen them so that their impact is greater.

Case study
Additionality in the MAR+ Invest alliance

The MAR+ Invest[151] alliance aims to support projects that address the conservation and restoration of coral ecosystems in the Mesoamerican Reef[152] (MAR) over an eight-year horizon. During this period, the alliance plans to carry out six acceleration programs. It is currently completing its first year and the acceleration of the first cohort. The focus is generally on small projects that have a clear difficulty in accessing commercial capital and are therefore under-funded. The alliance is made up of different organizations: Mesoamerican Reef Fund leads it, Healthy Reefs is in charge of the external and independent verification of the impact of the projects, the Mexican Fund for the Conservation of Nature (in particular, the branch of Sureste Sostenible) is a collaborator and New Ventures Viwala is in charge of the acceleration program, financial advice and subsequent financing of the projects. The objective is (i) to accompany these projects until they are ready to receive financing (ready-to-invest), (ii) to offer them or help them access financing adapted to their needs, and, ultimately, (iii) to attract more private capital to these projects.

The initiative has already passed the initial phase of selecting projects that meet the stipulated requirements, including that they direct their activity to address one of the three main threats to the reef: overfishing, climate change and contaminated waters. In the acceleration program, the New Ventures strategy team is working through personalized mentoring with each of the eight projects in different areas (growth, business model, impact and search for financing). In the financial advisory services program, New Ventures works with the teams based on their needs, but its support may include strengthening their financial model, developing the pitch, analyzing the type of financing they need or searching for financing. In the next phase of the process, which has not begun at the time of this report, the projects will be able to receive loans from the MAR+ Invest alliance at concessional rates, thanks to the contribution of the Global Fund for Coral Reefs, or access financing from the funds they had contacted in the financial advisory phase. Viwala will analyze the companies and will be responsible for placing the loans.

151 MAR FUND, https://marfund.org/en/mar-invest/
152 The Mesoamerican Reef is a system of interconnected and interacting marine ecosystems that extends through the territorial waters of Belize, Guatemala, Honduras and Mexico.

6 A Route for Impact Investment in the Region

Town of Copacabana on Lake Titicaca, Bolivia

This research was able to identify a positive evolution in the volume of impact capital managed in Latin America, as well as a greater interest in the sector by impact investment funds, foundations, family offices and other institutional actors. This shows that there is fertile ground to explore in a region with multiple opportunities to make scalable, replicable and sustainable impact investments, with which to contribute to the solution of the problems that afflict Latin Americans.

According to Tania Rodríguez, co-founder and CEO of CO_, “the ‘what’ is clear, as defined in the Sustainable Development Goals. Impact investment aims and illuminates the ‘how’, and demonstrates that it is feasible to provide solutions to challenges of inequality, climate change and biodiversity loss through business models with the capacity to offer products, services and solutions better adapted to the needs of the vast majority of the population in the region, while preserving and protecting the wealth of our territories.”

This study shows that the young and growing impact investment market requires the effort of the entire ecosystem generated around it to mobilize more capital towards impact, strengthen the investment strategy, narrow it down, achieve greater transparency and consensus around impact practices and seek growth, both in the number of investors and in companies and ventures that aim to transform the living conditions of communities and the environment.

The research sheds light on the barriers to this market and proposes encouraging greater public sector participation to achieve a more favorable environment for impact investment; an environment that must continue to be strengthened through active and effective communication of the regional narrative on this type of investment, which will attract increasing local and foreign capital.

To achieve this, the main challenges to be faced in order to open a path of transformation for impact investment in the region are detailed below.

1 *Towards the communication of a regional narrative for impact investment, which attracts greater local and foreign capital to the region*

One of the main challenges in Latin America is getting the region's actors to invest in it. According to the experts interviewed, there is an exodus of Latin American capital to other countries, which is not only due to political and macroeconomic uncertainty, but also to the lack of knowledge about impact investment and the opportunities offered by the market. According to Ana Laura Fernández, deputy director of Impact Investments at Fondo de Fondos, "...although there is greater awareness and sensitivity to invest in impact, there is still a lack of knowledge around the subject. Education must be provided about the opportunities that exist, the capital continuum and the difference between philanthropy and impact investment."

Many capital owners in the region, such as pension funds, private equity funds, insurance companies, family offices and financial institutions, are still unaware of impact investing as an intermediate investment alternative between philanthropy and traditional investments. Although the participation of pension funds in the regional market is almost zero, to give a figure that helps to dimension the issue, it is estimated that only with the participation of Colombian pension funds, around USD 11.6 billion[153] could be mobilized to finance impact companies and initiatives in Latin America[154]. On the other hand, pension funds made up only 2% of the participants in the annual GIIN[155] survey of impact investors. As an example, the Canadian pension fund Ontario Teachers' Pension Plan (OTPP) stands out, which currently offers its members the opportunity to invest in all types of assets that improve results for people and the planet[156]. To address this low participation, GSG has organized a global working group on the participation of pension funds in impact investing. On the other hand, some of the actors interviewed, such as Tim Radjy[157], Dipti Pratt[158], Mauricio Samper[159] and Beto Scretas[160], claim that Latin America receives a relatively smaller volume of impact capital from abroad than other regions with developing countries such as Africa and Southeast Asia (see *4.1 Volume of capital managed in Latin America*). In other words, Latin America is competing for attention and resources against these regions, which seem to have more pressing socio-environmental problems and offer greater opportunities for impact investors.

It seems pertinent, therefore, to increase the dissemination of success stories from the impact investment market in the region (such as those built by Latimpacto[161]), with information about the financial return and impact results, so that the operations carried out in the region are made visible, and confidence in this developing

[153] Calculation based on the Reports on the investment portfolios of mandatory pension funds in Colombia as of September 30, 2023 (moderate and high risk investments made nationally and internationally) of the Colombian Financial Superintendence.
[154] In Colombia, Law 2112 of 2021 requires pension funds to allocate 3% of their resources to private equity funds or private debt funds that invest in companies and productive projects in the country. This legislative initiative increases the volume of local capital available for investment, potentially creating opportunities for the mobilization of this capital towards the impact investment market in Colombia.
[155] Norich, G., Hannewijk, B., Wessemius-Chibrac, L. Pensions and impact investing. GSG, NAB Netherlands. 2023.
[156] Impact Investor, Impact Investor Guide 2024. Generating real-world impact. 2023. https://impact-investor.com/guide-2024/
[157] Impact Investor, Impact Investor Guide 2024.
[158] Managing partner of Toniic.
[159] Managing Partner of SEAF.
[160] Senior Consultant of the Instituto de Ciudadanía Empresarial (ICE) of Brazil.
[161] For more information: https://www.ecosistema.latimpacto.org/los-casos

market is increased. This exercise will help to demystify unproven beliefs associated with impact investment, such as low returns and excessive risk. Despite the heterogeneity of Latin American countries, this study aims to collaborate in the construction and communication of the region's own narrative focused on its strengths and particularities. These cases should be complemented with workshops and work sessions, as well as with exchanges between peers that allow for greater knowledge of what it means to invest with impact.

Second, it is important to carry out a study on the volume of impact capital managed annually in the region (*market sizing*), with a transparent methodology and in accordance with a previously agreed definition of impact investment. This study would allow for a more rigorous analysis of the evolution of the sector, the comparability of data, the decision-making processes and the generation of trust in current and potential investors. To do so, prior work is required to reach a consensus on the definition of impact investment, differentiating it from philanthropy, sustainable finance, and even corporate social responsibility. The different national NABs are working to have a calculation with a harmonized methodology in each country. Of particular note are the work of NAB Colombia (2022) and ANDE (2023) in measuring the impact investment market. For this exercise, the region could be inspired by the consortium organized between Impact Europe and the different European NABs to work together and agree on a single survey to measure the market of each country, with a certain frequency.

2 ***Strengthening the ecosystem: collaboration and openness to new players is key***

There is a powerful network of collaborative relationships between different market players, both capital providers and impact companies, which translates into events on impact investment to disseminate good practices; into networking webs to facilitate operations; and, more specifically, into operations and/or co-investment operations between different players. The power of this network is partly explained by the enthusiasm of the players to mobilize capital towards companies and initiatives with solutions to neglected challenges, together with the small size of the market. Today, the existence of this network, which is increasingly active through different organizations, is a powerful engine for the generation of alliances, collaborations and for the development of the capacities of the players thanks to the exchange of information and good practices.

However, several actors point out that, in order to move forward, it is necessary for the ecosystem to open up to other sectors and include in the conversation organizations and projects that remain in the more traditional sphere of finance and companies (private equity investment funds, family foundations, family offices, pension funds, insurance companies, banking), but that are interested in working on their impact trajectory. According to Lina Rossi, director of the Andean Region Chapter of ANDE, a different narrative must be built, a little more sophisticated, that allows approaching markets where other languages are used. Along the same lines, Daniel Uribe, executive director of the Corona Foundation, states that one of the key facts that has driven the growth of impact investment in the world is that some countries allowed pension funds and other institutional investors to enter the market, this being one of the great opportunities to explore in the region. Without losing sight of the risks of impact washing in the market, it is considered necessary to include in the conversation organizations and projects aimed at impact investment that meet certain minimum essential criteria, and to accompany them on their path to impact. Building a strategy of openness to more traditional sectors and new actors allows for generating a greater impact, being more inclusive and getting closer to solving the challenges facing Latin America.

3 *Proactive involvement of governments and DFIs*

The activity of impact companies can help solve social and environmental problems, as well as recycle the productive fabric, increase competition between companies, create jobs and generally make society prosper. For this reason, there are strong incentives for, on the one hand, promoting and protecting local impact companies by political authorities, and, on the other, promoting more private capital investment from local managers who, through their activity, attract institutional resources to the region.

However, there is ample room for public entities to increase their efforts to promote impact investment in Latin America and protect the actors operating in this market. It is true that one difficulty in the region, compared to others such as Europe, is its disintegration at a financial and commercial level, so that the mobility of capital between countries is complex. In most Latin American countries, the authorities are not sufficiently involved and the ecosystem is supported only by private and civil society initiatives. The role of public policy is crucial to attract new actors to the market, those that continue to operate exclusively in the field of traditional finance due to a perception of risk that is perhaps higher than actually exists. Among the possible general lines of action that affect both the demand and supply sides of impact capital (the context of each country is very different, so that some have already advanced along these lines) are:

- The development of regulatory frameworks and initiatives that allow and encourage impact investment, allow the creation of impact companies and funds in the region, create a favorable environment for impact companies and allow the mobilization of capital.
- The creation of public policies that are more favorable to investment and impact companies. This last point is very broad and includes actions such as including impact companies in public purchases, reducing the bureaucratic procedures faced by market actors and allowing institutional or pension funds to make impact investments, among others.
- The incorporation of a specific legal figure for impact companies.
- The inclusion of tax incentives for impact investors.

- The provision of government guarantees in impact investment transactions to reduce the perceived risk of investors.

- The creation of entities, agencies or dependencies attached to national governments and focused on promoting companies and impact investment, as is the case of CORFO in Chile and iNNpulsa in Colombia, which have training and financing programs for impact companies.

In Latin America, there are very clear cases of regulatory barriers, in particular, that of an Ecuadorian fund that has not been able to be created locally because the regulations are not yet ready in the country, but progress has also been identified in this area in countries such as Brazil and Colombia. In Brazil, progress is being made in the democratization of impact investment based on regulatory developments[162] that enable the public offering of securities issued by small companies through an electronic crowdfunding platform, enabling these companies to receive financing and ordinary people to invest small amounts. In Brazil, the work of the National Development Bank (BNDES)[163] stands out compared to other national development banks in the region, as it has more advanced policies and initiatives in terms of sustainability and impact investment.

In the case of Colombia, Law 1901 of 2018[164] made it possible for any company to voluntarily adopt the status of a Collective Benefit and Interest Company (BIC). BIC companies incorporate "...a social and environmental purpose that goes beyond the benefit and interest of its shareholders (...) they simultaneously combine the economic advantages of commercial activity, with the possibility of contributing to the environment, the well-being of workers and the interest of the community"[165]. The Colombian government defined these companies as the new generation of companies that are redefining their business models to create greater economic, social and environmental value[166]. Although they are not strictly impact companies, it is a first approach.

These are the first steps towards greater involvement and support from the public sector in the Latin American impact investment market. In addition, examples could be taken from the global community. Big Society Capital[167] is an example of a fund of funds launched with the participation of the United Kingdom government and committed to investing in innovative solutions to social challenges. In this sense, a potential future measure could be the launch of a public fund of funds, similar to Big Society Capital or others, in collaboration with a DFI with a focus on the entire region, or with national governments with a focus on specific countries.

4 *Need for a deeper and more dynamic market*

Due to the nascent state of the impact investment and financing market in Latin America, some actors point out that the problem lies in the ecosystem, rather than in the pipeline, which has become much more robust in recent years. The main challenges have to do with

[162] *CVM Resolution 88, dated July 2022, replaces the instruction that first introduced this change, CVM 588.*
[163] *For more information about the Banco Nacional de Desarrollo de Brasil – BNDES: https://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/*
[164] *Public Service, Law 1901 of 2018.https://www.funcionpublica.gov.co/eva/gestornormativo/norma.php?i=86982*
[165] *Ministerio de Comercio, Industria y Turismo. El ABC de las Sociedades de Beneficio e Interés Colectivo - BIC. 2020. https://www.mincit.gov.co/minindustria/sociedades-bic/el-abc-de-las-sociedades-bic-1*
[166] *Similarly, in Colombia, Article 2 of Law 2112 of 2021 provided for the investment of a minimum of 3% of the sum of mandatory pension funds in private equity funds or private debt funds that invest in productive companies and projects.*
[167] *Better Society Capital, https://bigsocietycapital.com/*

the lack of liquidity and the size of investment tickets in this market, in relation to the relatively high transaction costs. The lack of liquidity in the market makes it difficult to manage exits in equity capital operations, which is why it is more common to use debt instruments or hybrid instruments. In this sense, it is necessary to generate a much greater dynamism in the market, which manages a considerably larger volume of capital. On the other hand, a major drawback for some investors today is the small size of tickets (compared to traditional finance operations) together with the (similar) transaction costs and the high perception of risk in impact investment deals.

Funds of funds emerge as an alternative in this scenario, to allow small and large investors to enter the market and efficiency in their management to reduce transaction costs. The creation of more funds of funds will allow local or foreign investors to place resources in a diversified manner, while seeking to generate a positive socio-environmental impact.

5 *Innovation in non-financial support and financial instruments to adapt to demand needs, especially of early-stage companies*

Most impact companies in Latin America, many of them micro and small growing companies, require specific training before receiving external financing and there are already actors in the ecosystem that specialize in preparing them. These programs work on different areas: strengthening their business model, developing their theory of change and their impact measurement and management system; managing their business activity and moving towards sustainable financial statutes; establishing what financing they need and managing what they demand. These programs are making it possible to have an increasingly large and diverse base of ready-to-invest impact companies.

In addition, investors and fund managers have developed a range of alternatives that suit impact companies while minimizing the uncertainty of returns. This variety and adaptation of financial instruments, together with non-financial support, allows new investors to enter the market with medium-low risk investments while developing confidence in the sector. In turn, it allows early-stage companies to receive the necessary financing to scale up, beyond philanthropic capital and microcredits, which do not always adapt to their needs.

Additionally, actors could continue to delve deeper into the line of co-investments with public and private actors located at different stages of the capital continuum, in order to achieve more flexible conditions. Another measure for the future is to test hybrid financial instruments that have worked in other countries.

6 *Latin American impact companies that stand out for their resilience and innovation*

In general terms, the actors pointed out the high capacity of Latin American companies to pilot, innovate and find alternative solutions. When the interviewees were asked where the greatest investment opportunities would be, the sectors considered to be the best positioned were environment and sustainable agriculture. Environment includes categories such as biodiversity conservation and protection, water resource management, sustainable tourism, renewable energy and energy transition, as well as Pan-Amazon[168] and reforestation, among others. On the other hand, sustainable agriculture includes different areas such as organic food production, rural development, productive chains and agricultural ecology. Given the wealth of natural resources in Latin America, it was expected that market experts would reiterate the opportunities that these sectors represent in the region.

They also highlighted the sectors that take advantage of the opportunities of artificial intelligence. Gender equity persists as a cross-cutting issue to consider in impact investment, given the indices of gender inequality in the region. In fact, many impact investors consider it directly in their impact theses, joining investment with a gender lens. Other leading sectors are those that are incorporating technological solutions to improve products and processes; in education (Edtech), in health (HealthTech) and in agriculture (Agritech). Daniel Buchbinder, founder and CEO of Alterna, pointed out the opportunity that investment in the creative economy and the cultural sector represents, due to its potential to generate a very interesting systemic change.

It is clear that Latin America is home to numerous investment opportunities, not only because of its geographical and natural characteristics, but also because of its human resources and ideas. In the words of Daniel Izzo, co-founder and CEO of VOX Capital, "...entrepreneurs are the real heroes because they have the ideas that investors don't have." And for Marcel Fukayama, Latin American entrepreneurship is characterized by its high creativity, innovation and resilience. For example, small businesses are the largest generators of employment in countries like Brazil[169], despite facing high bureaucratic obstacles, lack of capital and lack of knowledge.

In addition to educating people to disassociate impact investment from philanthropy, one way to approach finance-first investors is to reinforce the idea that this market has just as many, if not more, good business ideas than the traditional venture capital market. Industry experts dare to say that impact companies tend to be more resilient than conventional ones due to their commitment to solving a social and/or environmental problem, which leads to developing longer-term and more sustainable strategies.

7 *Strengthening impact measurement and management systems to make decisions that enhance positive impact and to strengthen the transparency of results*

A lack of depth has been identified in the measurement of the impact of companies and impact initiatives, which are mostly limited to measuring the number of beneficiaries (output indicators instead of outcome indicators). Given this scenario, it is recommended that actors offering impact capital refine their own impact measurement and management processes, and accompany their recipient companies in the same process. There is a great challenge in the market regarding the standardization of impact measurement and management instruments. Although it does not seem realistic for all impact projects belonging to different sectors and stages of development to measure and manage their

[168] *Region made up of the surface of the countries that have jurisdiction or territory in the Amazon River basin, and/or have jungle coverage and/or belong to the Cooperation Treaty (TCA) (SINCHI Institute, Colombia).*
[169] *78% of jobs created in Brazil in 2022 were thanks to small businesses, according to Estímulo's 2023 transparency report. https://www.estimulo2020.org/transparencia*

impact with the same tools, it is considered possible and pertinent to move towards greater transparency and develop a guide on the subject, which allows for speaking a common language and establishing minimum criteria for impact measurement.

It is crucial to move forward in measuring impact using transparent methodologies because it is what makes the difference with traditional finance and what allows us to analyze whether relevant challenges are being solved or whether changes need to be introduced in procedures, products or services. Ultimately, it is also key to generating trust in a nascent sector and avoiding impact washing practices.

8 *Learning by doing, learning from peers*

In order for the market to continue growing, the final recommendation would be to focus on learning by doing and adopt a practical strategy that puts the efforts and needs of micro and small impact companies at the center, so that investors and other service companies support them where it is really needed. We must not lose sight of the fact that this is a nascent and developing market, so patience is needed: recognizing that there is still a need to innovate more, to be more creative, to create incentives and deploy more local and international capital. In the words of María José Montero, partner at FIS Ameris, it is a process in which we must train ourselves to accompany from the technical side and from deep conversations. “We must be critical about what we are doing and how we are doing it,” she said. At the same time, it is necessary to continue advancing on the path of awareness and education so that entrepreneurs are ready to take advantage of it. The actors interviewed judge the work of the market development organizations, as well as that of the different national NABs, ANDE and Latimpacto, to be very relevant in this sense.

Hence, it will be key to promote innovation and collaboration of all the actors involved; achieve greater innovation in financial instruments to adapt to the needs of demand (especially of early-stage companies) and in non-financial support to ensure their strengthening; and adopt a practical strategy through learning by doing, which puts the needs of micro and small impact companies at the center of efforts.

In short, more creativity, more innovation, more collaboration and the generation and dissemination of more knowledge and data will be required to make impact investment a robust strategy, with which to contribute to transforming the great challenges of the region into great opportunities for communities, companies and people throughout Latin America.

Glossary of Terms

Actor: Translation from English: *practitioner*. In this context, it refers to the different types of organizations that operate in the impact investment market**.**

Additionality: Refers to the fact of achieving a positive impact that would not have been obtained without that particular investment. Following the Impact Management Project (IMP) framework, additionality can result from offering financing in new or underserved financial markets, offering flexible capital by accepting a financial rate of return disproportionate to the risk assumed, or actively engaging through non-financial support with the entrepreneur. In the first two cases, we speak of financial additionality, while in the third, non-financial additionality**.**

Asset manager: Investment team or firm charged with selecting and managing assets in a portfolio or fund on behalf of the equity owners, usually with the goal of increasing the value of the assets under management.

Asset owner: Holders of assets, or organizations that represent them, such as private or public equity funds, pension funds, insurers, foundations, family offices and banks.

Blended finance: This is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development (Convergence).

Catalytic capital: Defined as debt, equity, guarantees and other investments that accept disproportionate risk and/or concessional returns compared to a conventional investment. Its objective is to generate a positive impact and allow the entry of third-party investors who would not otherwise have access, given high return expectations, lower risk tolerance and/or lower capacity to offer patient capital (EVPA, Convergence).

Concessional finance: This refers to investment strategies that are willing to accept some financial sacrifice, either by taking on higher risks or accepting lower returns, in exchange for generating a higher social impact. It can be considered as investment with additional impact, since it refers to taking risks that most others are not willing to take (EVPA).

Convertible Notes: Loans that can be converted into equity. They are primarily used to support impact organizations that have a low credit rating and high growth potential. They are also a common vehicle for seed investment in early-stage impact organizations, as a form of debt that can be converted into equity in a future investment round, if the company is successful. It avoids the need to value the company at too early stage (EVPA).

Co-investment: In the context of private equity investment, co-investment is the syndication of a round of financing or investment by other funders with a private equity fund. In the context of impact investment, it involves the syndication of an investment in a social purpose organization by other funders (such as donors or individuals) with an impact investor (EVPA).

Crowdfunding platforms: Organizations that support impact companies through the provision of debt or equity. These platforms typically raise relatively small amounts of capital over a limited period, from many people who share a common interest in a specific idea, project or business. In some cases, individual investors also provide non-financial support related to their areas of expertise on a voluntary basis (EVPA).

Debt financial instrument: Loans that impact investors can provide to impact organizations, charging interest at a set rate. The interest charged may vary depending on the risk profile of the investment recipient, its potential social impact, and the priority of collateralization and repayment of the loan (e.g. senior loan versus subordinated loan) (EVPA).

Direct impact investment: Investments that are managed and directed to impact companies. It is opposed to "indirect" impact investment in that it channels investments directed to other investment funds, which invest in impact companies.

Equity: This refers to the shareholders' investment in the company. Shares grant rights to the company's earnings and important decisions. Unlike debt, equity capital does not involve fixed payment obligations, and the returns to shareholders come from the appreciation in the value of the shares.

Equity financial instrument: Contracts through which impact investors provide financing to impact organizations; in return, they acquire ownership rights over a part of these organizations' businesses (shares). This form of equity may be appropriate when the prospects of repayment of a loan are low or non-existent. If the impact organization is successful, the equity stake (share) offers the possibility of a financial return in the form of dividend payments at exit. In addition, it allows for the possibility of a transfer of ownership to other funders in the future.

Exit: This refers to the end of the relationship between the impact investor and the impact enterprise. The nature of the exit is usually agreed upon before the investment is completed. In the case of a non-profit, ideally, the impact investor will be replaced by a combination of other funders. The timeframe for the exit can be agreed upon at the outset. In the case of a social enterprise, the exit may require the repayment of a loan, for example, and the timing will depend on the commercial success of the enterprise. An exit strategy is the action plan to determine when the impact investor can no longer add value to the recipient of the investment, in order to end the relationship in such a way that the social impact is maintained or amplified, or the potential loss of social impact (EVPA) is minimized.

Family offices: Family-owned organizations that manage private wealth and other family affairs (EVPA).

Financial instrument: Contracts involving monetary transfers through which impact investors financially support impact organizations (EVPA) in the impact ecosystem.

Guarantee: A legal agreement in which, in a financial transaction, a third party promises to pay the investor (or lender) in the event that the beneficiary (or borrower) is unable to do so. The contract specifies the conditions that trigger the payment and the amount to be paid (GIIN).

Hybrid financial instruments: Type of vehicle that represents a variation or mix of characteristics of traditional financial instruments (grants, debt instruments and equity instruments), in order to achieve the best possible alignment between risk, impact and financial return for specific investments (EVPA).

Impact Investment: Investments made with the intention of generating a positive and measurable social and environmental impact along with a financial return. These investments can be made in both emerging and developed markets, and can target a range of financial returns, from those below market rate to those with market rate returns, depending on the investors' strategic objectives (GIIN).

Impact: Effects, positive or negative, experienced by people or the planet as a result of one or more activities.

Impact carry: Practice in which at least part of the variable remuneration of fund managers depends on the impact achieved, measured through a result on an impact indicator agreed ex ante.

Impact investment fund: A vehicle created to allow a group of investors to invest together. It is usually managed by a specialized organization (EVPA).

Impact companies and projects: Organizations whose main activity is to contribute with relevant solutions to neglected social or environmental challenges, regardless of their legal form (EVPA). They can be for-profit or non-profit organizations, social enterprises or impact projects, among others**.**

Impact washing: Attributing a false or exaggerated image of social and environmental impact investors, either in order to comply with regulations, attract more clients or improve the image in the eyes of the public (La Bolsa Social).

Impact Investment: Investments made with the intention of generating a positive and measurable social and environmental impact along with a financial return. These investments can be made in both emerging and developed markets, and can target a range of financial returns, from those below market rate to those with market rate returns, depending on the investors' strategic objectives (GIIN).

Impact measurement and management: Measuring and monitoring the effects generated by an organization's activities (impact) using different tools and using this data for decision-making in order to improve activities (increase positive effects and decrease possible negative effects) (EVPA).

Mezzanine (quasi-equity) financing: A combination of debt and equity financing, typically used to support the growth of an organization. Although similar to debt, it is typically treated as equity on the organization's balance sheet. Mezzanine financing involves the provision of a high-risk loan with repayment contingent on the financial success of the impact organization (EVPA).

Soft loans: Debts that impact investors offer to impact organizations on an interest-free basis (i.e. loans with a 0% or below-market interest rate). The main difference with repayable grants lies in the repayment scheme, which is agreed in advance between the two parties and is not conditional on any specific key performance indicator (EVPA).

Theory of change: Framework that defines all the blocks or steps necessary to generate a long-term goal. This set of blocks is organized into a map known as the 'pathway of change', which is the graphic representation of the change process (EVPA).

Interviewees for this Study

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- Fernanda Camargo, founding partner of Wright Capital.
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- Linda Rincón, director of Experiences of The ImPact.
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- María Elvira Tamayo, general manager of NAB Colombia.
- María José Montero, partner of FIS Ameris.
- Matías Kelly, founder of Sumatoria and partner in Beta Impacto VC.
- Mauricio Samper, managing partner of SEAF.
- Patricio Mayr, director of Administration and Finance of the Fundación Mustakis, Chile.
- Rodrigo Villar, founding partner of New Ventures.

- Santiago Álvarez, managing partner in Alive.
- Sebastián Welisiejko, managing partner of New Ventures and Director of Policy GSG.
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