

FUNDAÇÃO GETULIO VARGAS  
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

PETER BERKENHEIDE

**THE STATE OF IMPACT INVESTMENT IN LATIN AMERICA: AN EXPLORATORY STUDY BASED  
ON THE COUNTRY ANALYSIS OF BRAZIL AND MEXICO**

SÃO PAULO  
2019

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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Economia e Finanças Internacionais

Adviser:  
Prof. Dr. Julia von Maltzan Pacheco

SÃO PAULO  
2019

Berkenheide, Peter.

The state of impact investment in Latin America : an exploratory study based on the country analysis of Brazil and Mexico / Peter Berkenheide. - 2019.

70 f.

Orientador: Julia Alice Sophia von Maltzan Pacheco.

Dissertação (mestrado profissional MPGI) – Fundação Getulio Vargas, Escola de Administração de Empresas de São Paulo.

1. Investimentos - América Latina. 2. Investimentos - Aspectos sociais. 3. Negócios - Aspectos sociais. 4. Capital de risco. I. Pacheco, Julia Alice Sophia von Maltzan. II. Dissertação (mestrado profissional MPGI) – Escola de Administração de Empresas de São Paulo. III. Fundação Getulio Vargas. IV. Título.

CDU 336.767(8=6)

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Approval Date  
27/01/2020

Committee members:

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Prof. Dr. Julia von Maltzan Pacheco, FGV  
EAESP

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Prof. Dr. Edgard Barki, FGV EAESP

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Prof. Dr. Gordon Abekah-Nkrumah,  
University of Ghana Business School

## Preface

The author of this thesis participates in a Double Degree Program of the Escola de Administração de Empresas de São Paulo, Fundação Getúlio Vargas (EAESP -FGV) in São Paulo, Brazil, and ESADE Business School (ESADE) in Barcelona, Spain. Therefore, this thesis must be submitted to both institutions and to meet the requirements of both the MSc in International Management at FGV EAESP and the MSc in Finance at ESADE.

The supervisor of this thesis is Prof. Dr. Julia von Maltzan Pacheco from FGV EAESP.

## **Acknowledgment**

First of all, I would like to thank my parents for their unconditional support. My academic career was somewhat unorthodox, spending most of the time abroad, and even on another continent. My parents did not only support me in my decisions but also encouraged me to seek new challenges and explore the world. Unfortunately, my dad will not see me graduate. Nevertheless, I know that he, as well as my mum, would be the proudest person to see me continue my endeavors in the professional world. Moreover, I appreciate the support of all my friends, not only during the tough last weeks and months but along the whole journey of my bachelor and master studies. Having met incredible people made the studies a journey I would always love to repeat. The laughs and discussion during countless hours in lectures, preparing papers and presentations, and traveling different places are the memories I consider much more important than any intellectual learning of theoretical frameworks.

Additionally, I would like to express my appreciation for FGV's team of international relations, especially Eliene and Felipe. They facilitated the academic period in Brazil to be an unmet experience. Further, I want to thank all the professors of FGV and ESADE I had the chance to learn from.

Eventually, I would like to thank my advisor, Julian von Maltzan Pacheco, for her orientation in the conception of this paper, her support during its making, and the expertise she transmitted me.

## Abstract

The increasing awareness of sustainability has also taken hold into the financial sector. New investment strategies that aim to integrate economic value creation with investors' moral beliefs are on the rise. Impact investing is one type of investing that seeks to support social entrepreneurs to scale their operations. Few big international investors dominate the impact investing, which is still a niche market. This study compares the industry's developments and challenge on a global scale with those on a local scale in Latin America, especially in Brazil and Mexico. Therefore, this study combines and compares different datasets provided by the Global Impact Investing Network (GIIN) and the Association for Private Capital Investments in Latin America (LAVCA). Moreover, qualitative interviews with industry experts, such as social entrepreneurs and impact investors, help to generate a deeper understanding of the status quo, the challenges, and opportunities of impact investing in Latin America.

This study finds that impact investing in Latin America, so far, works as a subcategory of specialized venture capital and private equity. Impact investing funds have identified a niche market that allows them to invest in companies that they expect to generate both financial returns and social impact. Success stories of current investments will be crucial to develop the local industry further and to reduce the dominance of foreign investors in Latin America. With increasing maturity, industry experts expect impact investing to differentiate itself from traditional venture capital and private equity through more exotic financial options, such as revenue-based lending and loan guarantees.

**KEYWORDS:** impact investing, social business, emerging markets, Latin America, venture capital, revenue-based lending, Brazil, Mexico

## Resumo

A crescente conscientização sobre sustentabilidade também se apoderou do setor financeiro. Novas estratégias de investimento que visam integrar a criação de valor econômico com as crenças morais dos investidores estão em ascensão. O investimento de impacto é um tipo de investimento que busca apoiar os empreendedores sociais a escalar as suas operações. Dos grandes investidores internacionais poucos dominam o investimento de impacto, o qual ainda é um nicho de mercado. Este estudo compara os desenvolvimentos e os desafios da indústria global versus indústrias locais na América Latina, especialmente no Brasil e no México. O estudo combina e compara diferentes conjuntos de dados fornecidos pela Global Impact Investing Network (GIIN) e pela Association for Private Capital Investments in Latin America (LAVCA). Vale ressaltar que entrevistas qualitativas com especialistas do setor, como empreendedores sociais e investidores de impacto, ajudam a gerar uma compreensão mais profunda do status quo, dos desafios e das oportunidades de investimento de impacto na América Latina.

Este estudo conclui que o investimento de impacto na América Latina, até o momento, opera como uma subcategoria de Venture Capitals e Private Equities especializados. Os fundos de investimento de impacto identificaram um nicho de mercado que lhes permite investir em empresas que acreditam que irão gerar tanto retornos financeiros quanto impacto social. Histórias de sucesso de investimentos recentes serão cruciais para desenvolver ainda mais a indústria local e reduzir o domínio dos investidores estrangeiros na América Latina. Com maturidade crescente, os especialistas do setor esperam que o investimento de impacto se diferencie dos Venture Capitals tradicionais e dos Private Equities por meio de opções financeiras mais exóticas, como empréstimos baseados em receita e garantias de crédito.

Palavras-chave: investimento de impacto, negócios sociais, mercados emergentes, América Latina, venture capital, empréstimos baseados em receita

**PALAVRAS CHAVE:** investimento de impacto, negócios sociais, mercados emergentes, América Latina, venture capital, empréstimos baseados em receita.

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## Abbreviations

AUM	Assets under management
BoP	Bottom of the Pyramid
CAGR	Compound annual growth rate
CSR	Corporate Social Responsibility
EdTech	Educational Technology. Abbreviation for companies that aim to use technology and digital solutions to offer new business solutions in the educational industry
ESG	Environmental, Social, and Governance
FinTech	Financial Technology. Abbreviation for companies that aim to use technology and digital solutions to offer new business solutions in the financial industry
GDP	Gross Domestic Product
GIIN	Global Impact Investment Network
HDI	Human Development Index
HealthTech	Healthcare Technology. Abbreviation for companies that aim to use technology and digital solutions to offer new business solutions in the healthcare industry
KPI	Key Performance Indicator
LAVCA	The Association for Private Capital Investment in Latin America
NGO	Non-governmental organization
PE	Private Equity
SDG	Sustainable Development Goal(s)
SRI	Socially Responsible Investments
VC	Venture Capital

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## 1. Introduction

Sustainability and climate change have been some of the international media's most dominant topics over the last years. Especially the movement "Fridays for Future", personified by Greta Thunberg, has given the issues new momentum. Increasing customer orientation towards sustainability and ethical consumption has put pressure on producers and all other actors in international commerce.

Simultaneously, sustainability has also taken hold into the financial sector. Different FinTech startups like Nubank in Brazil, Robinhood in the USA, and also in Mexico promote services that promise to lead to increasing financial inclusion. At the same time, other startups like the German digital bank Tomorrow aim to change the whole way people engage with their banks in a more sustainable way.

Regarding overall financial markets and investments, sustainability is increasingly finding its way into the mainstream markets like Wall Street. Most leading Western and European investment banks have set up alternative investment funds that aim to align their main activities with the new customer orientation towards sustainability. Deutsche Bank, for example, offers its customers to invest, among other things, into the "Green Climate Fund (GCF)," the "European Energy Efficiency Fund (EEEF)," or the "Africa Agriculture Trade and Investment Fund (AATIF)." Similar developments can be found in different emerging markets, as well.

With the world's gross domestic product (GDP) at USD 85,8 trillion in 2018 (Worldbank, 2019) and USD 68,2 trillion traded shares in 2018 (Worldbank, 2019), the financial markets play a crucial role in global markets, global trade and the allocation of capital towards different business sectors. Thus, one can say without a doubt that investors and financial markets play a dominant role in setting the agenda and frame for economic and political development. According to Schroder 2017 Global Investor Study, 78% of the interview fund managers stated that they place more emphasis on sustainability now compared to five years before (Yang, Akhtar, Dessard, & Seemann, 2019). The focus on sustainability and impact creation did, consequently, not only change the consumers' behavior but also the way (fund) managers look at the business.

The Global Multidimensional Poverty Index (GMPI) has been developed as an aggregate indicator to measure progress against the United Nations' Sustainable Development Goals (SDGs). Despite all improvements, still, 1.3 billion people, or 23.1%, in 101 countries are multidimensionally poor (United Nations Development Programme, 2019). The United Nations formulated the 17 SDGs that summarize humanity's most crucial challenges. Those challenges relate to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice, among others (United Nations, 2019). The SDGs do not only help to measure the state of development but also to define different fields of action that were occupied by governments and foundations.

Not only researchers but also practitioners claim that a change of paradigm in the financial sector may help to foster and boost social entrepreneurship and change the way business is done. Consequently, the dynamics, partially, move away from pure shareholder value maximization towards more holistic considerations. Although humanitarian aid has continued to increase, private are increasingly encouraged to tap into the field that combines financial returns with social improvements. Private businesses move into areas that formerly governments, philanthropic organizations, and individuals have dominated. Rather than a necessary evil that must be curtailed, business practices are more and more perceived as a powerful force that can be harnessed for good. Start-ups and entrepreneurship are, indeed, increasingly recognized as the solution for many social and environmental challenges. The generally more positive perception of business in society is also reflected in a partial change in some investors' mindsets. One prominent example of such an initiative is the G8 Social Impact Investment Taskforce. Former UK prime minister David Cameron announced: "We've got a great idea here that can transform our societies by using the power of finance to tackle the most difficult social problems. The potential for social investment is that big" (Gov. UK, 2013).

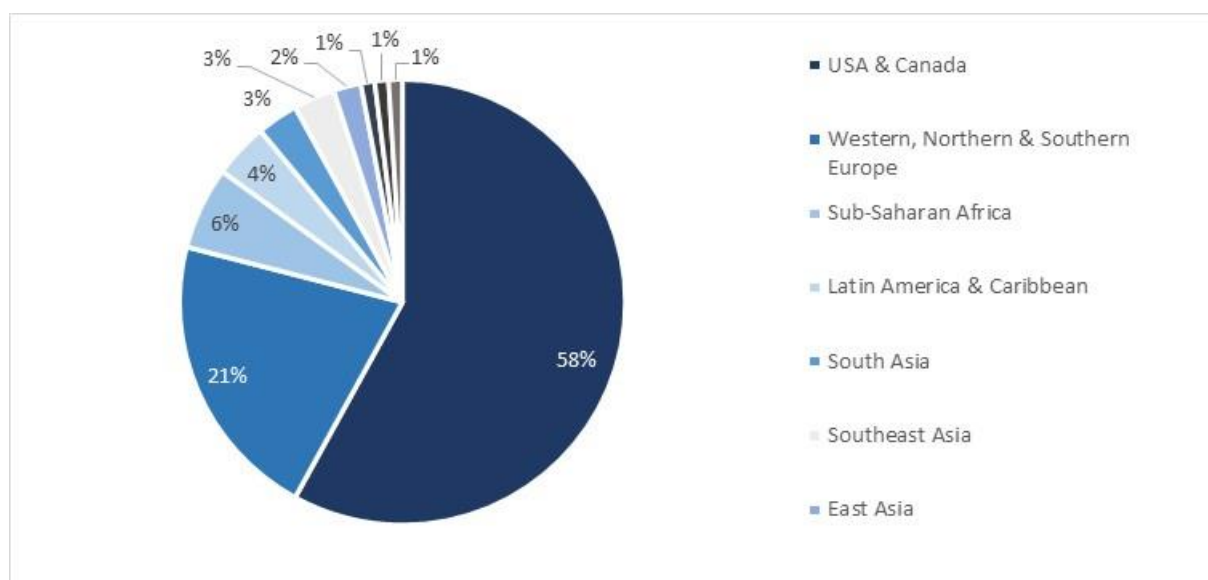
Even though the concept of impact investing<sup>1</sup> is relatively new, it has gained increasing attention.

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<sup>1</sup> The term impact investing will be explained in more detail in chapter 2.2.2.

In 2018 1,340 self-declared impact investors reported having USD 502 billion assets under management (AUM) directed towards impact investment (Mudaliar & Dithrich, 2019). Impact investing is, however, still a niche market. It represents less than one percent of the total global USD 79 billion AUM (Fages, Beardsley, & Brömstrup, 2018). Most developed financial markets are concentrated in the global North. This also holds when it comes to impact investing. There is an intense concentration of impact investors in the United States of America and Western Europe. Looking at the location of impact investors' headquarters (HQs), the US (47%) and Western Europe (28%) are home for three fourth of all global impact investors. In total, approximately 80% of all impact investors' locate their headquarters in developed markets (Mudaliar, Bass, Dithrich, & Nova, 2019).

Figure 1: distribution of impact investors' HQs, 2018



Note: This figure illustrates the distribution of global impact investors HQs by regions. The data was measured in % of the GIIN Annual Impact Investment survey respondents. Data is adapted from Mudaliar & Dithrich (2019).

Simultaneously, the global South is being perceived as the driving demand side, meaning that most impact investors target companies and projects in emerging markets. Looking at the statistics and figures provided by the Global Impact Investing Network (GIIN), this common perception, however, may be questioned. Nevertheless, it holds that there is a dramatic imbalance between funds directed to emerging markets and funds primarily located in emerging markets. While there are few funds with a regional focus, the dominant capital again is invested by local subsidiaries of internationally operating funds. This study sheds light on the industry's development, not only globally but especially locally in Mexico and Brazil.

## 1.1. Research problem

From a theoretic perspective, the field of impact investing is still relatively immature. The frequent usage and misperception of different theoretical terms that combine financial activities with ethical considerations requires a clear definition and distinction of the different concepts. Different researchers, such as the Global Impact Investor Network's (GIIN) co-founder Antony Bugg-Levine and Stanford professors Paul Brest and Kelly Born, have come up with first definitions and theoretical frameworks. Those are, however, still subject to academic discussion.

From an empiric perspective, impact investing represents a new topic, as well. Therefore, data is still scarce and dispersed. The GIIN is developing the dominant industry database. ImpactSpace and Investment Alpha are two additional alternatives that aim to quantify the impact investing markets. This data is, however, not centralized and lacks, moreover, granularity. Information is available on global scale with insufficient information about local particularities. Local, quantitative data regarding Latin America is, nevertheless, provided through investigations carried out by the Latin American Venture Capital Association (LAVCA) in cooperation with the Aspen Network of Development Entrepreneurs (ANDE). Local and global databases have, nevertheless, not been triangulated and combined for publicly available research. The first qualitative analysis of the Latin American impact investing industry, carried out by the consulting firm BAIN & Company in 2014, is, moreover, outdated and may not reflect the latest developments.

Organizations, as the GIIN and the Rockefeller Foundation, aim to support the industry's development and publish handbooks and guidelines for institutions and investors that plan to become active in the field. However, there is hardly any literature or guidelines that deal with the strategic positioning of local investors in the industry dominated by global players.

## 1.2. Research question and objectives

This master's thesis aims to contribute to a better understanding of the impact investing landscape and the advent and strategic positioning of local actors in Latin America, especially in its biggest countries and economies, Brazil and Mexico. To do so, the dominant literature will be reviewed and presented. Moreover, the analysis of qualitative and quantitative helps to deepen the understanding of the industry and its dynamics.

Firstly, based on the current literature, this study aims to present a concise definition of the term impact investing.

Secondly, this master thesis analyzes the macroeconomic environment in Mexico and Brazil and exemplarily identifies social challenges that represent business opportunities for social entrepreneurs and impact investors in Mexico and Brazil.

Thirdly, this master's thesis aims to present the current situation of the impact investing industry on a global scale and in Latin America. This research provides the analysis of the growth and the distribution of invested capital and actors operating in the market. Developments local and global scale will be analyzed. This research will investigate the reasons for the dominance of investors from developed markets. Moreover, the goal is to understand whether impact investing in Latin America solely follows a global trend or whether it has developed unique dynamics. Thus, the industry's development will be compared to the growth of the overall financial industry. Similarly, the distribution of impact investing will be compared to the allocation of financial aid payments. Therefore, this research's goal is to understand this possibly unique dynamics of impact investing in Latin America.

Fourthly, this research aims to quantify understand the dominance of international impact investors in Latin America. The research will describe the influence of international impact investors. Moreover, this research aspires to identify market segments that are uncovered by international investors and represent opportunities to local investors to position themselves strategically.

## 2. Literature review

Impact investing both as an academic and as a practical field is closely linked to the area of social entrepreneurship.

Consequently, the literature review starts with a definition of social entrepreneurship to set the ground for a subsequent definition impact investing. Especially challenges of social entrepreneurs will be pointed out.

In the second step, impact investing will be defined. Topics that will be covered are the development of different financial strategies that incorporate moral considerations, the strategic definition of impact investing, and the operational consequences of impact investing.

### 2.1. Social entrepreneurship

#### 2.1.1. Definition: doing well while doing good

Social enterprises aim to develop a business that creates social or environmental improvements while submitting themselves to the functionalities and mechanisms of the market (Martin & Osberg, 2007). By doing so, social businesses operate as complementary actors, having identified that governments and non-profit NGOs alone not been able to entirely solve some of the world's most pressing challenges on a global scale (Yunus, 2009).

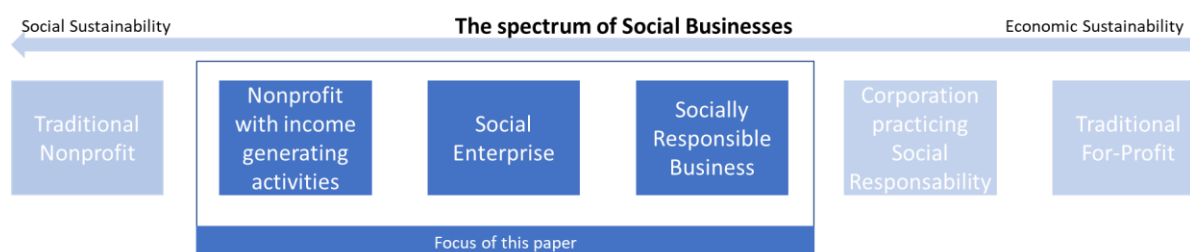
Entrepreneurs, in general, play the role of change agents in the economy. They opportunistically exploit institutional voids and social challenges once they identify them as attractive for business purposes (Dees, 2001). Entrepreneurs, in simple terms, create economic value. When it comes to social entrepreneurship, this value creation exceeds the purely private and monetary dimension and includes an additional social aspect. Building on this definition, most academics have agreed on four criteria that define social entrepreneurs:

The first central element is the *theory of change*: the social entrepreneur aims to change the status quo. He or she does not only want to create some social benefits but to create lasting social change. The social value creation is not only a secondary byproduct but centrally integrated into the business' mission (Martin & Osberg, 2007).

Second, social entrepreneurs need to offer a *market-based solution*: they commit themselves to the functionalities of the market. Therefore, social enterprises may identify institutional voids or social and environmental problems as business opportunities. Economists agree that only those social entrepreneurs that manage their resources effectively and efficiently will be able to serve consumers satisfyingly and attract potential investors (Dees, 2001).

Third, *financial sustainability* is imperative for social business<sup>2</sup>. A social business should not solely depend on grants or donations but have some income streams that help to finance its operations. In the long term, its capital inflows need to exceed its capital outflows. Figure 2 shows a range of types of social businesses, ranging from non-profit over hybrid models to for-profit (Alter, 2007). In this paper, nonprofits with income-generating activities, social enterprises, and socially responsible businesses, that comply with the beforementioned definition, will be treated as social businesses.

Figure 2: the spectrum of social businesses



Note: Figure adapted from (Alter, 2007).

Fourthly, scalability, and the theory of change: social entrepreneurs act as agents of change on the broader economy (Dees, 2001). Social enterprises may not be only local solutions but be expandable to other areas as well. Even if a single organization may be restrained to multiply its business, successful social enterprises inspire others setting off chain reactions. Other entrepreneurs may copy and adapt the ideas in different regions and industries. Moreover, they potentially build additional complimentary service upon the original social business (Martin & Osberg, 2007).

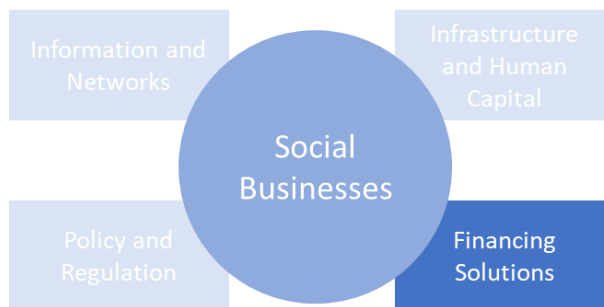
In this sense, social businesses follow the dogma of creative destruction in a social way. They, nevertheless, often lack the financial means to do so.

<sup>2</sup> The term *social business* will be used as a synonym for social enterprise.

### 2.1.2. Challenge: insufficient funding to scale operations

In addition to traditional models to analyze markets and industries, like Porter's five forces and the PEST analysis, there are more specific tools to analyze industries from the perspective of social businesses. The World Bank Group's Social Enterprise Innovation Team defined a set of four criteria (see figure 3), to access the social enterprise ecosystem in different regions (Navarrete Moreno, 2016).

Figure 3: the four pillars of a social business ecosystem



Note: Figure adapted from Navarrete Moreno (2016)

Literature shows that the lack of financial resources is, among others, one of the main obstacles to scale the social enterprise and its impact (Navarrete Moreno, 2016). Many social businesses are limited by the availability of resources. Like many startups, social entrepreneurs are, frequently, unable to entirely fund themselves through internally generated cash flows. Even having found their niche market and having gained acceptance for their value proposition, most social businesses, however, are not profitable or financially attractive enough to access traditional financial markets. (Bugg-Levine, Kogut, & Kulatilaka, 2012). Even profit-oriented social businesses that aim to generate financial returns alongside with social and ecological improvements have only limited access to traditional capital markets and growth capital (Cohen & Sahlmann, 2013; Bugg-Levine, Kogut, & Kulatilaka, 2012).

One major obstacle for mainstream investors consists in the assessment and valuation of social businesses. Conventional businesses are generally evaluated by their capability to create value in financial terms. This approach, nevertheless, falls short when it comes to social enterprises. Social entrepreneurship pioneer Dees states that "it is much harder to determine whether a social business is creating sufficient social value to justify the resources used in creating that value" (Dees, 2001). A significant challenge consists of the quantification of the created impact. Thus, traditional investors

tend to refuse to take the social impact of their investment activities into account (Bugg-Levine, Kogut, & Kulatilaka, 2012).

As a result, traditional venture capital firms seldomly invest in social businesses. This analysis becomes even more apparent, looking at early-stage and small-scale enterprises. Therefore, most social enterprises, in early stages, depend heavily on donations, grants and politically motivated subsidies rather than traditional growth capital. Those financial aids, however, do not provide enough capabilities to innovate and grow (Social Impact Investment Taskforce, 2014). In contrast to aggressive growth investors, many philanthropists and public agents traditionally refuse to motivate businesses to use profit-earning investments to advance their mission. Not infrequently, donations and grants are earmarked and cannot be used to cover overhead expenses, thereby shrinking organizations' operations and capability (Cohen & Sahlmann, 2013). This lack of adequate funding limits social enterprises' at various stages of growth, hampering the companies to scale. The lack of financing may consequently be a crucial obstacle for a more substantial impact created by social enterprises. Therefore, alternative financing solutions are required. Those alternative solutions are increasingly providing liquidity and helping social business to scale their operations.

## 2.2. Impact investing

### 2.2.1. Development: the financial industry integrates moral considerations

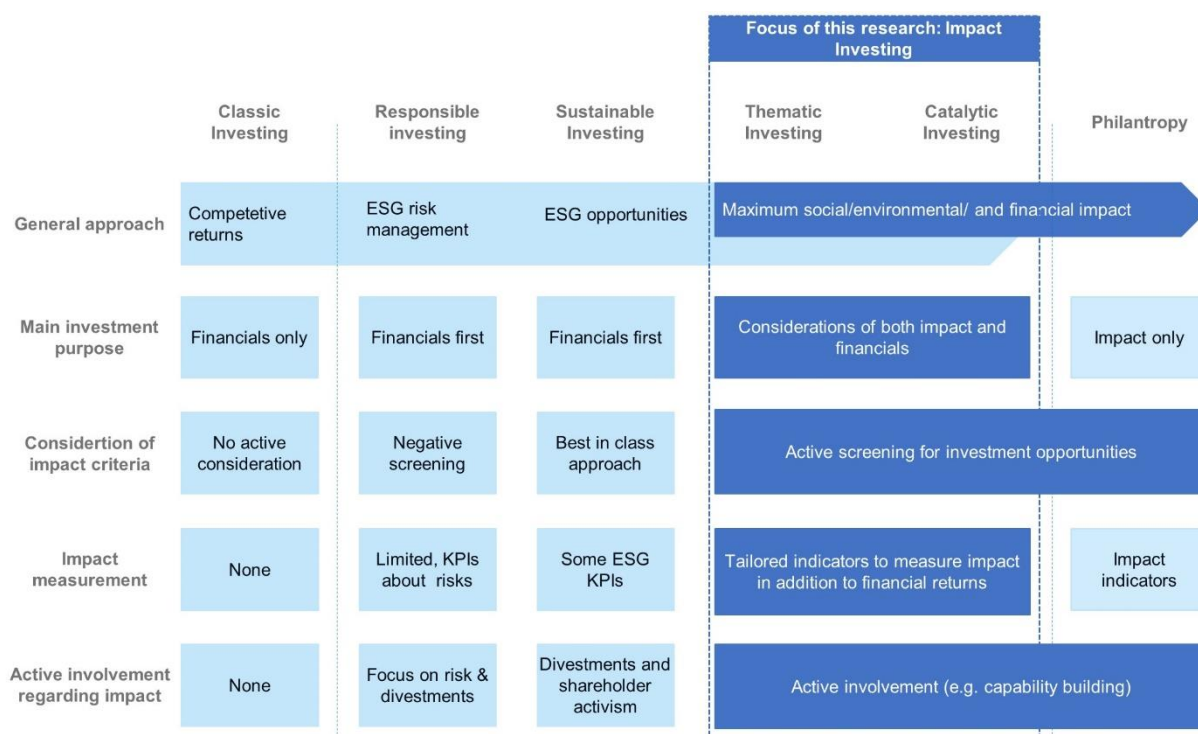
The alignment of social, ethical, and moral questions with economic activities has caught academics' and practitioners' interests ever since. In the beginning, high net worth individuals (HNWI) and foundations that aimed to align their financial activities with their moral beliefs drove the industry's development. Recently, it caught the attention of the mainstream market and more institutional actors (Hummels, 2016). With the development gaining momentum, a wide range of approaches and applications emerged. From a research perspective, academics came up with a variety of terms and concepts when talking about the integration of social and moral concerns into investment decisions (Glänzel & Scheuerle, 2015).

The overall span of activities in the financial sector is extensive. It ranges from traditional investments with the pure focus on financial returns to philanthropic donations without any expectations of monetary earnings. However, there are many strategies in between that, in one way or another, aim to combine financial activities with the investor's personal moral beliefs.

Different approaches have emerged that seek to structure the spectrum of investment strategies. The aim is to analyze and classify strategies to make them comparable. For the integration of investing and ethics as well, practitioners and researchers have applied different criteria. Some of the prevailing standard principles, on which most academics agree on, are:

1. What is the primary investment purpose of the investor? How does he/she balance financial returns and social/environmental/economic impact?
2. How does the investor consider impact criteria in the evaluation of investment opportunities?
3. How does the investor measure the impact that its investments may or may not create?
4. How does the investor get involved with his investment to ensure a potential impact (Yang, Akhtar, Dessard, & Seemann, 2019)?

Figure 4: the spectrum of social investment applications



Note: Figure created by the author. Input retrieved from (Yang, Akhtar, Dessard, & Seemann, 2019) and (Lai, Morgan, Newman, & Pomares, 2013)

On the broad range of investing approaches, both thematic and catalytic investing are subcategories of the more general term impact investing strategies. It is sufficient to distinguish impact investing itself from the other predominant investing strategies which helps to better understand the term of impact investing itself.

When it comes to the primary objective of the investment activity, impact investing aims to generate both financial returns and social/environmental impact. It can, thus, be clearly distinguished from all other categories of investments, as those have one single primary objective. While philanthropy focuses only on impact, all other approaches prioritize financial returns (Rockefeller Philanthropy Advisors, 2019).

Regarding the identification of investment opportunities and the consideration of impact measures in the process of an investment pipeline, impact investing may be considered an active approach, identifying suitable investment opportunities. It can, thereby, be distinguished from other socially oriented investment approaches. Responsible investment follows a much more passive path: negative screening. Rather than identifying and including investment opportunities that match the investment approach, solely investment targets that do not comply with specific criteria are excluded. Sustainable investing applies an even different approach, only investing in the assets of an asset class that performs best according to some impact criteria (Yang, Akhatar, Dessard, & Seemann, 2019).

Regarding the impact creation and measurement, impact investing stands out again. As will be explained in chapter 2.2., impact creation and measurement combined with financial metrics play a crucial role. While some philanthropies apply similar methods, the majority measures primarily the impact created, leaving financial aspects aside.

Going beyond the financial investment into social business and impact measuring, impact investors, commonly, just like some venture capitalists and most philanthropies, get actively involved with their respective investment targets and projects. A traditional stock-market retail investor, in contrast, gets seldomly engaged in any way with its investment target. Neither do socially responsible investors. They

only get active in mitigating risks. A traditional reaction consists of divestments. Sustainable investors, however, are traditional investors that tend to go one step further and to take advantage of their rights as shareholders to push the management into more mission-driven directions.

Having analyzed the different dimensions, that may be used to compare different investment approaches, impact investing stands out as a unique investment approach characterized by the following criteria (Global Impact Investment Initiative, 2019):

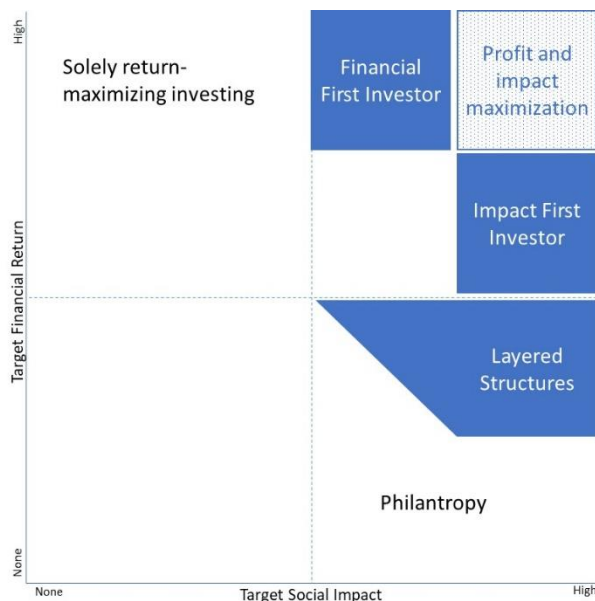
1. The investor aims for both financial return and social/ecological impact
2. The investor actively seeks to support a business that creates a positive impact
3. The investor measures the impact created through the investment

### 2.2.2. Definition: Balancing financial returns and impact creation

The term impact investing was firstly coined by a group of investors and industry pioneers under the leadership of the Rockefeller Foundation in 2007 (Hummels, 2016). It describes the practice of investing in projects, companies, and organizations that do not only yield attractive financial returns but also create some measurable impact (Bugg-Levine & Emerson, 2011). Nowadays, the Global Impact Investment Network (GIIN) provides the most widely accepted definition of impact investing as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return” (GIIN, 2019).

The pursuit both financial and impact goals is not only the main differentiating factor of impact investing compared to any other asset class (Stanford Graduate School of Business, 2019) but it is subject to several discussions of practitioners regarding impact investing. As a result, the concept of one aggregate indicator (the *blended value* that gives equal weight to finance and impact indicators) has been replaced by a two-dimensional metric, which currently is the structure-giving element in a variety of discussions and analyses (see figure 5). The two dimensions of the metric are the targeted financial return and the targeted social impact (Bridges Ventures and The Parthenon Group, 2010).

Figure 5: the balance of financial returns and social or environmental impact



Note: Figure adapted from (Bridges Ventures and The Parthenon Group, 2010)

As shown in the matrix (figure 5), three main orientations form part of impact investing:

1. Profit and impact maximization: investors give equal weight to both dimensions of the desired output.
2. Financial first investing: while impact creation is essential as well, the primary focus lies on financial returns
3. Impact first investing: while financial returns are important as well, the primary focus lies on impact creation

Moreover, some layered structures that include philanthropies may be considered impact investing as well. They refer to the combination of for-profit and non-profit investments.

Those investors who manage to align financial with impact goals perfectly, operate in the sweet spot, maximizing both objectives. In the long run, they may, however, be facing the dilemma of possible mission drift, if they must make decisions to prioritize one goal over the other.

While some researchers claim positive financial returns and sustainability to be positively correlated (Yang, Akhtar, Dessard, & Seemann, 2019), others argue that there is a trade-off between both goals

(Matthews, Sternlicht, Bouri, Mudaliar, & Schiff, 2015). Two leading schools of thought regarding the prioritization of financial results or impact generation have emerged. Some practitioners argue that any investor must prioritize financial returns over any additional objectives. From their point of view, even impact investors must follow a financial-first strategy (Rottenberg & Morris, 2013). Other researchers claim that the main differentiator of impact investors is the intense focus on impact creation. They, consequently, accentuate that impact investor must apply an impact-first strategy (Bannick, Goldman, Kubzansky, & Saltuk, 2017).

The broad consensus, however, is that investors may consider themselves impact investors if they aim to achieve both positive financial returns and social or ecological improvements. If they, depending on their individual strategic goals, follow financials-first or impact-first is a secondary method of categorization. The term impact investor, subsequently, applies to a range of investors. Not only those who are willing to sacrifice part of their financial returns and accept below-market returns to generate impact but also those who identify impact creating a business that promises above-market rate returns can call themselves impact investors. Moreover, investors may not always prioritize profits over impact, or vice versa, but adapt the priorities depending on the single investment opportunity (Bannick, Goldman, Kubzansky, & Saltuk, 2017).

#### 2.2.2.1. Strategic approach: Impact investors actively select investment targets

The second criterium to define impact investors is the way investors identify and approach opportunities. Impact investors do not passively screen investment portfolios and negatively exclude investment targets that are misaligned with their strategy and moral beliefs. In contrast, they actively search for companies that fit both criteria to build up investment portfolios (Rockefeller Philanthropy Advisors, 2019).

Those “thematic investors” include the impact creation and the respective business opportunity as a central part of their investment thesis (Bocken, 2015). Like conventional venture capital funds, they define a target market and industry that have the potential to work towards the investor’s theory of change. The United Nations' 17 SDGs constitute a standard orientation. Typical fields of investment

are sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible essential services, including housing, healthcare, and education (Business Insider, 2018).

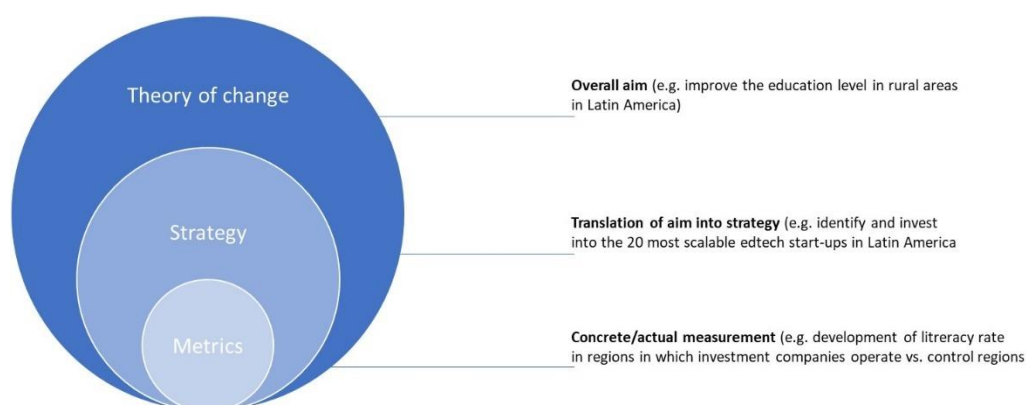
As for traditional venture capital funds, impact investors may have preferences for geographical regions. Regions mainly depend on the investors' knowledge, urgency identified, the personal preference, among others. However, the pure aim to accelerate the economic development in less developing markets through the provision of capital alone is insufficient to qualify as an impact investor (Bugg-Levine & Emerson, 2011)

From a practical perspective, investment managers need to align the identified industries and regions need with their core competencies and networks. This alignment is crucial for the investor to identify a variety of investment opportunities that have the potential to generate positive financial returns while creating a positive impact (Saltuk & El Idrissi, 2015).

#### 2.2.2.2. Strategic differentiation: Impact investors measure the created impact

The definition of impact Key Performance Indicators (KPIs) is a subsequent step to the definition of an investor's theory of change and investment strategy. Investors translate their theory of change into KPIs to measure the impact created through their investments (Saltuk & El Idrissi, 2015).

Figure 6: translation of investment strategy into impact measurement KPI

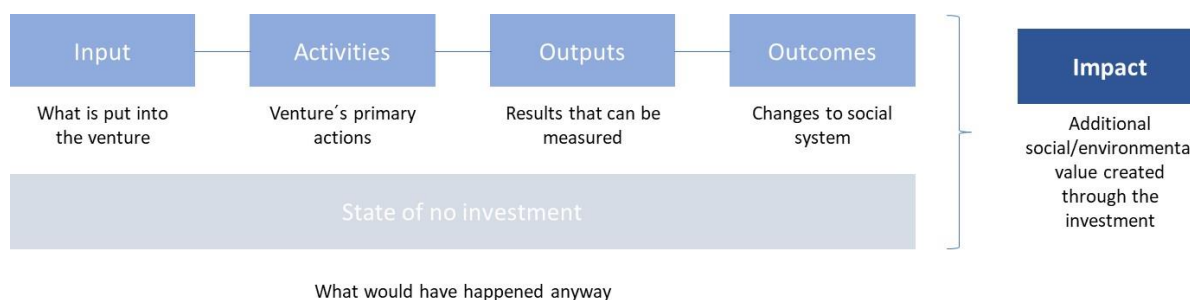


Note: Figure created by the author. Information retrieved from (Saltuk & El Idrissi, 2015)

To the concept of impact created, it is vital to define and differentiate the three terms *output*, *outcome* and *impact*, which are interlinked but have entirely different meanings. First, outputs are the measurable results from a business' operations (e.g., Students who attended a virtual course offered

by an EdTech start-up). Second, outcomes describe more the changes to a social system resulting from the outputs (e.g., Improvement of the literacy rate by 1% in a specific region) (Grabenwarter & Liechtenstein, 2011). Third, Brest and Born define the impact created through impact investors as “the increase [in] quality or quantity of the enterprise’s social outcomes beyond what would otherwise have occurred” (e.g., Literacy rate improvements are 0.2% higher than in the control region in which the educational technology (EdTech) startup does not offer its services; Brest & Born, 2013).

Figure 7: impact as the additional value created through investments



Note: Figure created by the author. Information retrieved from (Saltuk & El Idrissi, 2015)

Not seldom investors express the created impact relative to the input, mostly the invested capital (Ebrahim & Rangan, 2011). These figures may be considered an analogy to productivity indicators in financial analysis. A typical application of these indicators is the comparison in terms of efficiency of investments with programs offered by foundations and governments. Social businesses only turn out to be attractive and sustainable if they can prove to be more efficient than any already existing non-profit solution.

Despite such widely accepted models, the impacts created differ in dimension. Investors, consequently, still struggle to find models that make different ventures that tackle different social challenges in different regions comparable. The United Nations-supported principles for responsible investment (PRI) and global impact investing rating system (GIIRS), introduced by the Rockefeller Foundation, Acumen Fund and B-Lab, are representing two prominent examples to establish standard practices regarding impact measurement (Hanley, Margaux Wachner, & Weiss, 2015). Nevertheless,

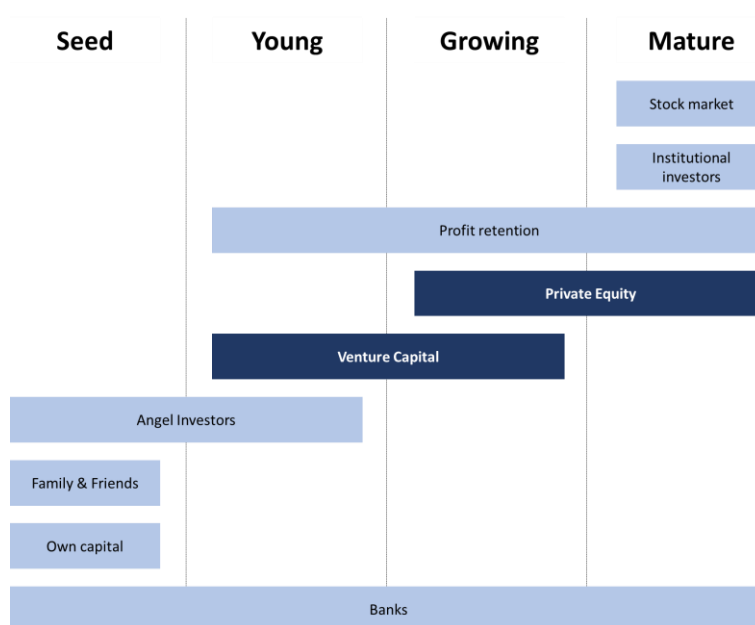
Facing the challenges of comparability and standardization, most impact investors still stick to tailor-made, individual impact measurement indicators.,

### 2.2.2.3. Operational execution: from traditional methods to financial engineering

#### 2.2.2.3.1. Investor types: Specialized funds exploiting a market niche

In theory, any investor may use impact investing as a tool to align his or her economic activities with his or her moral beliefs. So, endowments and large retail banks, as well as for foundations and venture capital funds, might engage in impact investing.

Figure 8: an overview of investment activities according to investee's business stage



Note: Figure adapted from (Marcus, Malen, & Ellis, 2013) and extended by the author

Due to a set of reasons, however, the impact investing industry turns out to be especially attractive for venture capital and private equity funds (Hochstädter & Scheck, 2015). Firstly, private equity and venture capital are generally more long-term oriented and less risk-averse than other, more traditional sources of capital (Bocken, 2015). Secondly, unlike large, less flexible institutional investors, venture capital, and private equity funds can adapt direct investments and loans to the needs and circumstances of the investment target. This deep understanding allows them to engineer the most suitable financial vehicles. They can not only dictate the conditions of the capital provision but also bind the provision of capital to the measurement of specific impact creation KPIs (Bugg-Levine &

Emerson, 2011). Consequently, private equity and venture capital have the most significant power to tailor individual solutions to generate social impact.

Some academics propose to declare impact investing as a stand-alone asset class. Stanford professors Brest and Born, in contrast, claim that impact investing is a niche market within the more prominent private equity and venture capital industry. They argue that several market imperfections have helped the impact investing niche in developing. Firstly, imperfect information makes it hard to estimate risks and returns. Secondly, small deal sizes raise the relative costs for due diligence and other transactions. Thirdly, exit options are limited. Fourthly, a range of developing countries may expose investors to a country and legal risks they would not face in their home markets. These frictions have two main effects on the impact investing market: on the one hand, socially neutral investors do not engage in impact investing. Additionally, traditional investors tend to be skeptic about the possibility of achieving both financial returns and social impact. Moreover, most traditional investors are inflexible in their institutional practices and may not be able to adapt to additional methods to evaluate impact investing targets. On the other hand, impact investors use the frictions and the void, resulting from the traditional investors staying away to generate both financial returns and social benefits (Brest & Born, 2013).

#### 2.2.2.3.2. Financial instruments: traditional methods and financial engineering

Impact investors may use the whole range of financial tools and mechanisms to help businesses thrive. Companies approaching impact investors may receive from grants, over secured loans to equity investment any form of financing that matches best with the company's need and the investor's strategy (Rockefeller Philanthropy Advisors, 2019).

The impact investing industry, however, continually seeks for innovation regarding financing options and financial engineering that adapt to the special conditions of social entrepreneurs (Bugg-Levine & Emerson, 2011). According to Bug-Levine, different strategies have already found their way into practice (Bugg-Levine, Kogut, & Kulatilaka, 2012). While also traditional venture capital investors use to co-invest with one another, the practice of investment pooling is even more important in the impact

investing space. When it comes to investment pooling, “catalytic investors” play a crucial role. Catalytic investors provide patient, flexible, long-term capital to finance the operations of high-impact organizations that are profitable, but not necessarily profit-maximizing. Moreover, they are willing to accept below-market returns, enabling enterprises to grow at low cost and thereby making the investment target attractive as well for more orthodox, more risk-averse and more profit-oriented investors (Schwarz, 2017). The initial catalytic investment may sometimes also go in hand with subsidies and grants. Investment pooling may also help to increase market efficiency. The impact investment industry, in general, compared to traditional venture capital, suffers from relatively high due diligence and operative costs. By sharing information and costs, investors establish closed networks and create synergies (Poethig, Onek, & Eldrige, 2019).

The legal structure and the early stage of a range of social business may cause that neither debt nor equity financing may represent suitable funding options for companies. As a result, the concept of quasi-equity debt and revenue-based lending has evolved (Scherr, Sugrue, & Ward, 1993). Quasi equity-debt and revenue-based lending describe debt financing that works like equity financing. Rather than predefine a fixed payment structure, the investor and the entrepreneur agree on certain revenue participation. Generally, the payment ends, once a predefined multiple of the original loan amount is repaid. Even if usually a maturity date is set, the expected payment schedule, which is derived from the company forecast, suggests payment finalization much earlier than the maturity (Armeni & Ferreyra de Bone, 2019). By engaging in revenue-based lending, so investors and investees share both downside and upside risk more flexible than debt financing in cases in which a business is unable to raise any equity (UK Government, 2019). By having a predefined repayment structure, investors moreover protect themselves against the risks related to equity exits.

An additional tool that is currently rarely used but might help to foster the industry’s future development consists of guarantees. Guarantees work at the intersection of foundations and for-profit investment funds. Foundations may rather than investing directly into projects, attract private investors to do so by ensuring them a return in a certain range, even if the projects turn out to be a

failure (Talati, 2019). Researchers claim that securitizing loans may help to channel increased private capital flows into the impact investing field. Moreover, may it be used as a tool of risk mitigation, which subsequently allows investors to increase the average investment amount per funding round (The Kresge Foundation, 2017). GIIN researcher Mudaliar claims that guarantees that might attract additional private capital have the potential to increase the investment amounts into risky projects by 10 to 20 times (Talati, 2019).

Additionally, one of the pioneers of the impact investing industry, Sir Ronald Cohen, highlights the innovativeness of the impact investing sector regarding financial engineering. He especially highlights impact bonds that not only measure the impact but link the provision of funds itself to specific impact criteria and KPIs (Cohen & Sahlmann, 2013).

Summarizing, impact investors provide entrepreneurs, that previously did not have access to traditional financial markets, with capital. Similarly, the investors also enable business that already has limited access to capital markets to raise more capital than they would be able to with orthodox methods. By looking at different ways to structure the financing activities of social enterprises, the fundraising process becomes not only more complicated but also more flexible. Rather than offering blended returns to all kinds of investors, this approach allows enterprises to adjust their capital raising efforts to the risk aversions, return expectations and investment strategies of a diverse group of possible investors. Innovative financial engineering tools are, moreover, designed to deal with the increased risks related to social enterprises.

### 3. Methodology and scope

#### 3.1. Type of methodology

Impact investing is, as described in chapter 2.2.2., a financial practice that has only recently developed. The term impact investing itself was only coined in 2007. Therefore, the industry is still premature. Thus, quantitative data is still scarce and not consolidated but instead collected separately by different agents. With the sector mainly originating from developed markets, data from emerging markets is even more limited. Accordingly, quantitative analyses, such as multiple regressions are not expected to yield significant results. Nevertheless, there are different sets of databases that, in combination, may be used as a basis to gain insights above the state, the dynamics, and the development of the industry.

To generate a more holistic image of the state of the impact industry in Latin America, the analyses of those databases are combined with the extraction of information from sources of qualitative data. This qualitative approach that is expected to provide a better, more precise understanding of the already existing data (Creswell, 2014), was used to evaluate the research question “The state of impact investment in Latin America: an exploratory study based on the country analysis of Brazil and Mexico”

The combination of qualitative and quantitative data facilitates the analysis of overall trends through insights based on the experiences and opinions of several individual industry experts. So, in-depth insights gathered through qualitative research enrich the quantitative observations. Thus, this emerging industry, its opportunities, and challenges can be depicted in a more detailed way than would be possible through quantitative analyses (Creswell & Poth, 2017). Consequently, a qualitative analysis that strongly leverage the existing quantitative data is the method of choice to describe the state of development, the chances, and the challenges of the emerging field of impact investing in Latin America.

### 3.2. Scope: Brazil and Mexico as the leading economies in Latin America

Geographically the research focuses on Mexico and Brazil. Both countries are not only the most important economic markets in Latin America but also represent the most influential political and social powers. Mexico, with a population of approximately 126 million people and a GDP of approximately USD 2.2 trillion, and Brazil, with a population of approximately 209 million and a GDP of approximately USD 3.1 trillion, account for 52% of Latin America's population and 53% of Latin America's GDP (World Bank, 2019). Without any doubt, Brazil and Mexico are the two dominant economies and societies in the region that influence the economic and political agenda of the other Latin American countries. Knowing Latin America is a very diverse subcontinent, detailed regional analysis might yield additional information. Due to time and resource constraints, those regional analyses are, however, out of scope.

### 3.3. Data collection

#### 3.3.1. Quantitative Data

##### 3.3.1.1. Data sources

Regarding the development of the impact investing industry reports published by the Global Impact Investing Network and the Latin America Venture Capital Association in cooperation with the Aspen Network of Development Entrepreneurs (ANDE) served as the main sources for quantitative data.

First, regarding the industry's development on a global scale, most data is derived from the global industry reports provided Global Impact Investor Network (Mudaliar, Bass, Dithrich, & Nova, 2019; Mudaliar & Dithrich, 2019). The GIIN, a non-profit organization dedicated to increasing the scale and effectiveness of impact investing, is the worldwide leading organization when it comes to networking and research in the field of impact investing. Having said in chapter 3.1. that the impact investing industry is lacking one single trustworthy consolidated database, the best proxy to an industry-wide database is the compilation of the GIIN's different Annual Impact Investor Surveys. Every year, GIIN members receive a survey regarding their recent investment activities. To qualify as survey

respondents, the GIIN members must comply with three criteria. They must comply with the academic definition of impact investors, as described in chapter 2.2.2. (1), they must be institutional rather than individual investors (2), and they must have committed at least USD 10 million to impact investments since their inception or have made at least five impact investments (3; Mudaliar, Bass, Dithrich, & Nova, 2019). Second, regarding the industry's development on a regional scale, most data are derived from the regional industry reports published by the Association for Private Capital Investment in Latin America (LAVCA) in cooperation with the Aspen Network of Development Entrepreneurs (ANDE). The LAVCA, a non-profit membership organization, aims to promote private capital investments in Latin America. Like the GIIN, the LAVCA engages in a range of networking and research activities. In addition to extensive publications regarding Latin American Private Equity and venture fundraising, investments, and exits, the LAVCA published two reports regarding the state of impact investing in Latin America in 2016 and 2018. Like the GIIN's survey, the LAVCA's reports leverage data collected through questionnaires sent to its member organizations.

The two data sources were, due to two primary reasons, chosen as they enable the comparison of global and regional developments. First, the GIIN and the LAVCA in cooperation with the ANDE apply similar research methodologies. In their industry reports both publish the results of their membership surveys. Even if the information generated through the surveys only gives a snapshot of the industry, it is the best continuous source of information currently available. Secondly, the defined time horizon from 2014 to 2018 is covered by both data sources, as data available on a local scale has been collected in 2015 for the first time. Therefore, global observations can, with some caution, be compared to local findings.

Moreover, data regarding the macro- and microeconomic environment was collected from additional databases. The main source of data was the World Bank's World Bank Open Data databases. The database was estimated to be the most complete and best-quality databases when it comes to economic, political and societal indicators. Individual indicators were derived from supplementary, specific databases such as the World Bank's Global Findex database and the United Nations'

Development Program. Regarding the development of the financial industry on global and on local scale, supplementary data was derived from the database Statista.

### 3.3.1.2. Data consolidation

Having collected the available data regarding the impact investing industry from different data sources, a secondary step consisted of the consolidation of this data into two data sets. The GIIN, until now, has published the results of nine Annual Impact Investor Surveys. This research paper consolidates results from the last five surveys, published between 2015 and 2019 to one data set. Similarly, the LAVCA in cooperation with ANDE has published two regional industry reports. Thus, this research consolidates the data obtained through two reports into one data set.

It is important to mention that the sample of respondents of both the global and the regional impact investing surveys has changed over time. Nevertheless, this development of respondents itself qualifies as one indicator of the industry's development. Additionally, the analysis of the panel of respondents that have responded several surveys allows drawing a conclusion about the developing activities of established investors.

Moreover, the results from the GIIN's latest survey in combination with the GIIN's report *Sizing the Impact Investing Market* (Mudaliar & Dithrich, 2019) and the GIIN's freely available online database *ImpactBase* (ImpactBase, 2019) serve as the basis to describe the global status quo. Similarly, the latest report published by LAVCA in cooperation with ANDE serves as the description of the status quo in Latin America.

The analyses of the quantitative data concerning both the global and the local scale serve as the foundation for the understanding of the development and the status quo of the impact investing ecosystem in Latin America.

### 3.3.2. Qualitative data

Qualitative data was collected through semi-structured interviews with different important stakeholders of the Latin American impact investment industry. The interviews were carried out in order to gain a more profound and updated understanding of the available quantitative data. Moreover, additionally, the interviews provided new information regarding the following topics:

1. Explanation of the dominance of foreign impact investors in Latin America
2. Strategies for impact investors to distinguish themselves from foreign impact investors
3. Industries that are particularly attractive for local impact investors

#### 3.3.2.1. Semi structured interviews

The methodology of semi-structured interviews was selected for the collection of qualitative data. The primary reason for choosing semi-structured interviews was that this methodology allows to predetermine the content and to propose a structure of the interview on the one hand and to flexibly adapt the structure and the content to the topics addressed by the interviewee on the other hand (Longhurst, 2003). The semi-structured interviews contain questions and topics that must be covered but also allow the interviewer to additionally dive into issues that are brought up by the interviewee. The interviews followed a prepared interview protocol (Appendix 21 and 22) (Creswell, 2014). The interview protocol, moreover, serves to provide reliability, consistency, and comparability regarding the information collected during the interviews.

#### 3.3.2.2. Selection of the panel

A diverse interview panel served to combine and cross-check the insight generated through the interviews. The generated insights were, moreover, triangulated with the quantitative data obtained from the industry databases. Thus, the combination of different points of view generates an as holistic image as possible. This diversification, further, helped to reduce the impact of individual biases on the consolidated findings. Main criteria for the identification of possible interviews were the following:

1. Professional and academic background: All interview candidates must be actively involved in the field of impact investing or social entrepreneurship. In order to generate different points of view it was important to select interviewees that play different roles in the sectors. Those roles include primarily:

a. Impact investors: Impact investors themselves are expected to know the impact investing industry best. Thus, interviews with insiders and industry experts were expected to yield the broadest insights.

b. Social entrepreneurs: Many social businesses represent attractive investment opportunities for impact investors. Consequently, social entrepreneurs that have dealt with or even received impact investors may provide additional when it comes to the intersect of social business and impact investing.

c. Other experts in the field of (social) entrepreneurship: Researchers, academics and professionals working for accelerators, incubators and other organizations related to (social) entrepreneurship and impact investing may provide additional, more generic information of the macro- and microenvironment of the social entrepreneurship and impact investing industry.

2. Regional differences: To gather not only quantitative but also qualitative information regarding both major Latin American markets, Mexico and Brazil, interviewees were selected from both countries. Comparing the additionally obtained information it was possible to identify common characteristics of both markets and to pinpoint unique properties of the specific economy.

A process of three steps lead to the final interviewee sample. First, based on the beforementioned criteria a set of possible investors was identified. Second, citations and mentions in academic papers, industry reports and newspaper articles lead to the identified of the most recognized and important industry experts. Thus, they were expected to provide the most updated and deepest insights. Therefore, they were contacted via e-mail and LinkedIn and asked for their availability willingness to carry out an interview. Third, the final set of interviewees resulted, accordingly, from the availability

of the interview partners and the convenience of executing the interviews. Thus, the combination of judgement, convenience and opportunity led to the final selection of the five interview partners Armando Laborde, Luis Fernando Laranja da Fonseca, Pedro Vilela, Enrico Robles and Angel Sahagun. A detailed list of the identified, contacted and interviewed interview partners can be found in Appendix 32.

Following the sophistication method interviews were carried out until the quantitative data was deeply understood, triangulated and evaluated and responses repeated similar insights (Creswell & Poth, 2017) (Mason, 2010). Thus, a relatively smaller sample size of five interviewees generated enough additional insights. Each interview took between 30 minutes and an hour, so that time was not a limiting factor and interviewees could give detailed and high-quality insights. Thus, due to this quality of obtained information additional interviews with available interviews were not expected to yield new insights (Morse, 2000). One final reason for the sample size of five interviewees was the limited availability of identified interview partners as one natural limiting factor.

### 3.3.2.3. Technical execution

Due to the geographic separation, face-to-face interviews were not possible, and Skype- and telephone-interviews were carried out instead. The interviews were conducted either in English, Portuguese, or Spanish at the request of the interviewee. To facilitate the coding and analysis of all interviews, the records of the semi-structured were transcribed in their original language, using the professional transcription service AmberScript. All transcripts were checked manually to ensure the correctness. Transcripts in Portuguese and Spanish, were, in a second step, translated into English using Microsoft Office's translation functionality. Again, to ensure correctness and consistency, all translations were checked manually. All English versions of the transcribed interview protocols were coded manually to ensure the comparability of the findings and to make efficient use of the gained insights. Due to technical problems, the interview with Angel Sahagun could not be recorded. The transcript of the interview with him is a memory protocol, written down immediately after the interview. All transcripts can be found in Appendix 24-31.

### 3.4. Data validation and data analysis

Leveraging a range of different sources and both qualitative and quantitative information, the data is triangulated to guarantee data validity and quality (Creswell J., 2014).

First, mainly the World Bank data was analysed to investigate the micro-and macroeconomic environment for impact investing. Social and economic challenges provide a contextualization of the industry in Latin America, which also lead to the identification of three sectors that may be particularly interesting for impact investors. Social indicators in Mexico and Brazil will be compared with those in other countries and regions. A chronological analyse yields, moreover, information about the developments in the region.

Second, primarily based on the data provided by the GIIN and the LAVCA in comparison with ANDE, the development and the status que of the impact investing industry on a global and a local scale were analysed in the same manner to ensure compatibility. Dimension of the analyses were the status quo and the development (1), the distribution of capital flows in thematic and geographical terms (2), the sources of capital (3) and the challenges faced by impact investors (4).

Third, the impact investing industry's development and distribution was compared to the development and the distribution of PE investments and human aid payments.

The insights generated through the analysis of the quantitative data are, moreover, strengthened through the examination of the qualitative data generated through the interviews. Moreover, in accordance with the data validation strategies presented by Creswell the information obtained from the reports and trough the interview was triangulated with the theoretic concepts defined in the literature review (Creswell J., 2014).

## 4. Economic and social context: Economic growth & social challenges

Analysts' expectations regarding the development of the emerging markets, including Brazil and Mexico, were high at the beginning of the 21<sup>st</sup> century. Brazil forms part of the group of emerging

markets called *BRICS*, and Mexico of another group of emerging markets called *Next 11*. Both terms were coined by Goldman Sachs and used to market promising emerging markets as attractive investment regions (Lawson, Heacock, & Stupnytska, 2007). Financial analysts expected the economic development to continue and some of the emerging markets to bypass the predominating western economic powers by the mid of the century (Goldman Sachs, 2019).

Despite this promising outlook, the Latin American regional powers have faced challenges of different dimensions, especially in the second decade of the new millennium. The economies did not develop as expected. Therefore, a variety of social and environmental issues that were expected to be partly solved have not significantly improved.

#### **4.1. Economic development: reduced growth leads to decreasing GDP per capita**

Especially the Latin American emerging markets were adversely affected by both the decreasing demand from China and falling raw material prices on global markets (The Economist, 2015). While they have been able to show constant economic growth in the first decade of the millennium, they were not able to continue this trend in the last decade. While Mexico grew at a 6% CAGR from 2000 to 2010, it only grew at a 2% CAGR in the ten following years. Brazil has seen an even stronger economic downturn. The CAGR of -1% since 2010 contrast with the 14% CAGR of the previous decade (Worldbank, 2019).

As the first ten years of the millennium led to an increased development of the middle class, both Mexico and Brazil nowadays are considered Upper Middle-Income economies (Worldbank, 2019). Nevertheless, the economic turbulence of the current decade has affected the welfare of the Latin American population. The GDP per capita in Mexico has decreased by 5% since 2011. In Brazil, the GDP per capita has even plummeted by one third (Worldbank, 2019) over the same period. The Mexican (USD 9,698) and Brazilian (USD 8,920) GDP per capita, nowadays, lie considerably below the world average of USD 11,296.

In addition to its relatively low income per capita, Mexico (with a GINI coefficient of 43.4) and Brazil (with a GINI coefficient of 53.3) are characterized by relatively high inequality compared to most developed countries (see Appendix 20; Worldbank, 2019). Even if the developments regarding income distribution show some improvements over the last 20 years (see Appendix 20; Worldbank, 2019), inequalities can still be observed on a range of dimensions like gender, regions, age, and education level inter alia (The Economist Intelligence Unit, 2019). Moreover, poverty rates have recently increased again in Brazil. In 2017 7.4% of the total population was expected to live in extreme poverty. Additionally, 25.6% of the population was defined as poor by World Bank data (Douglas, 2018). With 46,2% of its population living in poverty (CIA, 2014), Mexico is facing more serious issues (Douglas, 2018).

The causes, as well as the dimensions of these inequalities are manifold. There is a variety of political, demographic, and economic explanatory indicators that are often interrelated and difficult to disentangle. However, one of the most applied dimensions to analyze both the Brazilian and Mexican society is race or ancestry, respectively. In Mexico and Brazil, geographical inequalities almost perfectly reflect the racial inequalities. Regions with high indigenous and Afro-Brazilian population rates show the lowest income levels of both countries. Regional, rural development may, consequently, also help to reduce social inequalities.

The presented World Bank data only considers development and inequality in monetary terms. Nevertheless, both development and inequality may be analyzed along other dimensions, such as life expectancy and access to different services. For a complete image, additional non-monetary data needs to be considered.

#### **4.2. Social challenges: regional inequalities hit rural and marginalized population**

Going beyond pure economic criteria, the Human Development Index (HDI) serves as an aggregate indicator to assess the development of certain countries or regions. The HDI consolidates a range of

data that may be grouped into three main categories: having a decent standard of living (1), being knowledgeable (2), and having a long and healthy life (3).<sup>3</sup>

In terms of the HDI, Latin America performs slightly better than the world average. However, in comparison to the OECD, Latin America lacks behind. Brazil and Mexico only occupy the 79<sup>th</sup> and 74<sup>th</sup> place<sup>4</sup> in the HDI ranking. However, both countries have shown significant improvements in that field over the last 30 years.

The HDI on the country level disguises the lack of development in certain regions, as in the case of Mexico and Brazil (The Economist, 2018). The beforementioned income inequality within both countries can also be seen when measuring the state of human development.

#### 4.2.1. Financial inclusion

One major challenge that has been identified by both researchers and businessmen is the lack of financial inclusion in Latin America. While globally 68,52% have formal bank accounts, in Latin America, only 55,14% of its population do so (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2018). Financial exclusion turns out to be a bigger problem in Mexico than in Brazil and other South American economies. The 2017 Global Findex on financial inclusion indicates that only approximately one-third of the Mexican adult populations possess formal bank accounts. Compared to the results from the 2014 Global Findex study, financial inclusion has even decreased (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2018). While only 37% of Mexican adults have access to formal financial accounts, more than twice as much declared to have saved cash at home (De la Garza & Pompa, 2017). In contrast, 70% of Brazilians own formal bank accounts. On a national scale, thus, both countries do not face the same challenges related to financial exclusion. Nevertheless, rural areas, in both countries, again, show higher rates of financial exclusion than urban areas (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2018).

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<sup>3</sup> To analyse the HDI more gradually, its three components have been translated into three social issues. The analysis of the status quo and development of those issues is expected to give the best indication about the overall development of the HDI in Mexico and Brazil. Due to the limited scope of the research additional indicators, as the quality of housing or the impact of climate change, have not been analysed.

<sup>4</sup>Out of 190 nations

Lacking financial inclusion is not a challenge by itself. In contrast, the pursuit of financial inclusion is rather an instrument to reach other more development goals. In fact, financial inclusion is linked to a range of SDGs (Sahay, et al., 2015). It is believed to contribute to poverty reduction, the improvement of people's livelihood, and economic growth (Porter, 2015). Access to formal financial services empowers people to launch and bolster (micro) businesses. Similarly, it enables investments in education. Adequate financial literacy and the resulting improved ability to manage (financial) risks may lead to increased savings. Through savings, people can protect themselves against economic downturns and unexpected financial crisis (The Consultative Group to Assist the Poor, 2016). Macroeconomically, incremental availability of institutional financial services fosters productive investments and consumption (International Finance Corporation, N/A). Once previously informal savings are converted into formal savings, these resources become accessible for investments in the local economy. As small enterprises can access loans and other capital sources, they can generate innovation and employment. Financial inclusion can especially empower the financially excluded classes and women (Sahay et al., 2015) and thus reduce income inequality and accelerate economic growth.

In conclusion, there is a need for more accessible and better suited financial products and systems, more in Mexico than in Brazil. Rural areas in both countries, however, would benefit from increased access to financial services. As pointed out, financial inclusion leads to a set of subordinate positive social developments.

#### 4.2.2. Education

Education is considered one of the most effective tools to promote economic and social development (Corrigan, 2015). Similarly, it has shown to be a valuable mean for reduced inequality (Ferreira, 2017). Analyzing the state of education may, consequently, help to gain an outlook on the future development of a range of depending indicators.

In terms of education, Brazil and Mexico have been able to improve the educational system over the last decades. Brazil, for example, has doubled the average years of schooling of the current generation

of children compared to their parents (Rincon, Rotenberg, & Malpass, 2017). Nevertheless, despite the improvements, both Brazil and Mexico lack behind the OECD average. Different indicators such as the gross enrollment ratio in tertiary schooling, the percentage of the population that at least completed lower secondary school, as well as the pupil-to-teacher-ratio (Worldbank, 2019) indicate that Brazil and Mexico need still need to improve the educational system, especially when it comes to accessibility of higher education. The beforementioned inequality is also reflected in education. Especially rural areas and low-income populations suffer from lower levels of education.

Nevertheless, Worldbank data indicates that both Mexico and Brazil spend relatively (as a share of their GDP) more on education than developed countries like the Netherlands, the United States, or the United Kingdom (Worldbank, 2019). Pure increases in investments may, consequently, not lead to the desired education improvements. In contrast, the way how these investments are distributed and used needs to be improved. This suggests that to improve the level of education in Brazil and Mexico, alternative solutions are required. According to a study by Endeavor, most employers in Latin America face the challenge of recruiting talented personal. One primary reason consists of the education system that does not prepare the students for the professional environment. Consequently, private, for-profit actors might increase their activity and fill the void, offering educational programs that serve as additional solutions to the common university and higher education programs (Endeavor Insights, 2019).

#### 4.2.3. Healthcare

Human development is linked to life expectation and the state of the healthcare sector in a country or region. Despite considerable investments and improvements in the healthcare sector in Latin America, significant challenges remain.

In theory, the Mexican state providing universal healthcare insurance coverage to its inhabitants. In Brazil, as well, approximately three-quarters of the population are affiliated with the national healthcare *Sistema Único de Saúde* (SUS).

According to the World Economic Forum, approximately half of the Latin American population, however, does not have access to qualitatively satisfying health services. In the case of Brazil, a study by the Federal Medical Council revealed that more than 90 percent of the population consider the healthcare systems, both public and private, to be very bad or at least mediocre (Rincon, Rotenberg, & Malpass, 2017). Similarly, in Mexico, despite almost universal health insurance coverage, more than half of the population does not trust public health services (Price Waterhouse Cooper, 2017). The system needs to improve in terms of cost-efficiency, speed of making appointments and attending patients, and even quality (Rincon, Rotenberg, & Malpass, 2017).

Again, the Mexican and Brazilian healthcare system reflect social inequalities. Especially rural areas suffer most from low rates of doctors and nurses per inhabitants (Garcia Ramirez, 2016). Therefore, despite public healthcare coverage, Brazilians and Mexicans increasingly decide to pay by themselves for medical services. By doing so, they reduce waiting times and get access to better-educated doctors and hospitals. This development, nevertheless, crowds out the economically disadvantaged and aggravates the problems of inequality. As public investments have not yielded the desired results, private actors may identify the possibility to step in and design products and services that are designed to the Bottom of the Pyramid (BoP).

## 5. The Impact Investing industry in numbers

As explained in chapter 2.1., social businesses increasingly tackle the social issues presented in chapter

4. Armando Laborde, the managing partner of the Mexican impact investing fund New Ventures, describes his approach towards impact investing and social development as follows:

“Not everything can be solved with a business model. [...] What can be served with a sustainable model will be. And let’s allocate the scarcest resource that is the grants [capital] for those strategies.” (Laborde, personal communication, 2019)

His statement, however, indicates that impact investing is not meant to replace and substitute public investments and charity activism. Impact investing, in contrast, is one additional tool to foster social development. There are, however, problems and challenges that are too unattractive for businesses so that non-profit solutions remain indispensable.

In the following, the development and the current state of the impact investing industry on a global level will be analyzed. Second, the particularities of the Brazilian and Mexican impact investing industry will be examined and compared to the observations on global scale.

### 5.1. Impact investing on a global scale

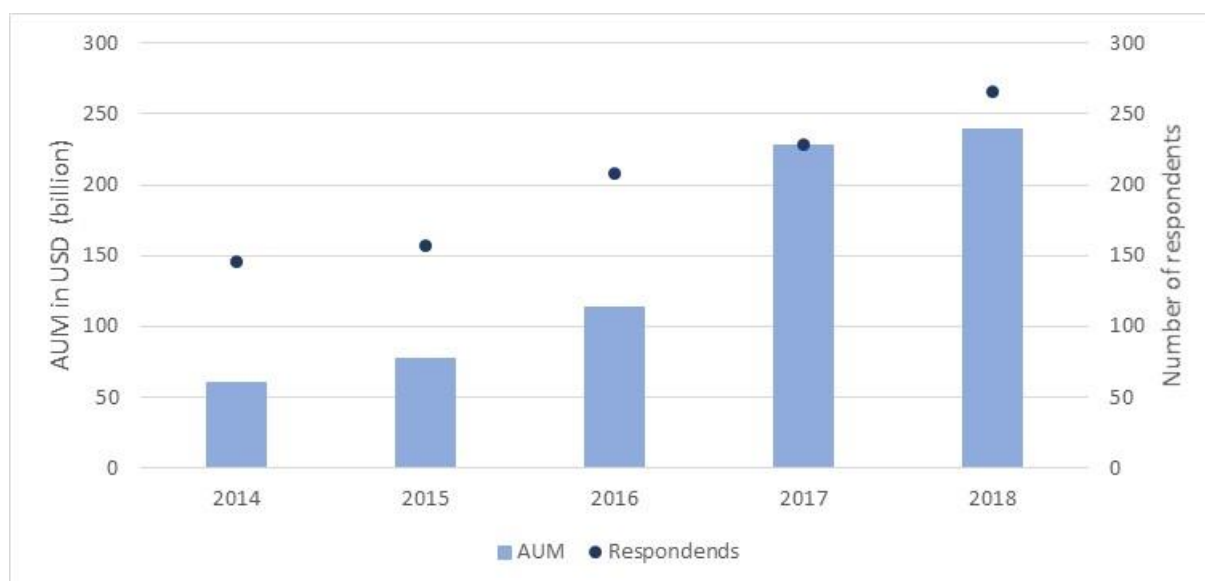
Based on information of the GIIN’s research “*Sizing the Impact Investing Market*” in 2018, there were 1,340 Impact investors, managing USD 502 billion (Mudaliar & Dithrich, 2019). However, this amount represents less than one percent of the total global USD 79 billion AUM in the financial industry (Fages, Beardsley, & Brömstrup, 2018).

While there are six dominant impact investing funds that all have invested more than one billion USD, there is also a large pool of small specialized funds (Impact Base, 2019), that concentrate on specific regions and industries.

#### 5.1.1. Development: Continuous growth

Over the last five years (2014-2018), the industry has shown constant growth. This becomes evident both in terms of capital invested and in terms of investors operating in the market (see figure 9).

Figure 9: development of the impact investment industry, 2014 - 2018



Note: The graph illustrates the development of the global impact investing industry. The AUM is measured in USD billion. The self-reporting impact investors are measured as respondents of GIIN's Annual Impact Investment surveys. Data derived and consolidated from different yearly GIIN reports resulting from the Annual Impact investor Surveys

Looking at the AUM<sup>5</sup>, the impact investing industry has shown a 41% compound annual growth rate (CAGR) from USD 10.6 billion in 2014 to 239 billion in 2018 (Mudaliar, Bass, Dithrich, & Nova, 2019).

Comparing the newly invested impact capital to the value of all Private Equity (PE) transactions (9,9% CAGR) during the same period (2014-2018; Statista, 2019), the impact investing industry grew more than four times as fast. Taking the yearly deal volume in the VC industry (27,7% CAGR) over the same period as another benchmark, the impact investing industry outperforms its more traditional counterpart (Statista, 2019). Consequently, the growth of the impact investing market is not only driven by a resurgence of global financial markets due to low interest rates and an overall orientation towards yield promising investment opportunities. The orientation towards impact investing, moreover, originates from strategic decisions made by fund managers. Activities in impact investing are increasingly aligned with the funds' core strategy. Regulatory requirements, in contrast, seldomly play a crucial role for fund managers. The orientation towards impact investing is mainly driven by fund managers' proactivity. Rather than reacting upon the clients' demands to shift to more sustainable investment options, investment managers themselves identify impact investing as an attractive asset

<sup>5</sup> As self-reported by the GIIN's Annual Impact Investing Survey's respondents.

class, offering this asset class to their investors (Mudaliar, Bass, Dithrich, & Nova, 2019). Impact investing is thus driven by the financial industry, specialized investment funds, and several influential high net worth individuals rather than the large pool of retail investors (Mudaliar, Bass, Dithrich, & Nova, 2019). Once individual retail investors, however, recognize the potential of impact investing, this could boost industry growth.

Not only the AUM, capital investments, and fundraising but also the number of impact investors has grown significantly over the analyzed time period. The different GIIN Annual Impact Investor Surveys indicate an 82% increase over the five years period from 2014 to 2018 (Mudaliar, Bass, Dithrich, & Nova, 2019). Moreover, the new entrants set up increasingly bigger funds, thereby accelerating the growth even further.

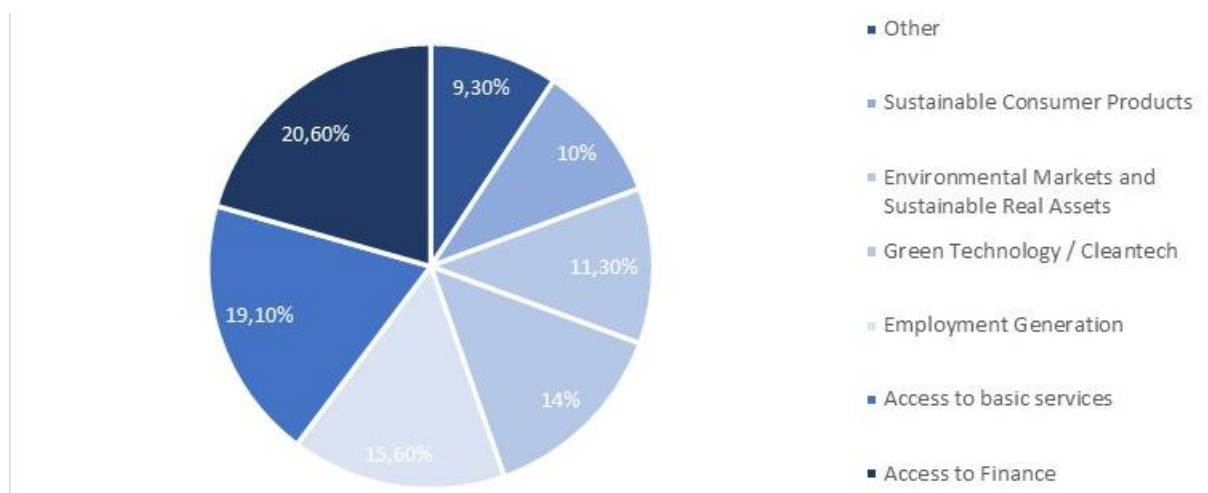
#### **5.1.2. Distribution of capital flows: regional and strategic diversification**

The growing impact investing industry channels capital flows into diverse economic sectors that tackle the world's most urgent and most pressing challenges. In line with their investment strategy, impact investors may have a focus on environmental or social improvements, with some investors looking for investment opportunities in both fields.

##### **5.1.2.1. Thematic: Clear focus on social improvements**

Impact investing, even though highly diverse, tends to channel more capital into businesses that aim to solve social rather than environmental challenges. According to the GIIN's latest annual Impact investor survey, 56% of the respondents aim for both social and environmental impact, 36% target only social objectives, and 7% seek for only environmental improvements (Mudaliar, Bass, Dithrich, & Nova, 2019). As can be seen in figure 10, more than half of all Impact investors define access to finance (20,6%), access to basic services (19,1%), and employment generation (15,6%) as their strategic objective (Impact Base, 2019).

Figure 10: primary target sectors of impact investors, 2019

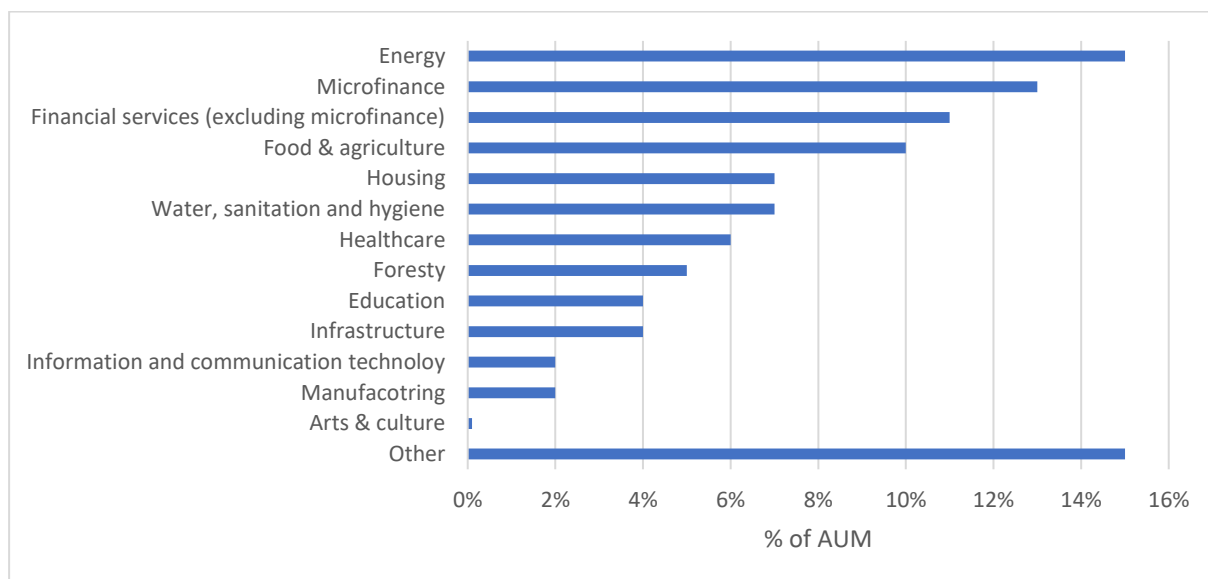


Note: data are presented in % of investors that accentuated a single' primary objective. Data is adapted from Impact Base. (2019).

Only 25% of investors primarily target businesses that produce and provide environmentally sustainable products and services. In line with their strategic orientation and theory of change, a significant share of impact investors has identified startups that contribute to the provision of access to finance (20,6%) and to basic services as their primary investment targets (19,1%; see figure 10). The analysis of the AUM yields similar results. Approximately one-fourth of AUM are destined to businesses that provide services that foster financial inclusion or offer improved financial services, especially at the BoP (Mudaliar & Dithrich, 2019). The investments in microfinance may be attributed to increasing employment generation and the alleviation of poverty as well. Figure 11 illustrates the

diversity of impact investing activities with respect to target sectors, indicating the rather equal distribution of fund allocation, with no single industry standing out significantly.

Figure 11: sector allocations of impact investing funds by AUM, 2018

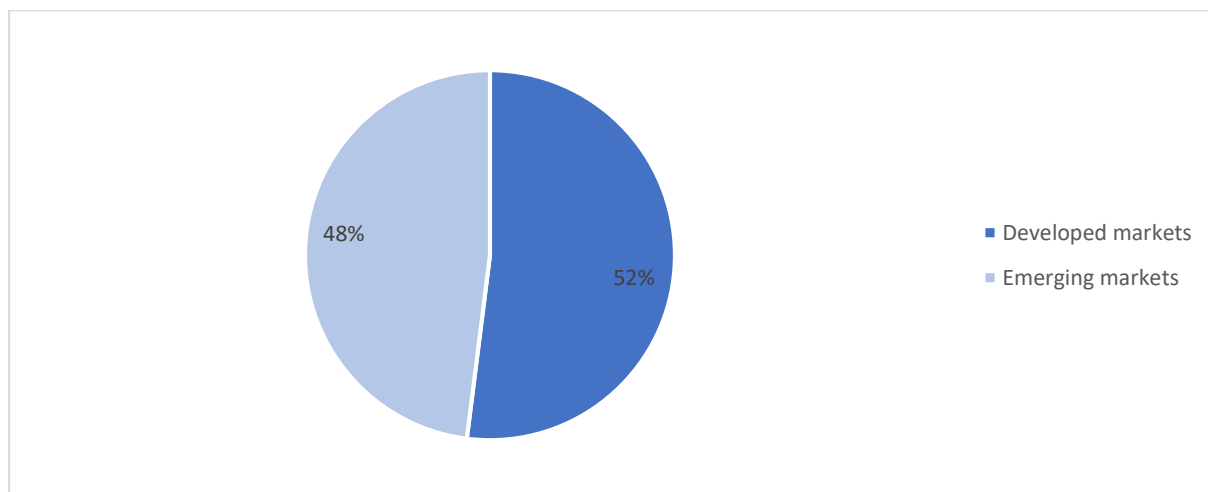


Note: This graph shows the allocation of AUM grouped by different industries. Percentages are calculated as the relative share of total impact investing AUM. The graph is adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019).

#### 5.1.2.2. Geographic: Equal investments in developed and emerging markets

The regional distribution of impact investing capital represents the second line of analysis of impact investors' activities. While only a few investors have global coverage, most investors concentrate their activities on a few target markets, which are not necessarily logically connected for the external observer. Figure 12 shows the distribution of investors with a clear regional focus, indicating that they invest 75% or more of their funds in a single market. Those investors can be divided equally according to their preference for emerging markets (48%) or developed markets (52%) (Mudaliar, Bass, Dithrich, & Nova, 2019).

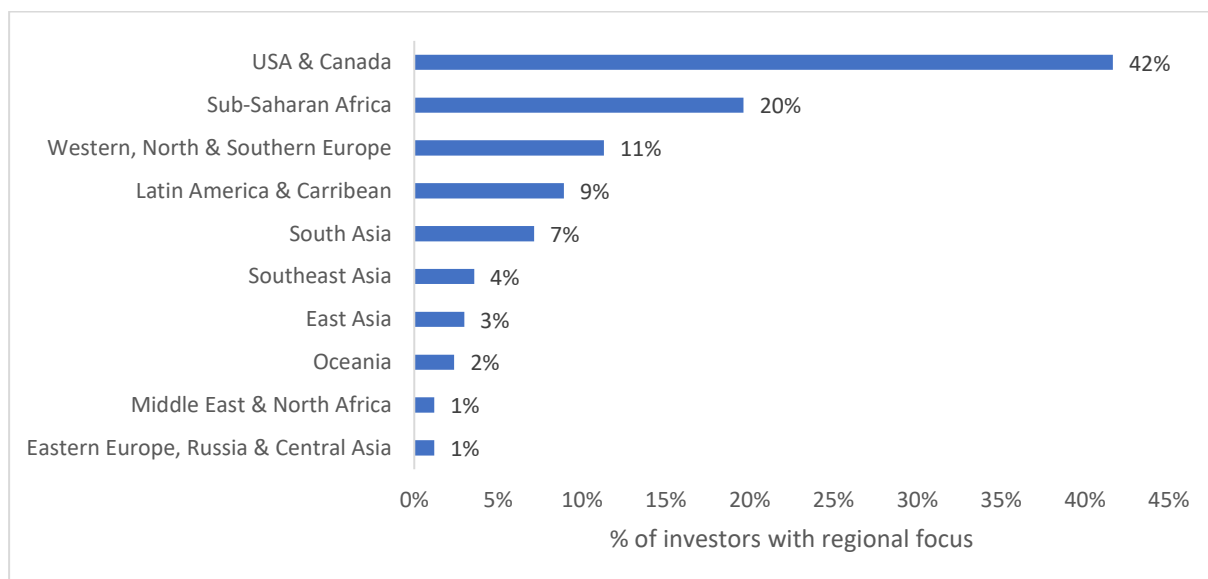
Figure 12: impact investing funds' regional focus, 2018



Note: The percentages represent the relative share of the GIIN Annual Impact Investors' survey respondents. The graph is adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019).

Based on the presented data, the perception that impact investing would represent a shift of capital from the global north to the global south must be partly rebutted. Comparing the relative distribution of global impact investing activities with the allocation of global PE activities, emerging markets seem to be much more attractive for Impact investors than for orthodox PE activists (Statista, 2019).

Figure 13: impact investing funds' regional focus (as % of respondents)

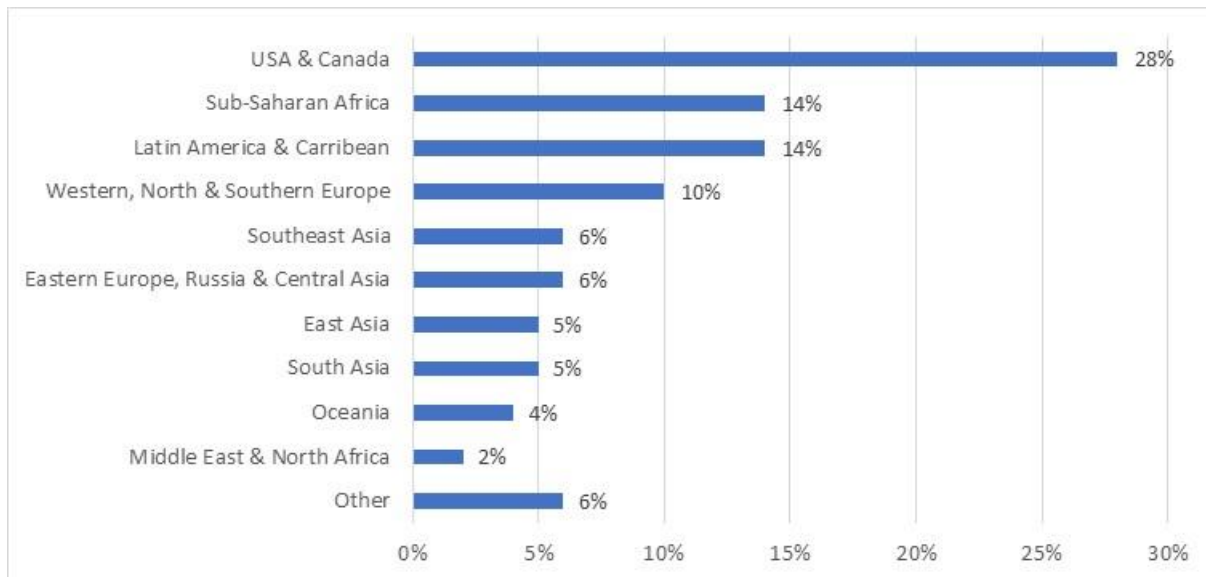


Note: The percentages represent the relative share of the GIIN Annual Impact Investors' survey respondents. The graph is adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019).

As becoming visible in figure 13, the US and Canada (42%) represent, by far, the most frequently chosen target market of regionally focused funds. The analysis of the distribution of the AUM (see

figure 14), as well, proves the outstanding situation of the US & Canada, with the region receiving 28% of the global impact investments. This is twice as much as any other region.

Figure 14: geographic allocations of impact investing Funds by AUM, 2018



Note: The graph shows the regional distribution of impact AUM as a % of the total global impact AUM. The graph is adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019).

Having identified the US and Canada as the leading impact investing destinations, all other investments are diversely distributed over the remaining regions. Regarding emerging markets, Sub-Saharan Africa and Latin America and the Caribbean (both 14%) stand out as the biggest recipients of impact investing capital in terms of capital flows. Nevertheless, there are more than twice as much impact investment funds focused on Sub-Saharan Africa compared to Latin America (Mudaliar, Bass, Dithrich, & Nova, 2019). The average AUM of impact investing funds in Latin America is consequently twice as much as in Sub-Saharan Africa. Investors are willing to allocate bigger shares of their investments in Latin America than in other regions. Thereby, they accept the risk of greater exposure to political risks in Latin America than in Sub-Saharan Africa. Latin America, in general, is rated as much more business-friendly than South Asia and Sub-Saharan Africa, the two principal regions that are expected to compete with Latin America for Impact Investments (Worldbank, 2019). This leads to the conclusion that, if the macroeconomic environment permits, impact investing may step in the void created through the inefficiency of aid programs and public policy.

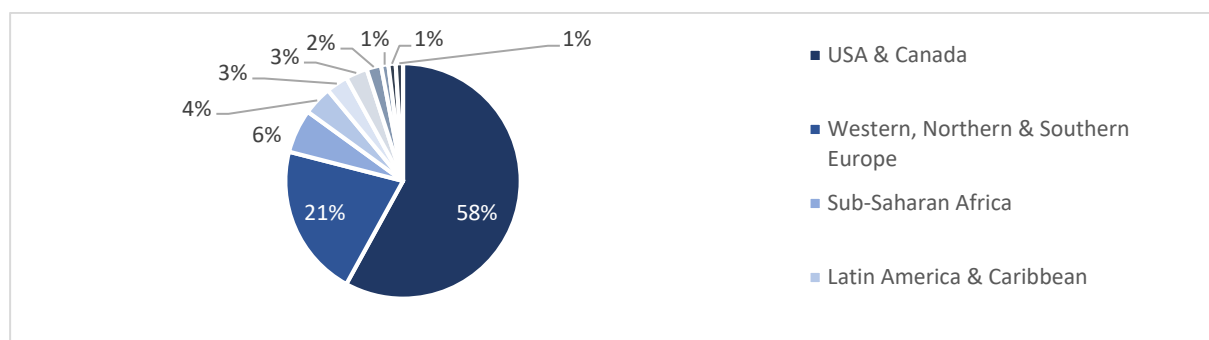
Thus, it is essential to highlight that the global distribution of impact investment flows does not mirror the canalization of global net financial aid (see Appendix 7 and 8) into the variety of regions (Worldbank, 2019). Sub-Saharan clearly receives proportionally more aid financing than impact investments. For Latin America, the opposite holds true. The subcontinent receives proportionally more Impact Investments than aid financing. This suggests that impact investing is not only in theory but also in practice executed in the interface of financial attractiveness and impact creation.

### 5.1.3. Sources of capital: Specialized funds from developed markets shape the industry

#### 5.1.3.1. Country of origin: Developed markets are the primary source of capital

In contrast to the destinations of impact investment capital, there is an apparent concentration regarding the origin of the Impact Investment capital. Figure 15 shows that almost four out of five impact investing funds have their primary operations and headquarters (HQs) in developed markets.

Figure 15: distribution of Impact investors' global HQs, 2018



Note: The percentages represent the relative share of the GIIN Annual Impact Investors' survey respondents. The graph is adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019).

Especially the US and Canada, with 58% of the Impact investors HQs, play a predominant role in shaping the industry. Not surprisingly, the GIIN has also established its operations in New York, close to both the majority of Impact investors and the center of tradition financial actors (Global Impact Investing Network, 2019). In this sense, the belief that impact investing stems from the global North holds true (Mudaliar & Dithrich, Sizing the Impact Investing Market, 2019). The concentration of Impact investors goes along with the general geographical concentration of financial activities and investors, which are primarily located in developed markets, most prominently in the US (Statista, 2019).

### 5.1.3.2. Type of investors: Specialized funds dominate the industry

Concerning the type of investors, the data shows that the sector is rather led by asset managers (64%) and foundations (11%) than banks or other diversified financial institutions. Especially asset managers occupy a leading position. This holds true for managers of both for-profit and not-for-profit funds. Asset managers that engage in impact investing, generally, do not identify the industry as a tool to diversify and reduce risk, but rather embed their investment purpose in the center of their investment strategy. More than 70% of for-profit funds and more than 80% of not-for-profit funds engage solely in impact investing. The concentration on this niche market allows the fund managers to differentiate themselves from other players and to present themselves to a special target group. Accordingly, they also develop industry expertise, financial engineering know-how, and networks which set the basis for their leadership in the growing industry. In contrast, only one-third of the banks that invest in impact investing focus on impact investing. For the other two-thirds, impact investing rather represents a way of diversification and risk management.

Impact investing, still a niche market, is consequently dominated by specialized players. Armando Laborde compares the activities of Adobe Capital, an affiliate fund of New Ventures, to traditional investment funds as follows:

“What you can tell is that all Adobe companies do have an impact component. And not so if you go to another fund. There will be one or another company that has an impact, but it is not the common denominator.” (Laborde, personal communication, 2019)

The specialized investors know the needs of Social Business and can tailor financial products to the customers' needs in the best possible way. Accordingly, private markets, that represent rather flexible sources of capital, outweigh public markets. Especially VC and PE represent the predominant source of impact capital (51%). In contrast, public markets of equity(1,5%) and debt (0,9%) do not play a substantial role (Mudaliar, Bass, Dithrich, & Nova, 2019).

The studies by the GIIN show that in practice only a small portion of investors is willing to sacrifice risk-adjusted returns in order to generate impact. According to the Annual Impact investor survey, only

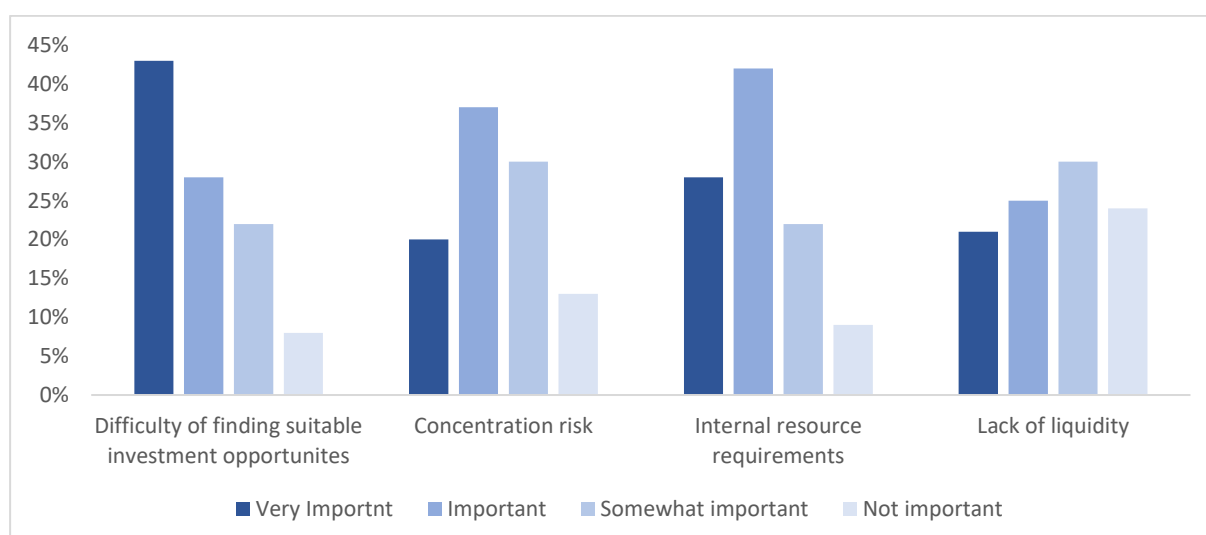
approximately one-third of Impact investors are willing to accept below-market-rate returns in order to ensure the desired impact. Thus, the terms and conditions of most impact investors can be compared to those of traditional VCs. Armando Laborde describes that investment negotiations in the impact investing field are held in the same manner as by traditional VC investors:

“There are entrepreneurs who suddenly believe that being an impact investment fund means softer conditions. [...] We are talking about investment money that is not ours; we are the administrators of this fund. There are some expectations of return. [...] Well, when it comes to negotiating, there are business negotiations. And certain returns are requested, and certain conditions are tied in the contract, to have a seat on the board and capacity to decide. But the [only] difference is that money will only go dedicated to this type of company. Those are not grants that are nor are preferential conditions right now. [...] We must take care of the interests of investors, and certain returns are expected.” (Laborde, personal communication, 2019)

#### 5.1.4. Challenges: larger funds struggle to source quality deals

Historically, Impact Investment funds were relatively small compared to traditional VC funds. Most transactions used to be sourced locally. Investment targets were mainly small and medium-sized enterprises, young startups, or even microbusinesses. However, larger funds aim to identify large scale business opportunities. As a result, the sourcing of suitable investments has become the industry's primary challenge (Fahy, Boardman, & Chow Collina, 2019).

Figure 16: impact investors' main challenges (as % of respondents)



Note: The percentages represent the relative share of the KBI Global Investors survey respondents. The graph is adapted from Fahy, E., Boardman, W., & Chow Collina, J. (2019).

On a global scale, the industry is in a very liquid stage, with capital available to be invested. To mitigate this issue, the large internationally operating impact investing funds are setting up regional

headquarters in their primary investment destinations. Being present in the specific area allows the investors to build closer networks to possible investment targets and co-investors.

## 5.2. Impact investing on a local scale: Mexico and Brazil

Latin America represents one of the most suitable areas for any investor that aims to diversify their portfolios and to obtain attractive yields in emerging markets (Worldbank, 2019). Therefore, in 2016, Latin America attracted the second-largest amount of emerging market impact investing capital. 17% of the USD 178 billion that flew into emerging markets were directed towards Latin America (Dummont, et al., 2016).

Despite a general economic downturn and political instability, Latin America is increasingly attracting risk capital. Yearly VC investments have grown at a 130% CAGR between 2014 and 2018 (Statista, 2019). The Japanese Softbank Group, one of the world's leading VC firms, recently announced the launch of a new USD 2 billion technology growth fund dedicated exclusively to Latin America (SoftBank Group Corp., 2019). Through unprecedented deal sizes, like a USD 1 billion investment into the Colombian delivery service firm Rappi (Hammond, 2019) and indirect investments into other, local VC funds (Mandl & Bautzer, 2019) Softbank is lifting the overall Latin American VC industry to a new level.

Latin America has not only been attractive for traditional investments but also for impact investments. This development has caught the attention of academics and researchers that aim to size the market.

### 5.2.1. Development: Fast growth boosted by new investors and larger deal sizes

In 2018 the Latin American Venture Capital Association (LAVCA), the leading organization for centralized research regarding VC and PE in the region, estimated that in Latin America the impact investors currently manage USD 4.7 billion (Latin American Venture Capital Association, 2018). Out of the 67 impact investors that engage in the region, 55 participated in one or more funding rounds in 2016 and 2017. Through 860 investments, impact investors deployed approximately USD 1.4 billion during that period (Davidson, et al., 2018). The Latin American impact investing industry is even less mature than the global industry. 80% of all investors that engage in impact investing in the region have

made their first investments after 2007. Comparing the data from the two available studies regarding the Latin American impact investing market from 2015 and 2017 show an almost quadrupling of AUM (see figure 17). The number of impact investors, however, slightly decreased over the same period.

Figure 17: the development of the impact investing industry in Latin America, 2014 - 2019



Note This graph combines the different LAVCA reports' data. AUM is displayed in USD billion, and investors are measured as total respondents to the LAVCA surveys. 2018&2019 represent expected data.: data derived from Dumont, et al. (2016) and Davidson, A et al. (2018).

The data of impact investing funds shows an increase of 49% in terms of the number of deals and 96% in terms of AUM comparing the two periods. This overall growth might be attributed to the establishment of new, more substantial funds. On the one hand, traditional large-scale PE funds, like *TPG and Partners*, have co-invested with global impact investing to make first investments in Latin America. The newly set up USD 2 billion *Rise fund* from TPG (Brumme, Lindsa, & Vikram, 2018), for example, invested USD 20 million into the Argentinean EdTech start-up *Digital House in 2017* (Endeavor, 2017). On the other hand, established impact investors have been able to attract more capital and could set up subsequent more considerable funds. Armando Laborde from the Mexican impact investing fund new Ventures explains his own experience:

“In fact, the goal of the second fund was to reach 40 million. We achieved 30. We are happy. It is a significant increase from 20 to 30.” (Laborde, personal communication, 2019)

New Ventures was, thus, able to raise a second fund that was 50% bigger than its first impact funds. These dynamics mirror the developments of traditional VC funds. Once the industry matures and individual fund managers can promote and prove their investment hypothesis, they tend to raise new funds that are much bigger than the first funds. Enrico Robles, Endeavor Mexico's CFO and Intelligence

Director, names ALLVP as one prominent Mexican example of a VC that started small, succeeded investing in growing startups and thereby attracted larger investments for the following funds.

“They [ALLVP] are an ideal example of a VC that was formed, started with a \$2 million fund that today has more than 100 million managed. I think they were waves of maturation of the ecosystem where right now you are seeing all the fruits, we now have probably had like five interesting exits that have been and have been in three or four.” (Robles, personal communication, 2019)

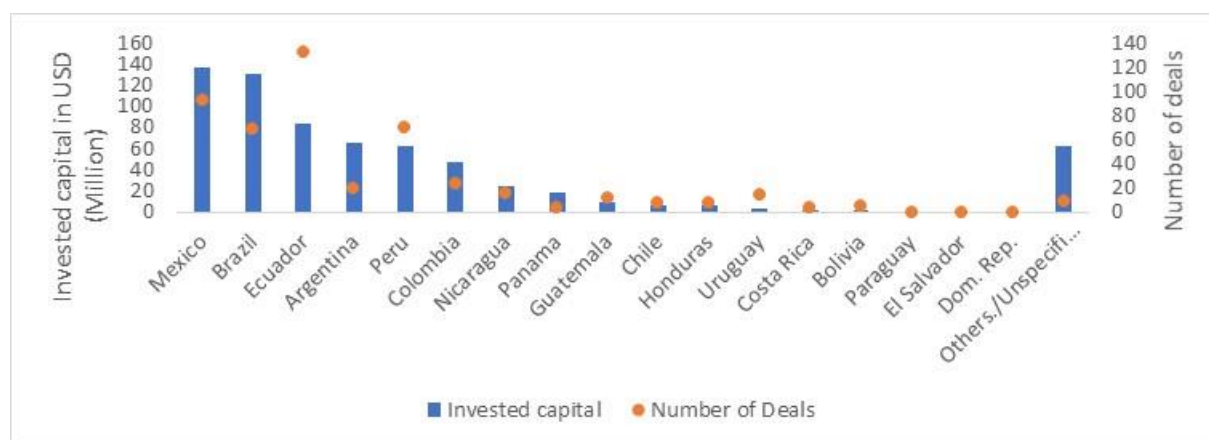
If the development of the impact investing industry follows the patterns of the traditional VC industry, industry maturation and success stories, such as first exits, will help the investment managers to continuously raise bigger and more funds. For 2018 and 2019, the active asset managers already expected to increase the AUM in impact investing in Latin America by an additional USD 2 billion. This includes both the set-up of new funds and the regional shift of existing funds towards Latin America. 64% of the already operating funds expect to participate in more deals and 82% aim to increase the AUM (Davidson, et al., 2018)

## 5.2.2. Distribution of capital flows: microfinance and focus on Brazil and Mexico

### 5.2.2.1. Geographic: Focus on Brazil and Mexico

Giving their regional dominance, Brazil and Mexico represent the largest destinations of impact investors that engage in Latin America (Dummont, et al., 2016).

Figure 18: impact investments in Latin America ,2016 & 2017

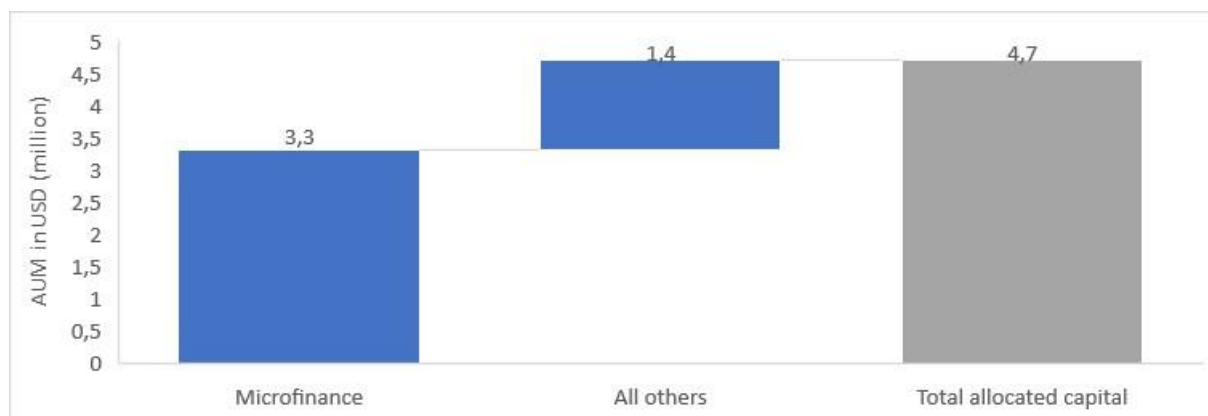


Note: this graph illustrates the regional distribution of AUM and investment deals across countries in Latin America. AUM is measured in USD million, and the number of deals is given in total values over the 2016&2017 time period. The graph is adapted from Davidson et al. (2018)

While most investors are regional players that invest in all economies of the region, there is a set of funds, focusing on one individual country. Regarding the future development, Mexico stands out with USD 411 million impact investment planned for 2018 and 2019. This is almost twice as much as Brazil (USD 236 million) for the same period. For 2018 and 2019, Mexico, Brazil, and Colombia (USD 191 million) are expected to receive almost half of all impact investments done in Latin America (USD 1.7 billion). Despite this uneven distribution of deals, it is essential to state that, since 2014, nearly all Latin American countries have shown growth in terms of impact investments, which is expected to continue in the future (Davidson, et al., 2018).

**5.2.2.2. Thematic: despite a concentration on Microfinance, technology-focused business drive growth**  
Regarding the thematic distribution of impact capital, figure 19 shows that microfinance plays a predominant role in Latin America (Valencia, 2019). Approximately 45% of impact investing deals are executed in the field of microfinance (Dummont, et al., 2016), representing 70% of invested impact capital (Latin American Venture Capital Association, 2018)

Figure 19: impact investing capital allocation by industry, 2016&2017

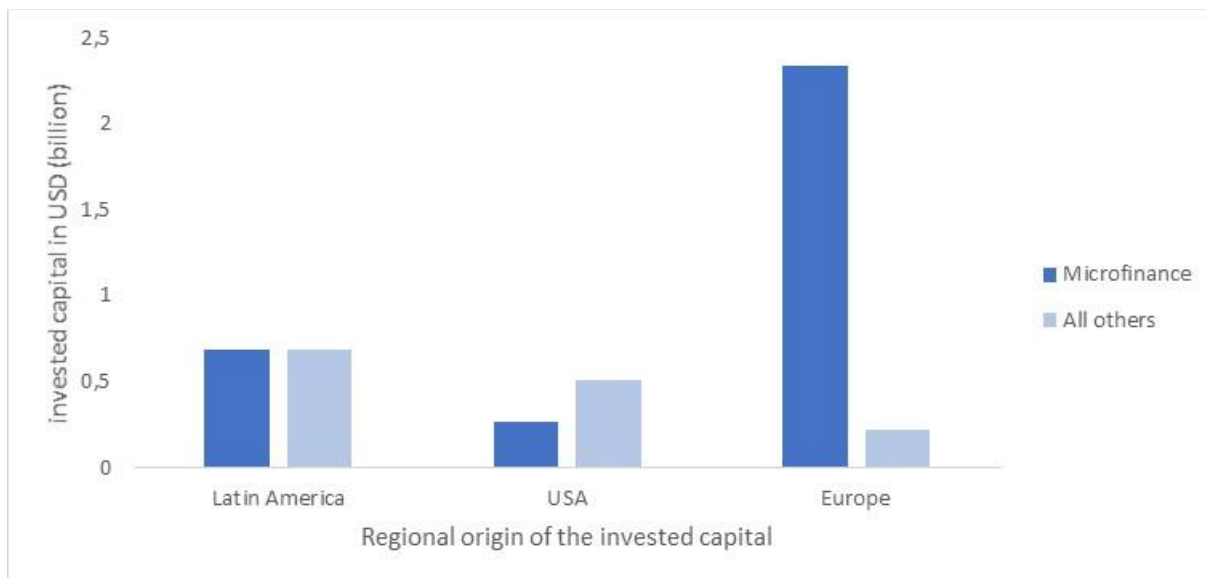


Note: This graph compares the investment in Latin America in Microfinance with all other destinations of impact investments. Investments are measured in AUM in USD billion. Data is derived from Davidson et al. (2018).

Even if microfinance is one of the most attractive sectors for impact investors on a global scale, this large concentration represents a unique characteristic of Latin America that distinguishes the regional industry remarkably from the world average. European impact investors clearly drive the focus on Microfinance. The European investments in microfinance (see figure 20) do not only represent more

than 70% of all European impact investments in the region but even approximately 50% of the overall Latin American impact investing market (Latin American Venture Capital Association, 2018).

Figure 20: European investors concentration on microfinance, 2016&2017



Note: This data compares the different investment foci of impact investors with HQs located in Latin America, the USA, and Europe. Data is derived from Davidson et al. (2018).

Microfinance has traditionally played an essential role in the Latin American subcontinent. The industry matured already in the 1990s, a decade before the term impact investing itself was even coined. Since its establishment, microfinance has shown impressive growth and already seen successful IPOs, like the one of Banco Compartamos in Mexico. Microfinance is the prominent role-model for the impact investing industry in Latin America. According to Armando Laborde, it has proven that it is possible to use business models to address social issues. Thereby, it has paved the way for entrepreneurs and investors to expand operations into other sectors.

“The rise of microfinance was the first sector that showed that we can use business models to address this problem. At least in Mexico, that sector began to mature in the 1990s and grow in the 2000s. Then, I think, it was like until 2000, the mid-2000s that we started to see other sectors developing this model.” (Laborde, personal communication, 2019)

Even though microfinance maintains its dominant position, in terms of capital investments, all other industries have, on average, grow 3,5 times faster than the microfinance sector (Davidson, et al., 2018). While until 2015, only nine Latin American countries could attract non-microfinance impact investments, 14 countries were able to do so until 2017. This large increase illustrates the expected

development of impact investing moving into a variety of regions and sectors, ranging from health over education to energy provision. While most impact investing funds have a well-defined theory of change and a clear investment thesis, they rarely concentrate on single industries. Luis Fernando Laranja da Fonseca, co-founder and managing director of the Brazilian impact investing fund Kaete Investimentos, describes his fund's approach as follows:

“There is no specific industry defined. So, we analyze opportunities for investment like in energy business, food, and beverage, tourism, infrastructure, etc. But at that end, we invested through this fund in three companies. And as a coincidence, all three companies are linked to forest or agribusiness. One company is a fish-processing company. A second is a soya-processing company. And the third is a babassu-processing company. Babassu is a native tree from the Amazon or native palm tree from the Amazon. So, in the end, we've invested in three companies that are, let's say, agro-processing companies. But it's just a coincidence. That's because more opportunities were identified in these agro-processing companies in the region.” (Laranja da Fonseca, personal communication, 2019)

Armando Laborde attributes the lacking industry focus to the immaturity of the industry itself. While, in theory, there are enough investment targets, it seemed hard to match the entrepreneurs' needs with the investors' resources:

“It was a very healthy strategy to look for companies that, in their activity, generate a positive impact, and that can generate returns. There wasn't much to choose from, and what you see there in the portfolio was what was selected. Right now, we're in Fund 2, but it has been contemplated for maybe sometime in the future. [...] Right now, if it's generating impact and has the potential to generate returns, you can qualify for Adobe.” (Laborde personal communication, 2019)

Local impact investors are following a primarily opportunistic approach. Currently, most they, in contrast to academic theory, limit their activities only in terms of geographical expansion. The industry's growth and maturation will lead the way to further specialization of funds.

“If the sector continues to grow, it makes sense to start making funds a little more specialized funds, such as in healthcare where we can already strengthen the knowledge of the sector itself and are able to have greater knowledge to evaluate a sector.” (Laborde, personal communication, 2019)

The development of impact investing and traditional VC, as well, is driven by a focus on technology. The high rates of smartphone penetration in Latin America allow the provision of services that are designed to satisfy basic needs through digital solutions. Despite massive investments in the agribusiness, especially social enterprises in the Information & Communication (USD 146 million) and

the FinTech (USD 51 million) industry are capturing the most significant impact investments (Davidson, et al., 2018). Technology enables companies to build scalable models with considerable impact. Promising technology-based companies, additionally, attract traditional investors. Pedro Vilela, managing director of Rise Ventures, a venture studio that focuses on non-technology-based business, describes the availability of growth capital for technology business as follows:

“Technology companies have access to incubators, accelerators and business angels. But the tech companies that grow passing this size have the support of Venture Capital with checks of 500 thousand US dollars to 20 million dollars to be part of the companies (Series A, Series B, Series C).” (Vilela, personal communication, 2019)

Promising, technology-driven social business, thus, do not depend on the investment of impact investing funds. Impact investors, however, may create other value that goes beyond the pure provision of capital and sets them apart from traditional investors. Angel Sahagun, founder and CEO of the Mexican digital bank albo, has gained Omidyar Network as one investor. Sahagun points out that the main differentiator of the impact investing fund consists of their operational involvement in the company’s culture. The impact investing funds do, however, not challenge and monitor the company regarding financials or impact metrics in different ways than any other investor,

“They [Omidyar Network] entered at the same valuations just as everyone else as well.”

“We have our own internal metrics, like conversion rate, retention rate, growth etc. But no, they do not ask any additional KPIs.”

“They primarily care about our culture. In every meeting, they also talk about and challenge the way we do business. They are mainly about culture.” (Sahagun, personal communication, 2019)

The analysis of the portfolios of the leading impact investing funds in Latin America supports the orientation towards technology-driven businesses. The leading Brazilian impact investing fund, VOX Capital, has a clear focus on Fintech, healthcare and education (VOX Capital, 2019). Similarly, the leading Mexican impact investing fund, IGNIA Capital, has, despite a broad investment thesis, clearly executed the majority of its deals in the Fintech industry (IGNIA, 2019). Departing from this analysis, FinTech, EdTech, and HealthTech will be presented as three of the most important industries for future impact investments in Latin America.

#### 5.2.2.2.1. FinTech aiming for improved financial inclusion

Despite the focus on microfinance institutions, a range of FinTech companies are driving the movement of start-ups that aim to contribute to financial inclusion. FinTech companies are especially attractive for impact investors, and traditional VCs as well, as they represent scalable businesses that have the potential to create measurable social impact.

The term FinTech, a short version of “financial technology,” refers to companies that digitalize financial services (Skan, Dickerson, & Masood, 2017). Therefore, FinTech companies seldomly come up with entirely new business models but rather improve the efficiency and convenience of existing ones.

As mentioned in chapter 4.2., high costs related to banking represent are one of the most important reasons for people to not open bank accounts. FinTech companies, however, include people in the financial system through more affordable services who previously have been overseen by the financial industry (Mackenzie, 2015). They, additionally, target people that have bank accounts but, due to unsatisfying services, do not use them. FinTech companies, consequently, resolve a second dimension of financial inclusion: the usage. This usage is often linked to indirect costs related to banking. Indirect costs include commutation and transportation to physical branches. Mexico, especially in rural areas, is suffering from insufficient coverage of branches (Rosada, 2014). Although Brazil shows higher rates of financial inclusion, this holds true for rural areas in Brazil, as well. Hence, digital solutions become very appealing in rural areas as they do not require any visits at remote physical offices. Therefore, FinTech companies may launch more affordable and convenient business models, products, and services. By doing so, they can contribute positively to improved financial inclusion in Latin America (Berkenheide, 2018).

Especially in Latin America, with high rates of financial exclusion, FinTech companies have attracted significant amounts of investments. Over the last years, companies like Nubank, Credits and GuiaBolso in Brazil have raised USD 1.1 billion (Crunchbase, 2019), 314 million (Crunchbase, 2019) and 56 million, respectively (Crunchbase, 2019; Dealroom, 2019). While investment sizes are smaller in Mexico, FinTech companies count to those start-ups that have been able to raise the most significant

amounts. Credijusto, Konfio and Clip have raised USD 153 million (Crunchbase, 2019), 353 million (Crunchbase, 2019) and 101 million, respectively (Crunchbase, 2019; Dealroom, 2019). Enrico Robles summarizes his observations regarding the investments in Fintech companies as follows:

“If you look at the Fintech Radar of Mexico and Brazil &...] In recent years, we have more than 400 ventures. Around Fintech, financial technology, most focus on a purpose, which is to bring better services to people. [...] Now, as much of the funds are very focused on not missing the next opportunity of Fintech. [...] The last big rounds in Mexico, which we've been within the year, have been raised nearly \$900 million in just one year, they're in Fintech and e-commerce” (Robles, personal communication, 2019)

All major Latin American Fintech companies are, theoretically, aligned with the mission of impact investing funds. However, they mostly require investment tickets that are too large for impact investors. Therefore, the most prominent investment rounds in the Latin American FinTech scene have been led by traditional, foreign VC funds such as Sequoia, Softbank, and Tencent (Schieber, 2019; Crichton, 2019).

Local investors, in contrast, tend to invest in earlier stages, such as Seed Rounds and Series A rounds. The average ticket sizes of impact investors in Latin America (Davidson, et al., 2018) require the local players to invest either in early stages or in companies that have not attracted too much attention by international investors. The Mexican impact investor IGNIA Capital participated, for example, in Visor ADL's Seed Round (Crunchbase, 2019). Similarly, the Brazilian impact investors Vox Capital participated in Avante's Series A Round (Crunchbase, 2019).

Once those businesses grow their operations and prove their attractiveness with the impact investing capital, other traditional investors will follow. One of the beforementioned Mexican FinTech companies, Credijusto, received investment from Ignia Capital in its Series A (Lavine, 2019) and has, afterward, been able to raise a Series B Round with eleven more traditional investors, including Goldman Sachs (Crunchbase, 2019). Similarly, the Brazilian TEM<sup>6</sup> represented Vox Capital's first

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<sup>6</sup> The Database Crunchbase defines TEM as a start-up that “offers a fin-tech solution for healthcare designed to provide fast access to high quality medical care for low-income people at affordable prices” (Crunchbase, 2019). The company may be, however, as done by VOX Capital (VOX Capital, 2020), considered both a FinTech and a HealthTech.

successful exit, selling the company to an international insurance company. The sale of TEM manifests the early exit of the Brazilian impact investing industry in general (Latin American Venture Capital Association, 2019). Having been able to generate significant financial returns, superior to average VC returns, this exit may mark a milestone in the industry's development. It is proving the industry's promise of generating both social impact and financial returns. Nevertheless, microfinance institutions and Fintech companies are subject to criticism and discussions regarding ethics when it comes to doing business with the BoP. Critics stress high interest rates and question the social impact of many microfinance institutions and FinTechs (Ferris, Sparreboom, Knorren, & Kerswell, 2008). Thus, impact investors need to rigorously analyze a FinTech's possible social impact before investing in the company.

#### 5.2.2.2.2. EdTech companies identify the education system as a business opportunity

The provision of basic goods and services is, as pointed out, after the improvement of financial inclusion, one of the major objectives of impact investors in Latin America. A critical subcategory consists of access to education and the improvement of the level of education.

Over the last year, education and the wave of EdTech companies have increasingly caught investors' attention in Brazil and Mexico. The term EdTech results from the combination of the two words "education" and "technology" and describes the application of technology- and software-based solutions in the field of education (Frankenfield, 2018).

Digital platform solutions aim to not only facilitate access to education but also to improve the overall quality of education. One central challenge that may be tackled by digital solutions consists of distance learning in rural areas where the population is spread and well-educated teachers are scarce (McMillan Culp, Honey, & Mandinach, 2005). The second main objective of EdTech consists of the personalization and adaptation of curricula according to the different students' stages of learning progress (Frankenfield, 2018). EdTech entrepreneurs aim to offer more flexible solutions starting with the simple provision of audio and video material. Other companies intend to personalize the service a bit more and use online one-on-one classes to bridge geographical obstacles. Leveraging automatization effects and betting on the engaging result of gamification, other EdTech companies aim to embed the learning

experience into games and mobile applications. Companies that aim to improve the effectiveness, efficiency and experience of education do not only differ among the way they develop their business but also regarding the content they seek to transmit. While some companies aim to improve and complement traditional schooling, others identify the training of specific materials such as digital skills, coding and programming capabilities as well as specific job-relevant knowledge as their niche markets (Endeavor Insights, 2019).

Prominent Brazilian examples are Geekie, a start-up that has received investment from the Omidyar Network (Crunchbase, 2019), Aondê (Latin American Venture Capital Association, 2017), and Tamboro (Latin American Venture Capital Association, 2018), two VOX Capital portfolio companies. Tamboro partners with schools in Brazil and provides an adaptive learning platform that is interactive and tailored to individual progress (Rincon, Rotenberg, & Malpass, 2017).

While there has been a rise of a range of startups concentrated on education, especially EdTech companies, over the last five years in Latin America, those companies have found it relatively hard to attract larger investment rounds (Endeavor Insights, 2019). The industry is still much less developed and mature than the FinTech industry. International investors have not yet identified the diverse Latin American EdTech scene as an exciting investment target. Consequently, impact investors may fill the void and help ambitious companies to grow. If they do so successfully, they may exit their investments successfully, attracting more significant investments that have the potential to provide the capital required to scale the businesses significantly. Local, not technology-driven companies find it even harder to convince investors of the scalability of their businesses. They present another investment opportunity for impact investors to distinguish themselves from traditional VC investors.

#### 5.2.2.2.3. HealthTech is digitalizing the medical space

HealthTech is a third industry that leverages digital solutions to offer basic services at affordable prices and increased convenience to a broader range of customers. The variety of issues in the healthcare industry and the availability of detailed databases open opportunities for start-ups and investors to digitalize a range of different fields. Impact investors are using their investments to help businesses to

scale market-based solutions that target the institutional voids. HealthTech companies may use technology solutions to digitalize healthcare in a range of applications. One key driver consists of big data and artificial intelligence that may help to improve the quality of diagnosis and reduce the error margin. Moreover, platforms might help to digitalize and consolidate patient data that, thus, is available at any time at any place for the doctors. While some HealthTech companies may aim to substitute physical clinics and aim to digitalize whole processes, the broader short-term potential of digitalization of HealthTech is seen in using technology as a tool to improve the efficiency of the current system. ToLife, one example from the Brazilian market, backed by VOX Capital, aims to use the investment to scale its automated triage technology, thereby increasing operational efficiency, reducing waiting in Brazilian hospitals (Rincon, Rotenberg, & Malpass, 2017).

The application of digital efficiency improving applications enables companies to offer more cost-efficient solutions to broader customer and patient segments, especially at the BoP. One of the most prominent Latin American start-ups is the Brazilian Dr. Consulta that offers low-cost primary healthcare with significantly reduced waiting times (Crunchbase, 2019). Dr. Consulta, whose objective is to provide high quality, cheap primary healthcare services, has already expanded over large parts of Brazil and is alone in Sao Paulo, running 44 medical centers (Crichton, Techcrunch, 2018). Similarly, the Mexican Salauno offers eye-care services to the BOP (Salauno, 2019) and runs a range of diagnostic centers across Mexico. Both companies, Dr. Consulta and Salauno, focus on operational efficiency and leverage digital solutions allowing them to run for-profit businesses targeted at the BoP. With this approach, both companies have been able to gain the impact investing funds LGT Impact Ventures as a shared investor. Additional impact investors are, moreover, Omidyar Network, and the Worldbank's International Finance Corporation. Since those investments, Dr. Consulta, the more mature company, has grown significantly and attracted more traditional investors, a path that Salauno may follow as well. Both companies are examples of how impact investing may enable social businesses to grow at an early stage.

### 5.2.3. Sources of capital: international investors and specialized funds

#### 5.2.3.1. Regional: Foreign investors dominate in Latin America

Mature international funds and newly set up dedicated impact funds by well-established VC and PE funds dominate the Latin American industry in terms of AUM. Moreover, there are simply more funds foreign than local funds (Davidson, et al., 2018) active in the region. Pedro Vilela attributes the leadership of foreign investors to two reasons. First, social entrepreneurship and impact investment in Brazil and Latin America are relatively young compared to other economies.

“It is an older issue and has already evolved more in other countries out there. Those countries see more capital designated to this means. [...] I do not think the Local Investors are doing anything wrong; you have a natural maturation time until the Local Investors grow. [...] I do not know exactly, but the topic of impact investing is much hotter and bigger outside Brazil than here yet.” (Vilela, personal communication, 2019)

Second, not only regarding impact investing but any kind of investment, international investors dominate. The financial industry in Brazil and Mexico is less advanced than in most developed economies.

“Obviously, other countries simply have, of course, to have generally larger financial markets and thus investors with more money. Consequently, this relative share of foreign investors will continue to be the greatest actor for some time still.” (Vilela, personal communication, 2019)

Nevertheless, there is a recent rise in local funds that increasingly engage in impact investments. These funds are primarily in Brazil and Mexico. Additionally, they raise the capital principally in these two countries. There is a concentration on the two regional leaders. Pedro Vilela expects this development to continue. He, nevertheless, states that the dominance of international investors will remain:

“I think it's a matter of time for the financial market in Brazil to decrease the gap. [...] I think the amount of intended capital for impact investing has grown in Brazil. [...] The relative share of foreign investors will continue to be the greatest actor for some time still. [...] I do not think the Local Investors are doing anything wrong; you have a natural maturation time until the Local Investors grow. [...] I do not know exactly, but the topic of impact investing is much hotter and bigger outside Brazil than in here yet. [...] I think for the local investors, it is a matter of time. Fortunes go migrating from fathers and mothers to sons and daughters so that these investments increase intentionally, perhaps even with a lower percentage. [...] It will grow locally due to some tax issues that local investors, in contrast to foreign investors, do not incur.” (Vilela, personal communication, 2019)

As stated in chapter 4, rural, remote areas need new solutions, tackling the existing problems. Foreign investors, however, often lack local networks and knowledge. Therefore, they shy away from the additional risks that they may incur in those fragmented, hard to reach markets. Those risks are manifold and may arise due to legal uncertainty, lacking the rule of law, operational challenges, etc. Luis Fernando Laranja da Fonseca, the managing director of Kaete Investimentos, an impact investing fund that focuses on the Amazon region, describes the risks as follows:

“It's not an easy market to invest. There are more risks than in traditional places like Sao Paulo, Rio, Minas Gerais, etc. [...] Well, I can point out one specific risk: land title, for example. If it's a risk or more risky to invest in a company that's the owner of a land in the Amazon when compared to any other part of Brazil. So, this is a specific kind of risk. Let's say that logistics is a problem. Maybe we can characterize it as a risk. Because if you have a product in the Amazon, it will be more difficult or to transport your product. So, these kinds of things.” (Laranja da Fonseca, 2019)

Laranja de Fonseca confirms the impression that international investors stay away from those remote areas. Those international actors that engage in remote areas like Amazonia are primarily foundations and charity organizations.

#### 5.2.3.2. Investor type:

Just as on a global scale, specialized impact investing funds dominate the industry. Due to the outstanding importance of microfinance, Development Finance Institutions (DFIs) play a crucial role as co-investors as well. Family offices and business angels are, additionally, expected to participate in the financial support of social enterprises increasingly. A principal way to do so consists of business angel networks. Moreover, they may invest indirectly, through an increased participation in specialized funds. High net worth individuals increasingly provide more capital to the different regional impact investing funds that subsequently enjoy more capital useable to help businesses grow (Davidson, et al., 2018). This development is, however, only slowly taking place.

As on global scale, PE and private debt are, by far, the most commonly used investment tools by impact investors in Latin America. Nevertheless, it stands out that almost half of all investors also utilize quasi-equity debt to support businesses financially. The utility of hybrid investment vehicles consists, among other things, by the use as a risk management tool. Mezzanine financing, financially speaking, has the

potential to take advantage of the upside risks of equity and to limit the downside through the guaranteed debt payments (interest and principal). Luis Fernando Laranja de Fonseca describes the practical use as follows:

“So, we've tried in two phases to invest in kind of hybrid operation: that's debt and equity. I mean, we invested it in two companies like this. And, so, we have our convertible bond. So, it's a hybrid investment. I mean, we can sell our position to the owner if we decided to do this way. Another way, if we think it will be more adequate, we can convert all our participation in equity.” (Laranja da Fonseca, personal communication, 2019)

With different investment foci, different investment stages and various investment vehicles, consequently, return expectations of Latin American impact investors are varied and manifold as well. (Davidson, et al., 2018). Nevertheless, they are, generally, in line with those of traditional VC/PE funds in the region. Information regarding the balancing of impact goals and financial returns is, however, not available.

In contrast to debt investments, equity investments face uncertainty related to the exit. Returns are primarily created through the sale of equity participation. One primary concern consists, however, in the continuation of the created impact after the exit. To maintain the created impact while generating significant financial returns, Luis Fernando Laranja de Fonseca, however, identifies strategic buyers, in contrast, to public stock listings or financial investors, as the way to go in the impact investing industry:

“Exit [...] is a very delicate or a very important issue. Every part of the issue, especially when you invest in small or medium companies, it's more difficult. It's more and more difficult. [...] Once we invest the money in the local company and the company became larger, bigger, it could attract the investment of strategic investors. But it's not easy, of course. [...] It will be very difficult for a company, in the Amazon, with this size of companies that we invested, to go for our IPO, for example.” (Laranja da Fonseca, personal communication, 2019)

The beforementioned exit by *VOX Capital* from the Fintech *TEM* and the same fund's exit from the affordable housing company *Bille* represent two practical examples of Laranja de Fonseca's claim. Both companies were sold to strategic investors (Latin American Venture Capital Association, 2019). While the industry has seen some first, single exits, it still must prove its overall capability to do so. Nevertheless, most investors' current primary concerns are others.

#### 5.2.4. Challenges: local investors aim to raise bigger funds

While on a global scale, impact investment funds are generally relatively liquid and identify the sourcing of attractive investment opportunities as the main challenge, the market in Latin America gives a contrary impression. Investors define the availability of capital and the need to raise additional funds as the main challenge. Venture investments are generally considered risky investments. Investors, consequently, demand returns that compensate for those risks. In the Latin American markets and Brazil, the central bank's interest rates historically have been relatively high, so that VC, PE and as well impact investing had to compete with those “risk-free” investment alternatives, as Pedro Vilela explains:

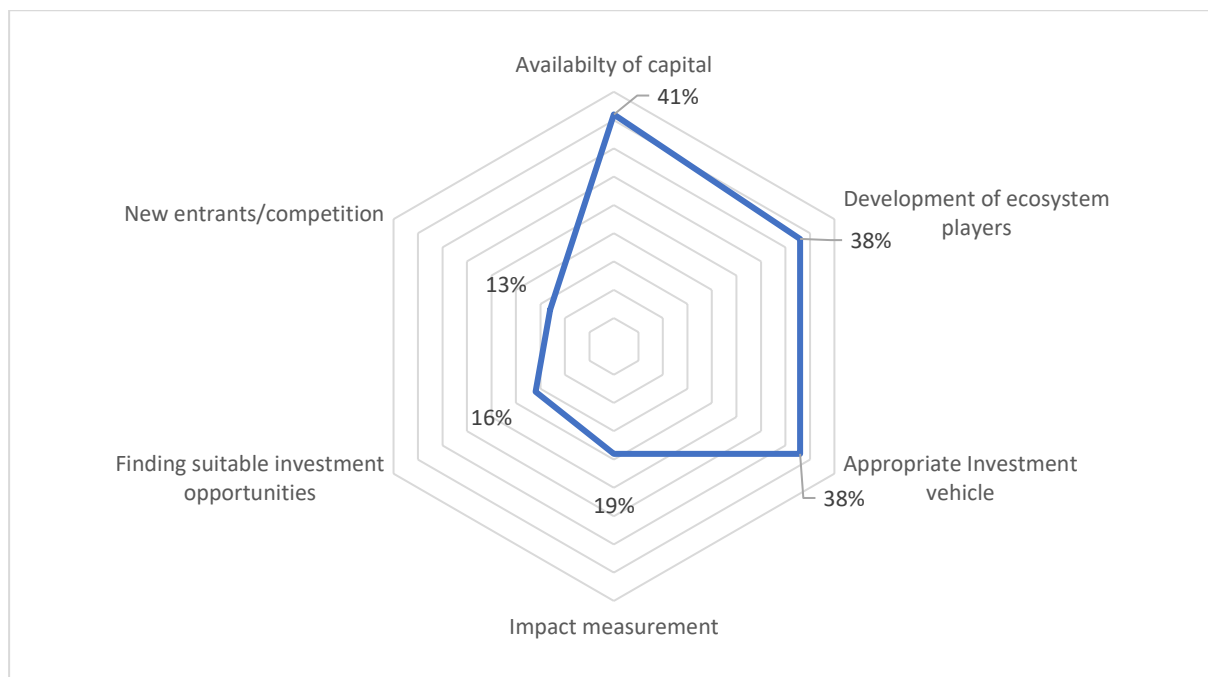
“In Brazil [...] the CDI<sup>7</sup> has historically yielded high returns. [...] Those interest rates always competed with the equity investment market. “ (Vilela, personal communication, 2019)

The identification of suitable investment opportunities, in contrast, does not seem to be subject to significant concern in the region (Davidson, et al., 2018). In contrast, as stated beforehand, in Latin America, a range of social businesses lack access to venture funding. This is where the impact investing funds step in.

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<sup>7</sup> Certificado de Depósito Interbancário. The CDI is the Brazilian inter-bank interest rate. It serves as a commonly accepted benchmark for different kind of investments regarding return and financing costs.

Figure 21: major challenges for impact investors in Latin America, 2016&2017



Note: This graph illustrates the industry's challenges as identified by impact investors in Latin America. Percentages are given as the relative share of the LAVCA's survey respondents. Data is derived from Davidson et al. (2018).

The most frequently expressed apprehensions deal predominantly with the strategic industry development on the investors' side rather than with operational topics (see figure 21). With such concerns, new entrants hardly represent a threat to the existing funds. In contrast, they may help to further the industry and may personify possible co-investors for future funding rounds. Consequently, networking and ecosystem building are some of the activists' major concerns. Armando Laborde describes New Ventures' efforts to develop the impact investing industry as follows:

"[We also work with] everything that has to do with promoting the sector. So, there we have several activities. [...]. We do the Latin American Impact Investment Forum that will turn 10 now in February. [...]. It unites, [...] like, 300 people, investors, and entrepreneurs. It has been a very good space to close deals for entrepreneurs. There are some plenaries, many parallel workshops. It is a good space for networking space and learning about some new topics. It's also been a good space for new actors to go to and start getting to know the sector. We are also pitching. [...]. However, for me, the most exciting thing is to ask ourselves: what else constantly? What do we need? What do we see as the industry's bottlenecks and other things we could launch? That's the constant question we ask ourselves. We're just now starting to reflect upon what things to do during the coming year." (Laborde, personal communication, 2019)

Thus, the development of the whole industry benefits every single investor. Once increasingly more trust the industry as a whole and belief in this potential, the funds will be able to raise bigger funds and to invest bigger amounts.

### 5.2.5. Findings: specialization and innovation will lead the way

The impact investing industry in Latin America is growing and offers manifold investment opportunities. Local investors nevertheless find it hard to participate in the most prominent investment rounds. The question whether this should be the aim should, anyway, be raised. In contrast, by further specialize themselves and to move into sectors that are not occupied yet, local impact investors can develop strategic advantages for their own business. This, simultaneously, helps to develop the industry further and to channel investments into impact targets that so far are ignored by international impact investors.

First, local impact investors may consider moving away their impact focus from purely technology-based solutions. Digitalization and technology are allowing many social businesses to scale their operations and their impact. Once they prove to be profitable, they attract traditional VCs. Consequently, impact investing funds might target non-technology-driven businesses that find it even harder to access growth capital. Pedro Vilela, co-founder and CEO of the Venture Studio Rise Ventures, stresses the need of impact investors that invest in companies that are overseen and ignored by traditional VCs:

“Those are markets, especially when the companies are still in Early Stage, with much more need for funding in Brazil compared to technology companies. So, whoever has a technology company with a good business strategy and a good team has access to VC funds to make the funding rounds and to grow his business. [...] In the beginning, everyone has some access to capital, [...] After this size, the real economy is completely lacking access to finance in later stages, such as PE rounds.” (Vilela, personal communication, 2019)

Companies that are less technology driven may, however, find it harder to scale their operations than very digitalized business models. Thus, there exists a trade-off between less-technology driven business as a market niche on the one hand and scalability of those businesses on the other hand. Impact investors may aim to identify businesses that too little technology-driven for fast-growth oriented traditional VCs but digitalized enough to scale their operations at affordable cost in the long

run. Two examples of possible investment targets are the beforementioned companies Salauno and Dr. Consulta.<sup>8</sup>

Second, impact investors need to evaluate the business stage they aim to invest in. There are many incubators and accelerators in Latin America that support early-stage businesses. Many social businesses, however, fail to scale their operations in a subsequent step. As Pedro Vilela states, they lack the capital and knowledge to professionalize their business and to turn it profitable. Thus, tackling the growth-stage of social business may be one approach:

“Given the Mortality Rate of 80 percent of companies every five years or so, that leaves a few large Social Businesses in Brazil. [...] The biggest challenge of business is that the business has little cash. This means that they have few resources to deal with any problems of the entrepreneurial journey. And in that sense of having little cash, the Social Business cannot attract and retain more senior talents. Those people would be able to plan for growth structuring and to plan, execute and lead business expansion movements.” (Vilela, personal communication, 2019)

LAVCA Data indicates that the industry is already applying this strategy. Almost half of the money deployed in impact investing in Latin America is directed towards growth-stage investing rounds (Davidson, et al., 2018). Nevertheless, impact funds may target early-stage companies as well that look for investments that are too small for traditional VCs. Small investments normally use to be too expensive, in terms of due diligence and operation costs. The leading companies like VOX Capital in Brazil and New Ventures in Mexico are already setting up special operations to also support small scale start-ups. They need to be even more cost-efficient for investments to turn profitable:

“So that's the way it's taken care of. There's also a minimum that's right now a million. Less than that starts to cost you too much in terms of operations, to do Due Diligence. And because of that, the idea of operating a totally new entity that focuses more on small businesses came up. And that's been called Viwala. Obviously, they are starting operations, but we think that they can become self-sufficient. (Laborde, personal communication, 2019)

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<sup>8</sup> A detailed analysis of the described trade-off and the elaboration of strategic alternatives is out of scope of this research. It may, however, be subject to additional future research.

Third, impact investors should invest in geographical regions that the big international VCs avoid so far. Rural areas have manifold social issues that might be turned into business ideas. From an investor's perspective, most remote areas are almost untouched ground, as Luis Fernando de Laranja Fonseca explains:

“We never had a good opportunity to involve international investors, you know, for some reason. [...] And so, I think that traditional investors like investors that would invest in Nubank, for example, would never go to Amazon at this stage.” (Laranja da Fonseca, personal communication, 2019)

Latin America, in comparison to South-East Asia and Sub-Saharan Africa, is considered a relatively stable region for doing-business. Especially investors that aim for identify with significant social impact may, however, include the assessment of political risk. They run the risk of unpredictable regulation and strong dependence on governance decision. Detailed knowledge of the local law system and well-established contacts may, in contrast, also turn out to be strategic advantages.

Fourthly, the industry may continue experimenting in terms of financial engineering. Mezzanine financing, which is already a prominent tool for investors in Latin America, might be increasingly used to finance businesses in the future. Financial engineering serves two major purposes. It helps companies to adapt the financing methods to their respective needs, and it serves the investors as a way to predefine exit strategies without the need to sell the participation to another investor, as Armando Laborde explains.

“The problem is the exits. I mean, I invest in your company, and then I need to pay the return to my investors. It's hard to find. There is not a big market for buying and selling a business, and even less for impact companies. Even if the company goes well, it may be that you do not find investors who want to buy this company. Then [...] this structured debt: I'll lend you an amount, you must pay me back as a multiple. On an operational basis, you pay me as a percentage of the sales. Doing so, you define a structured exit. Once the multiple is paid, we're out. I, as an investor, recovered my investment, and you, as an entrepreneur, got rid of me as an investor and didn't get diluted.” (Laborde, personal communication, 2019)

Finally, impact investors should help to develop the industry in general. As a consequence, the social entrepreneurship and impact investing industry may move out of a niche into a more mainstream market. Therefore, Armando Laborde aims to raise public attention:

“We obviously want to contribute and be the resource provider for impact companies. But we're also interested, [...] [in] contribut[ing] that Impact Investing gets to know to a broader audience. And, the real goal is to mobilize more private resources to impact companies. What we dream is that there are more impact companies, that there are more universities that deal with the topic, that there are more investors who consider it as an option, that there are more consumers who want to learn about this type of product.” (Laborde, personal communication, 2019)

By doing so, they will mobilize more capital than any fund could do by itself. Consequently, more entrepreneurs and investors benefit. Social enterprises will find it easier to identify the most suitable investors and investment vehicles. Impact investors, simultaneously, will more easily exit their investments and realize the expected returns. With increasing scale, the impact investing industry may, however, face new challenges of mission drift, meaning that financial aims outweigh social goals (Cetindamar & Ozkazanc-Pan, 2017). The growth of the industry should, consequently, be accompanied by the institutionalization of definitions, mechanisms and tools that prevent greenwashing, the dilution of the original aim of impact investing and the abuse of the term impact investing as a marketing tool.

## 6. Conclusion

Not only researchers but also practitioners are convinced that a change of paradigm in the financial sector will help to foster and boost social entrepreneurship and change the way business is done. The dynamics move away from pure shareholder value maximization towards more holistic considerations. This change in the investors' mindset is in line with the generally more positive perception of business in society. For-profit organizations are increasingly stepping into the void that traditionally was filled by government actors and non-governmental organizations. Rather than a necessary evil that must be curtailed, business practices are more and more perceived as a powerful force that can be harnessed for good. Start-ups and entrepreneurship are, indeed, increasingly recognized as the solution for many social and environmental challenges. Social business and impact investing shall, however, not substitute public and charitable investments, but supplement them.

Primarily Latin America represents an attractive target region for impact investors. On the one hand, institutional and social voids remain and are increasingly identified as business opportunities. On the other hand, the area has seen some economic growth at the beginning of the 21<sup>st</sup> century. The region is, moreover, considered as more suitable for doing business than other areas, like South Asia or Sub-Saharan Africa, that would promise similarly attractive market opportunities for business that aim to exploit the described voids for business purposes financially. Consequently, in Latin America, progressively more businesses seek to generate financial returns by solving social issues such as the lack of quality in education, improving the unsatisfying healthcare system and increasing access to financial services.

Those businesses, however, often lack the financial resources to growth capital that enables them to scale their operations. While grants and donations are often to special projects and may seldomly be used to cover overhead spending, tradition Venture Capital and Private Equity investments are mostly unavailable for social entrepreneurs. Having identified this market gap, impact investors invest in social businesses aiming for both, attractive financial returns and the creation of social and environmental impact.

Over the last decade, the impact investing industry has shown significant growth, both globally and locally, in Latin America. So far, the industry is, however, dominated by a range of international investors. Two primary reasons are explaining this. First, the impact investing industry originates from developed markets and is, consequently, much more mature there. Second, the overall financial markets are primarily concentrated in developed markets such as the US and Europe. The Impact Industry is, not surprisingly, mirroring this regional concentration. Mainly Latin America, moreover, represents a very attractive region for impact investors. On a global scale, the impact investing industry is perceived relatively liquid and the dominant actors identify the sourcing of quality investment targets as the primary challenges. Latin America, in contrast, shows quite an opposed scenario. Investment opportunities are manifold. Local Latin American impact investors, however, define their fundraising activities and the provision of capital as the main challenge. Alternative investment opportunities find it traditionally hard to compete with the relatively high “risk-free” interest rates. The US and Europe, in contrast, are experiencing a decade of historically low interest rates causing investors to look for creative, high-yield investment opportunities. Due to this regional imbalance Latin America has become increasingly attractive for international impact investors.

The targeted industries and economic sectors are diverse and depend on the impact investors’ theory of change. Comparing global and local data, it becomes evident that microfinance and agribusiness have so far played a relatively important role in Latin America. While financial inclusion remains one of the dominant goals for both social entrepreneurs and impact investors, the recent development, however, moves away from the focus on the two beforementioned industries and indicates more diversification.

The regional analysis of Latin America has, moreover, shown that highly scalable, technology-driven businesses that seem to be ideal investment targets for impact investors receive investments from traditional Venture Capital and Private Equity firms. Impact investors seem to be crowded out. These may, however, not compete with the more mature investors. Analyses of the dominant literature, the quantitative data provided by the GIIN and the LAVCA and the qualitative information gathered through interviews with industry experts suggest the conclusion that specialization can be the key to

succeed in the field of impact investing. Local impact investors should, consequently, identify niche markets that are overseen by the traditional, international investment companies. Those niche markets may be identified among different dimensions. Possible solutions are the geographical focus on remote rural areas, the emphasis on less-technology-dependent business. Those businesses may, nevertheless, leverage technology to reduce operating costs and facilitate future scalability, the support of growth-stage social business and increasing innovation in terms of financing tools. Impact investors may succeed in tackling different issues if they prove both their investors and the target companies that they create sufficient value. With specialization, however, the issue of a sufficient pipeline becomes more evident. For this reason, most Latin American impact investors are not yet focused on one special industry. With the industry growing and maturing, this may, however, become possible. To balance between specialization and the strengthening of knowledge in one specific field on the one hand and the development of a pipeline that provides sufficient quality investment opportunities on the other hand is one of the Latin American impact investors' main challenges.

The Latin American impact investing industry has seen its first exits that allowed the Impact investing funds to monetize their investments and to generate considerable financial returns. These exits will be crucial to prove impact investing to be viable and to make it more appealing to a broader range of investors. Thus, the support of the overall industry's development is one central task of impact investors. Once increasingly more investors believe in the financial sustainability and attractiveness of Social Businesses and consider impact investing as a severe investment alternative, money will flow into more small social enterprises and enable them to scale. It can generate abundant opportunities to fund projects that fuel economic growth and improve people's lives. The overall industry development may then also help the individual impact investors to further elaborate their stand-alone characteristics.

In the end, social businesses that are both scalable and profitable will attract not only impact investors but also traditional Venture Capitalists. Moreover, will international players continue predominating the industry. Remembering the origin of the sector, which is the support of social entrepreneurs, Rise Venture's CEO Pedro Vilela concludes:

“Honestly it does not matter [where the capital comes from], what matters is the amount of capital, in general, grows significantly for this market.”

With the right financial innovation, however, social enterprises can access a much deeper pool of capital than was previously available to them, allowing them to substantially extend their social reach (Bugg-Levine, Kogut, & Kulatilaka, A new approach to funding social enterprises, 2012).

## 7. Outlook

This research serves an introductory overview of the impact investing landscape in Latin America.

Additional research may lead to more detailed results.

A primary objective should be the improvement of existing databases. Increased availability of data, as well in terms of chronologic data, enable meaningful quantitative analyses.

Moreover, the existing research may be replicated with more granularity concentrated on different areas. This may apply to both geographic and industry-specific analyses.

Furthermore, this research has shown that a range of grown businesses has received investments from both impact investors and traditional investors. It would be interesting to understand if and how (social) entrepreneurs experience differences between both types of investors. This would help as strategic guidance for impact investors to position and brand themselves strategically.

Additionally, a quantitative analysis of the overall impact created through the impact investing industry would help to evaluate the effectiveness of impact investing compared to aid and development programs by governments and charities.

Also, with increasing scale, Latin American impact investors will face the issue of mission drift. To identify the future dynamics of the industry, it is crucial to understand the strategies in place that ensure impact creation once impact investing funds theoretically have the potential to invest in large-scale businesses. Moreover, it will be interesting to understand how impact investors aim to secure the continuation of impact after their exits.

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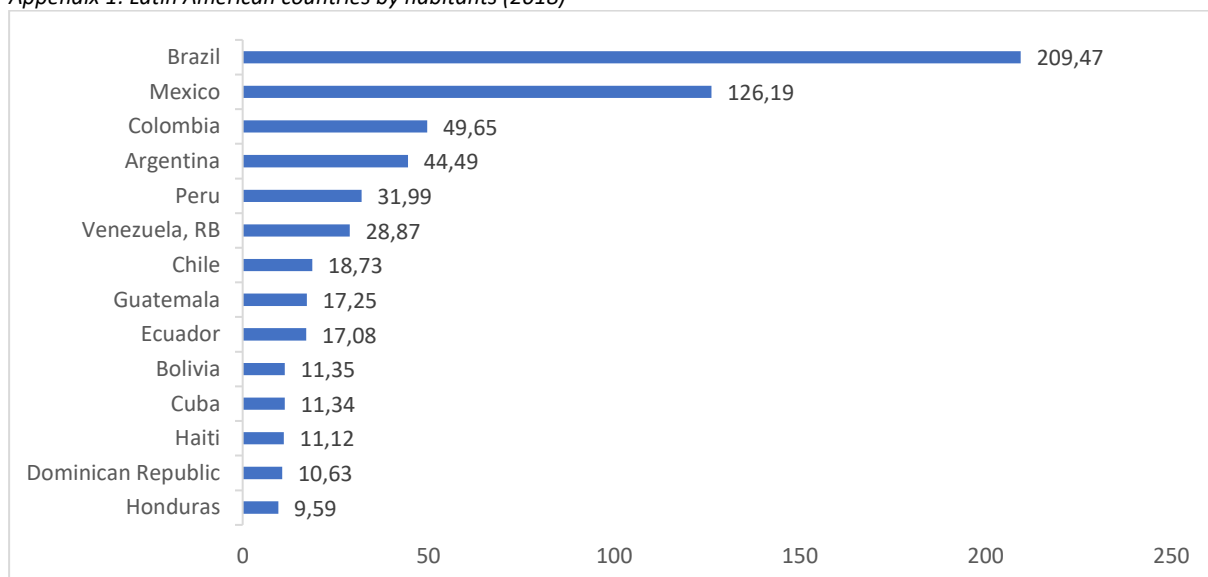
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## Appendix

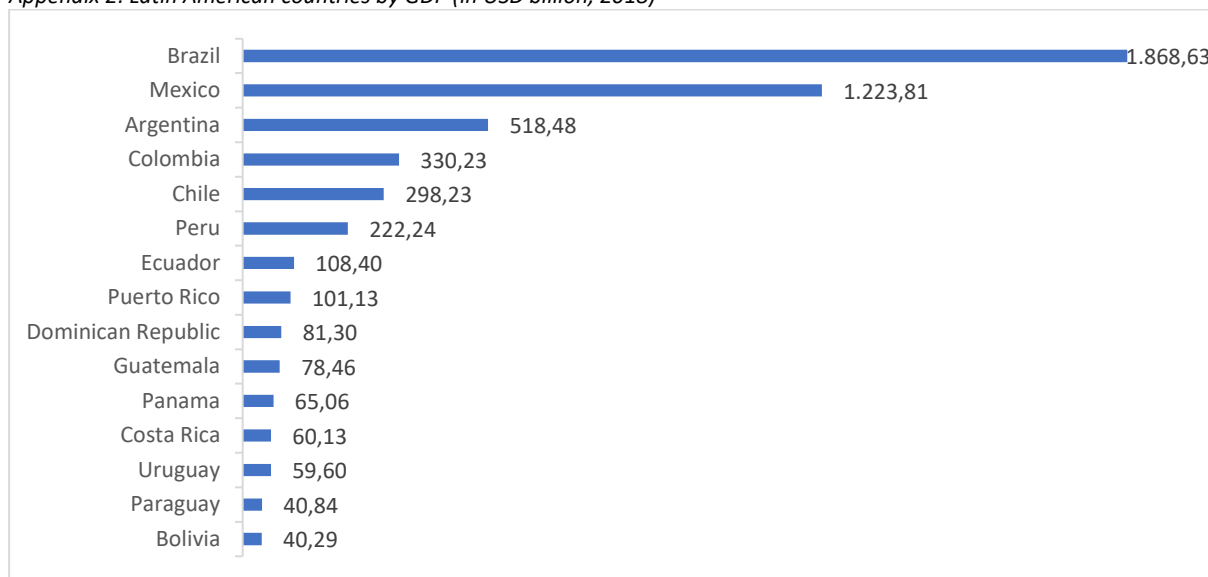
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Appendix 1: Latin American countries by habitants (2018)



Note: data derived from Worldbank. (2019).

Appendix 2: Latin American countries by GDP (in USD billion, 2018)



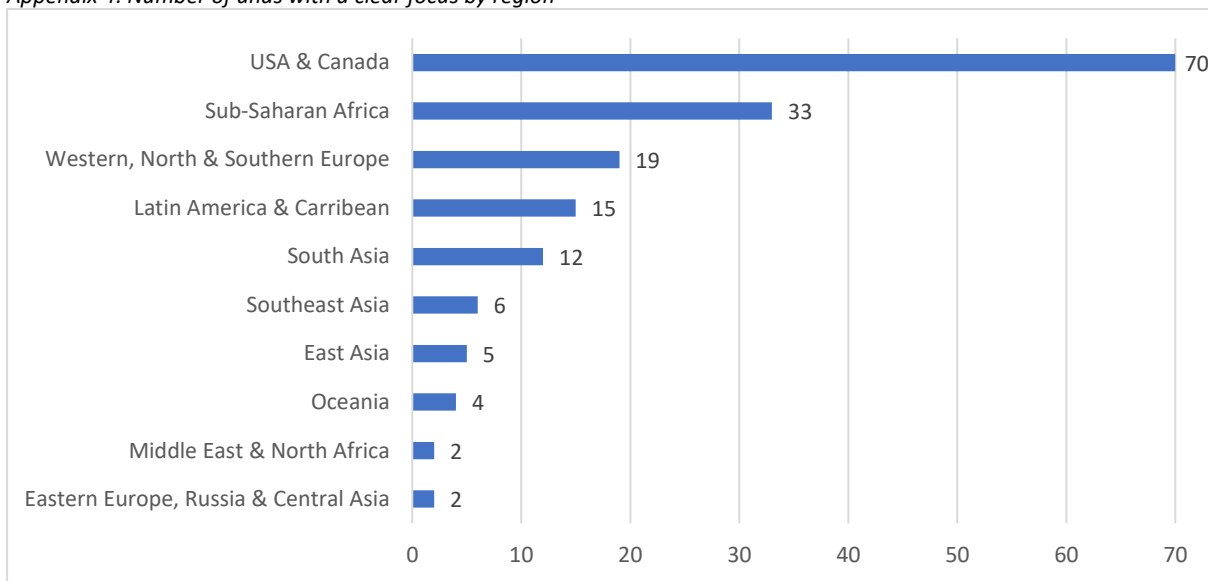
Note: data derived from Worldbank. (2019).

Appendix 3: UN Sustainable Development Goals



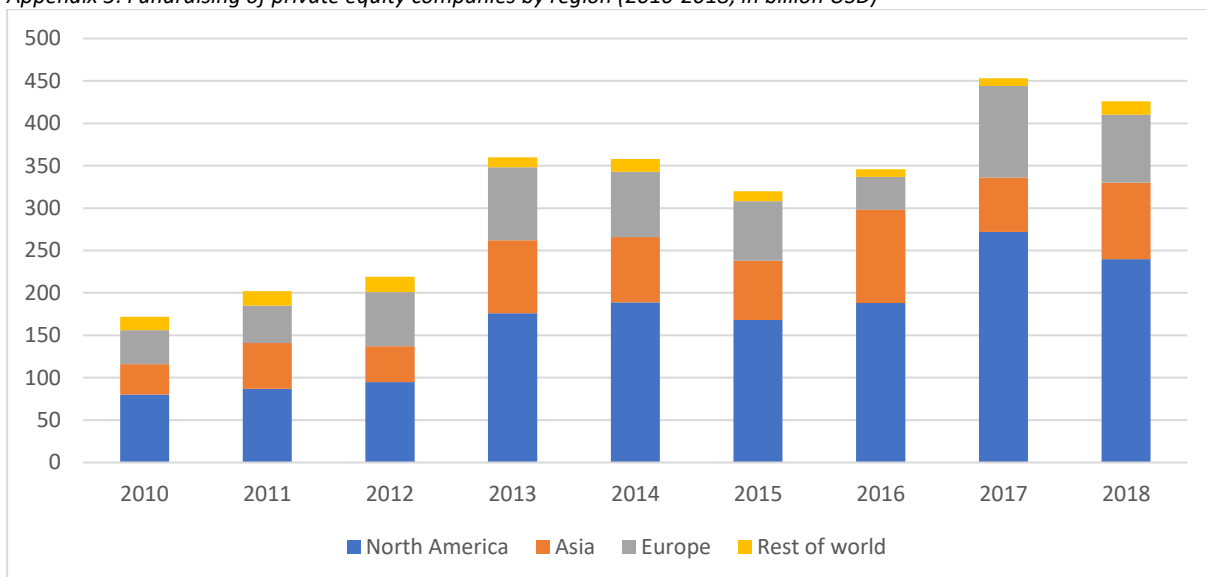
Note: adapted from United Nations. (2015, 12 30).

Appendix 4: Number of unds with a clear focus by region



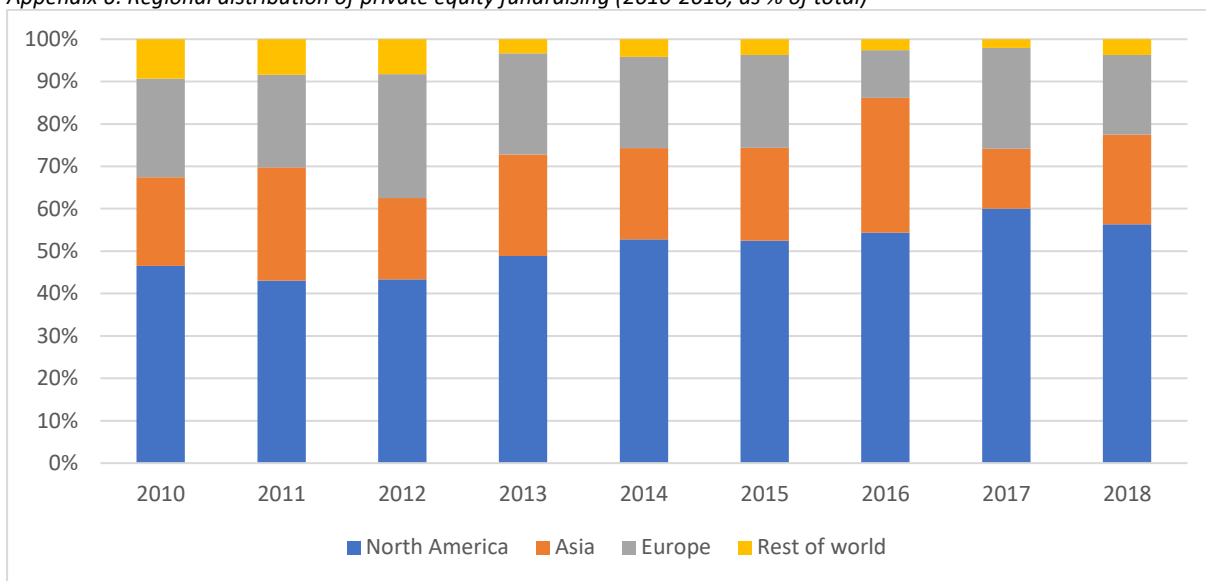
Note: adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019),  
 The GIIN defines a clear focus of a fund by >75% of funds capital invested in a single market)

Appendix 5: Fundraising of private equity companies by region (2010-2018; in billion USD)



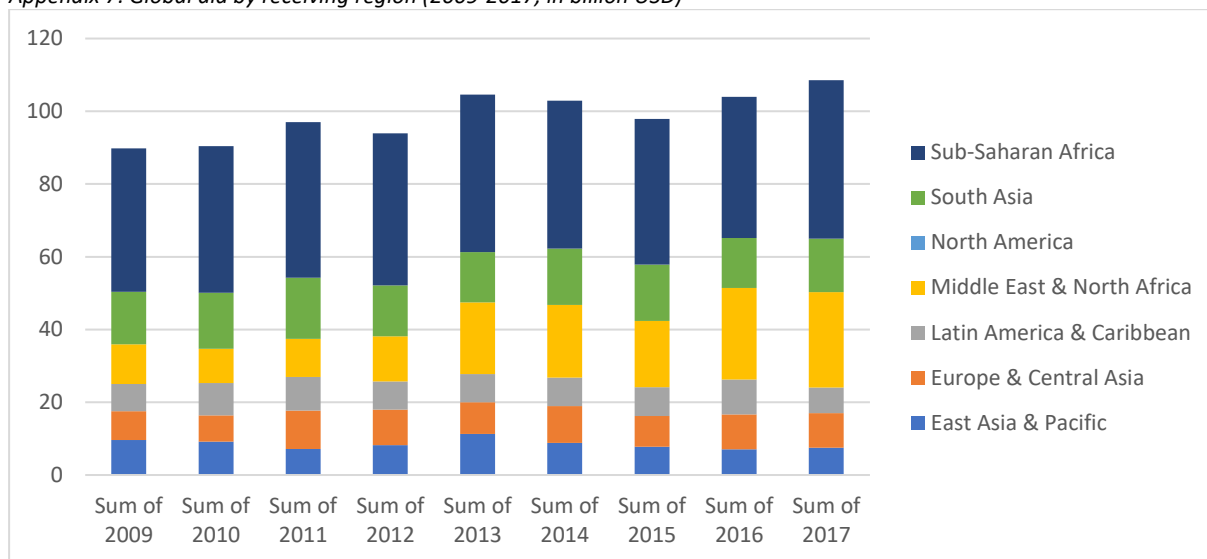
Note: data derived from Statista. (2019)

Appendix 6: Regional distribution of private equity fundraising (2010-2018, as % of total)



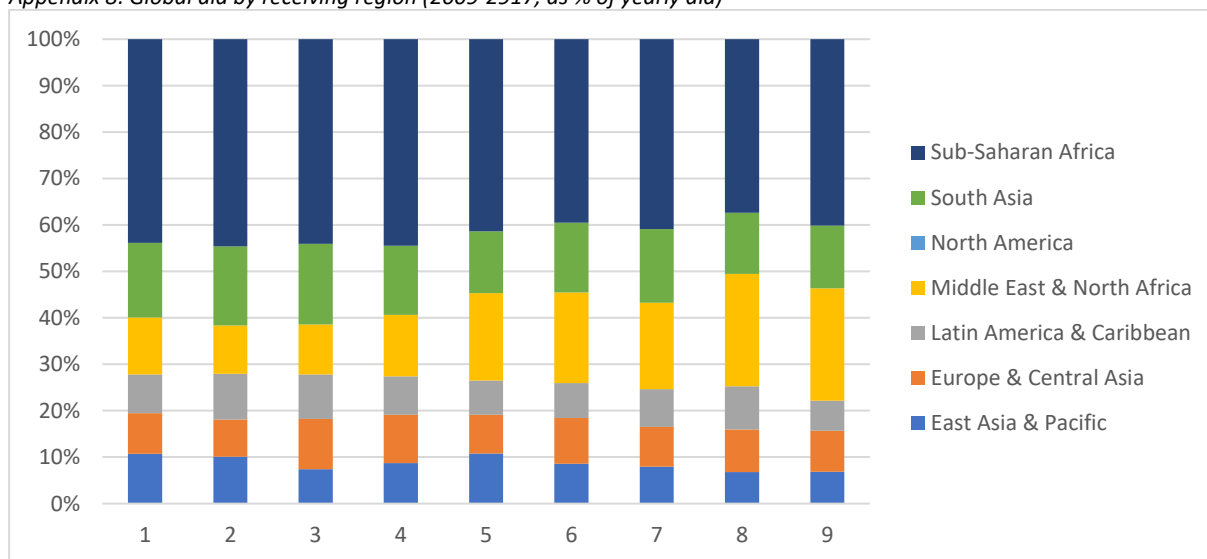
Note: data derived from Statista. (2019)

Appendix 7: Global aid by receiving region (2009-2017; in billion USD)



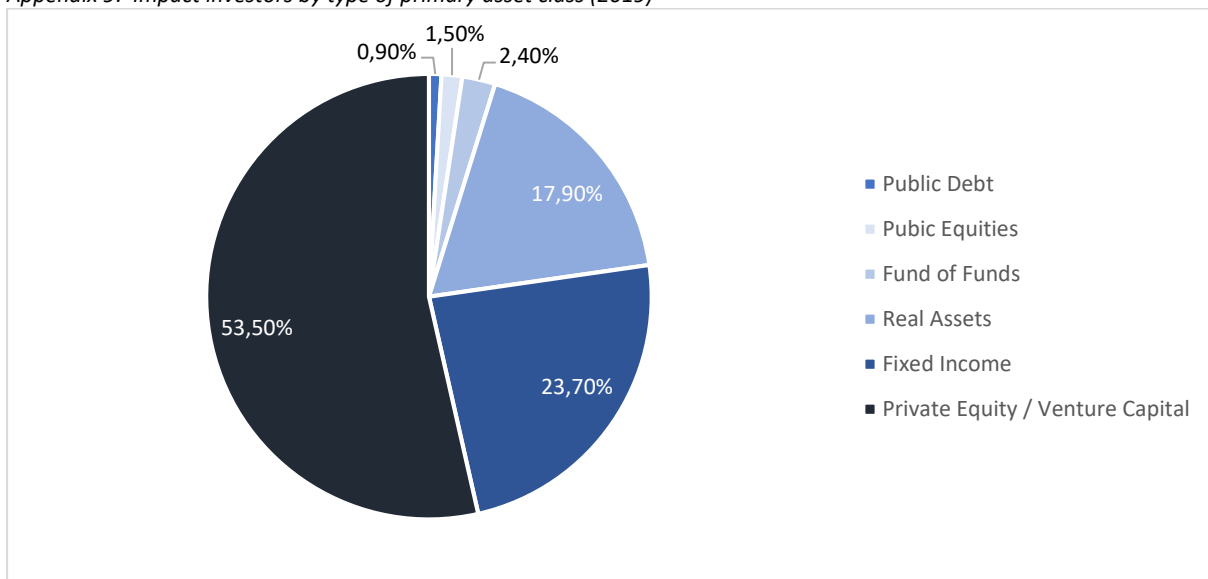
Note: data retrieved from Worldbank. (2019).

Appendix 8: Global aid by receiving region (2009-2017; as % of yearly aid)



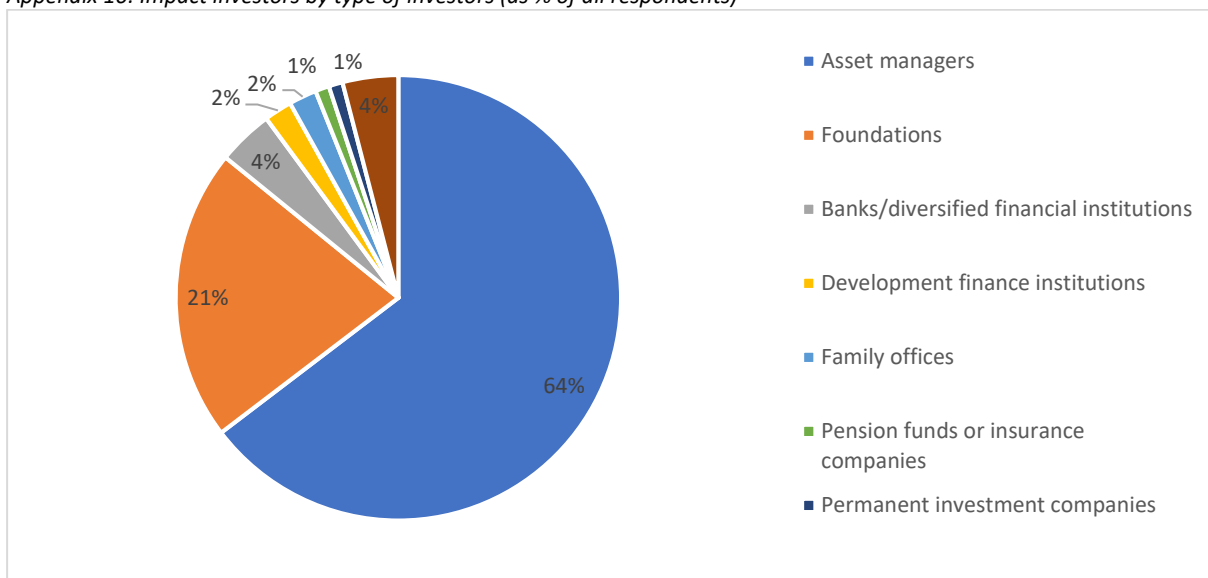
Note: data retrieved from Worldbank. (2019).

Appendix 9: Impact investors by type of primary asset class (2019)



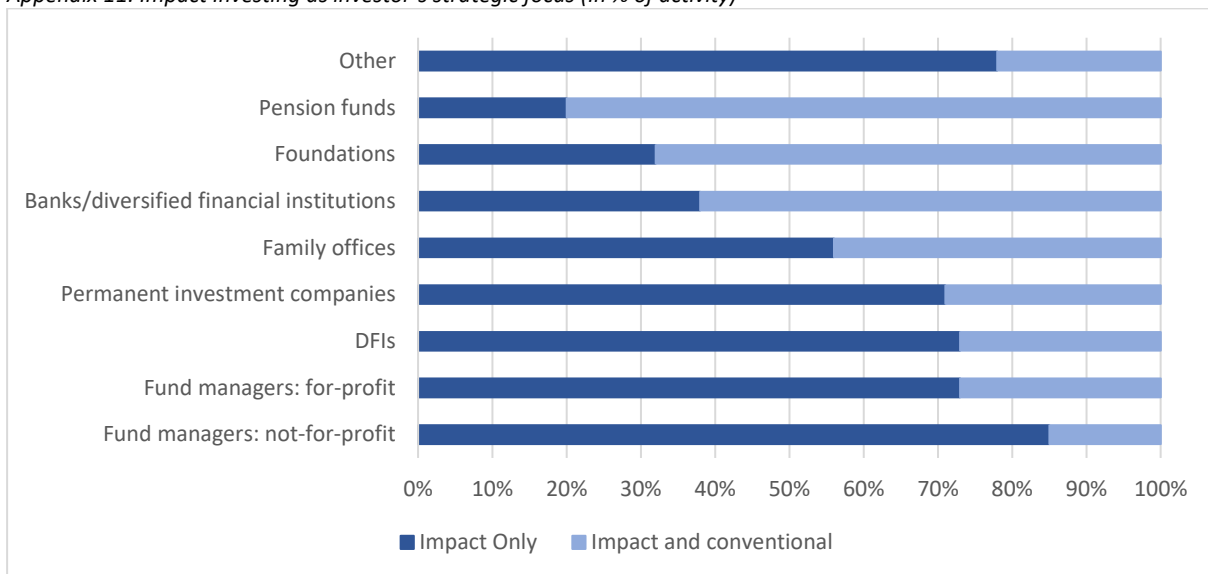
Note: adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019).

Appendix 10: Impact investors by type of investors (as % of all respondents)



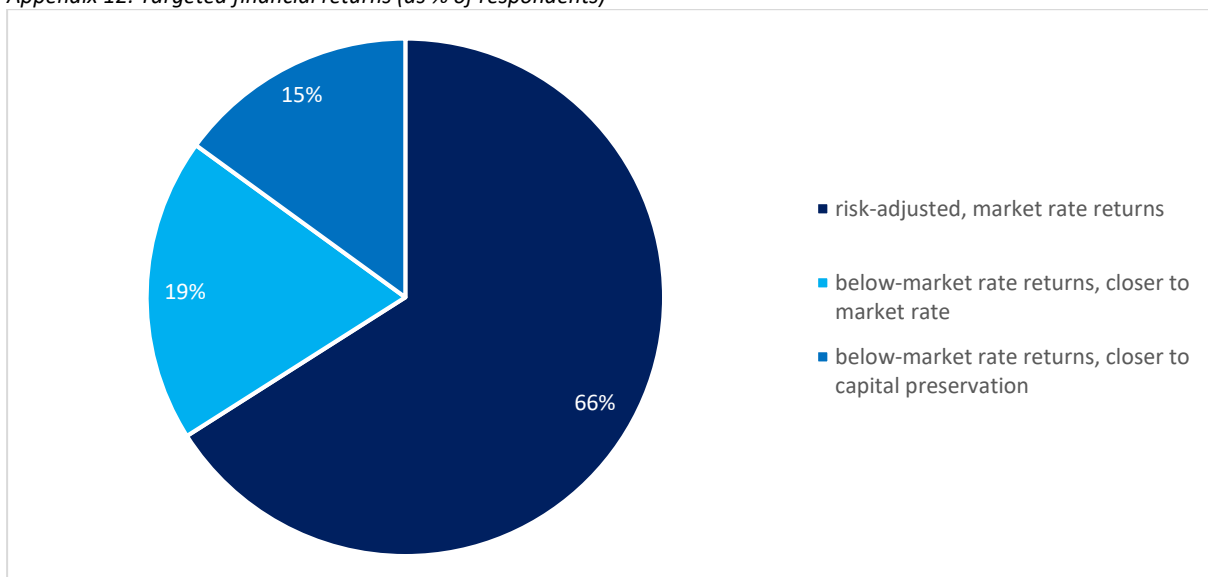
Note: adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019)

Appendix 11: Impact Investing as investor’s strategic focus (In % of activity)



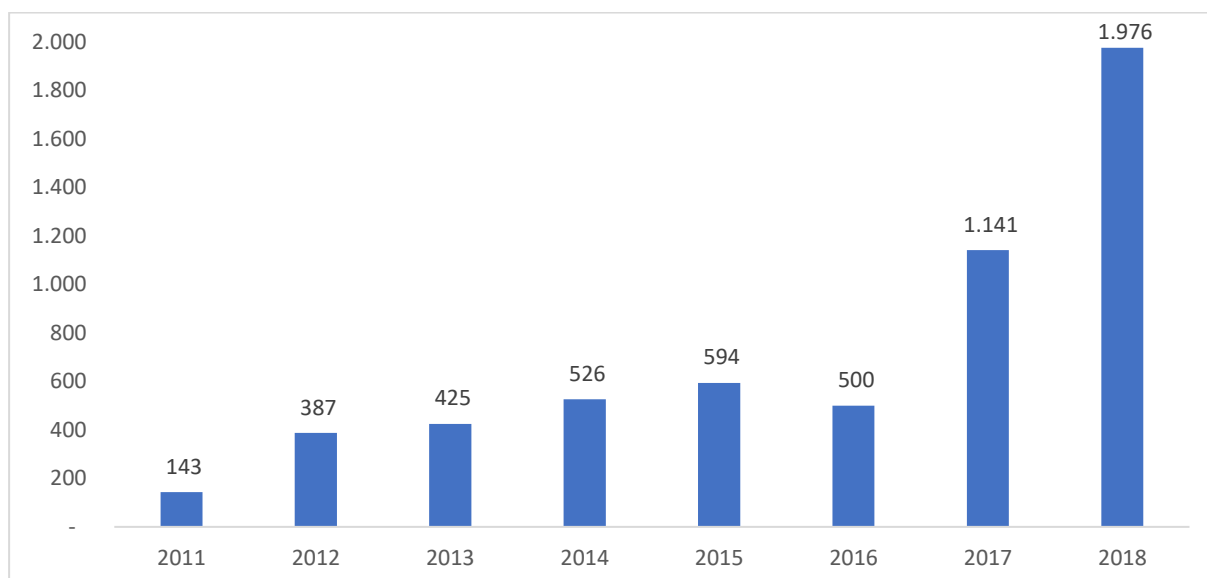
Note: adapted from Mudaliar, A., Bass, R., Dithrich, H., & Nova, N. (2019).

Appendix 12: Targeted financial returns (as % of respondents)



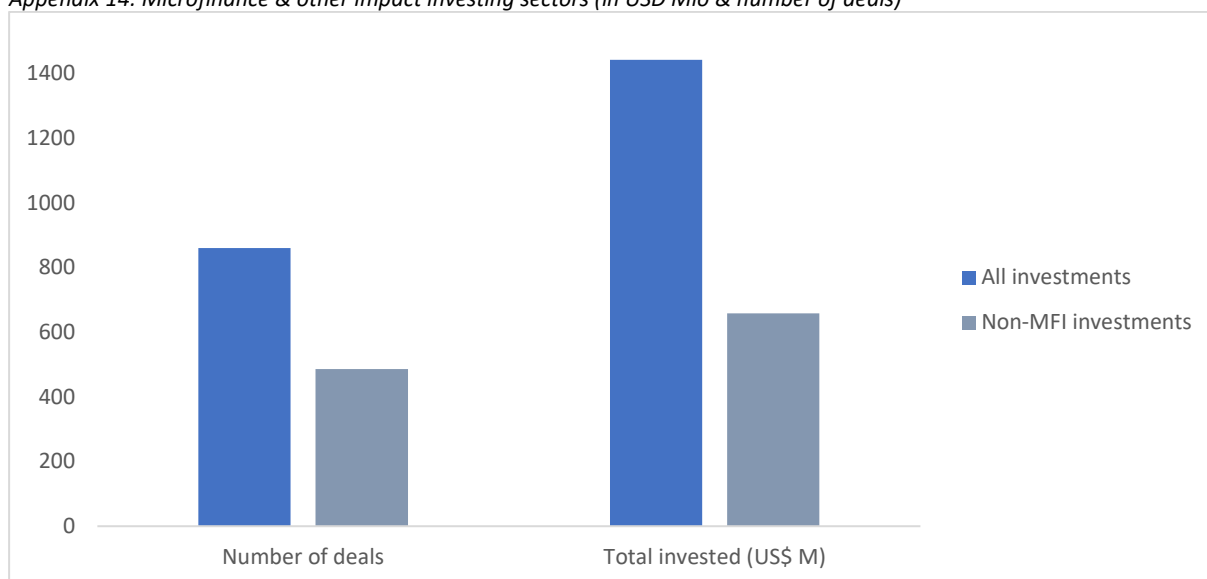
Note: adapted from GIIN. (2019)

Appendix 13: Development of the Latin American VC industry (2011-2018, in million USD)



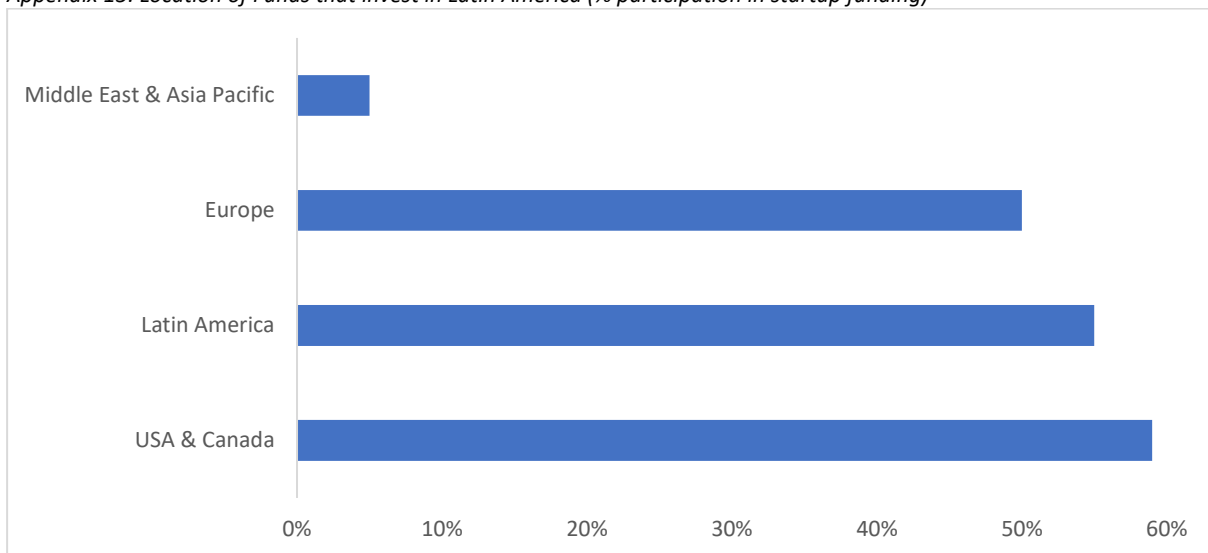
Note: data derived from Latin American Venture Capital Association. (2019).

Appendix 14: Microfinance & other impact investing sectors (in USD Mio & number of deals)



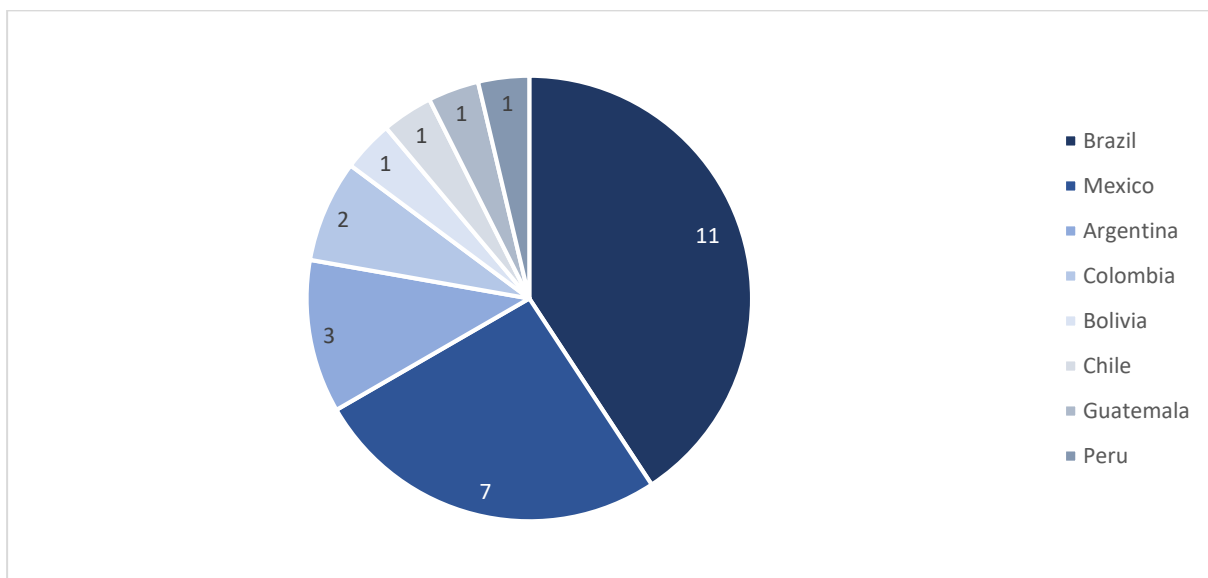
Note: Davidson, A., Rocha, R., Valencia, N., Roman, E., Parkinson, R., Rossi, L., . . . Hume, V. (2018).

Appendix 15: Location of Funds that invest in Latin America (% participation in startup funding)



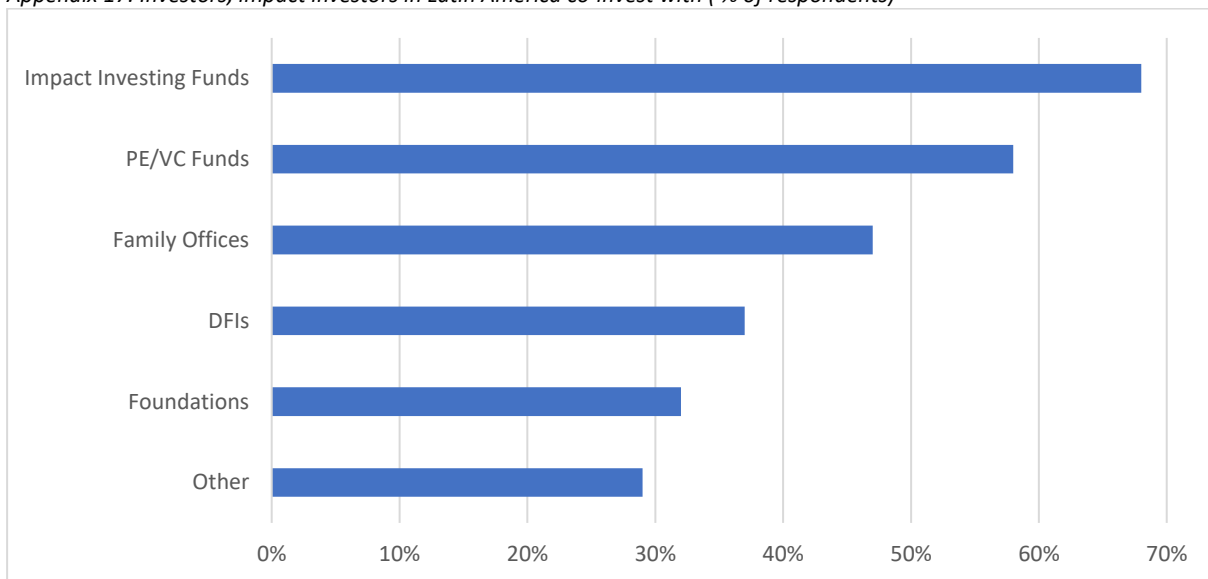
Note: Davidson, A., Rocha, R., Valencia, N., Roman, E., Parkinson, R., Rossi, L., . . . Hume, V. (2018+)

Appendix 16: Latin American countries where firms raised capital (number of funds)



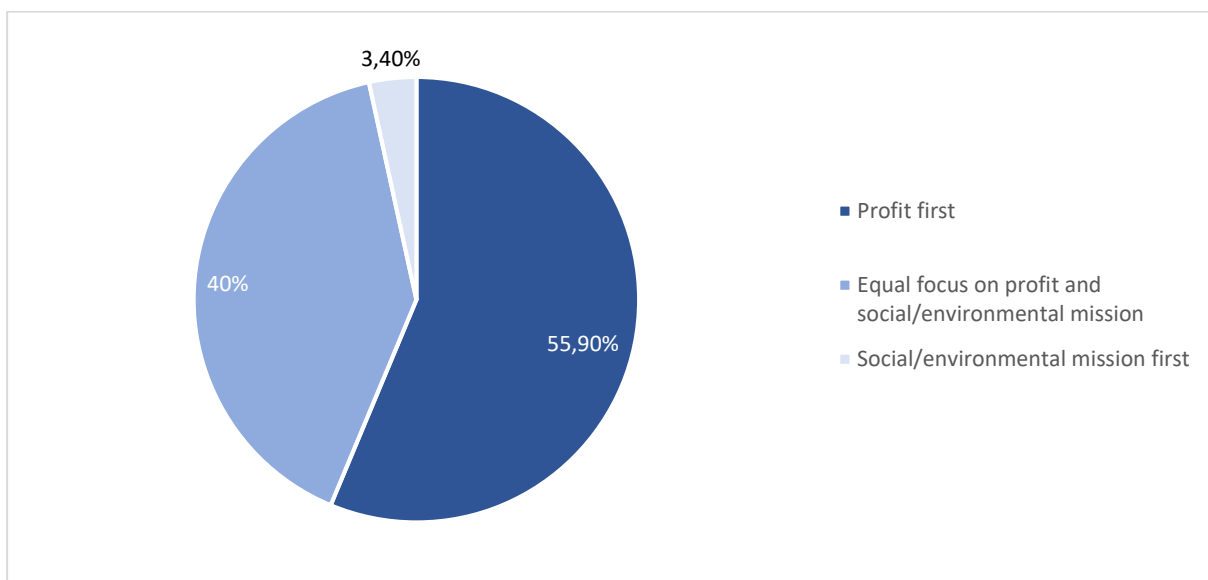
Note: Davidson, A., Rocha, R., Valencia, N., Roman, E., Parkinson, R., Rossi, L., . . . Hume, V. (2018).

Appendix 17: Investors, impact investors in Latin America co-invest with (% of respondents)



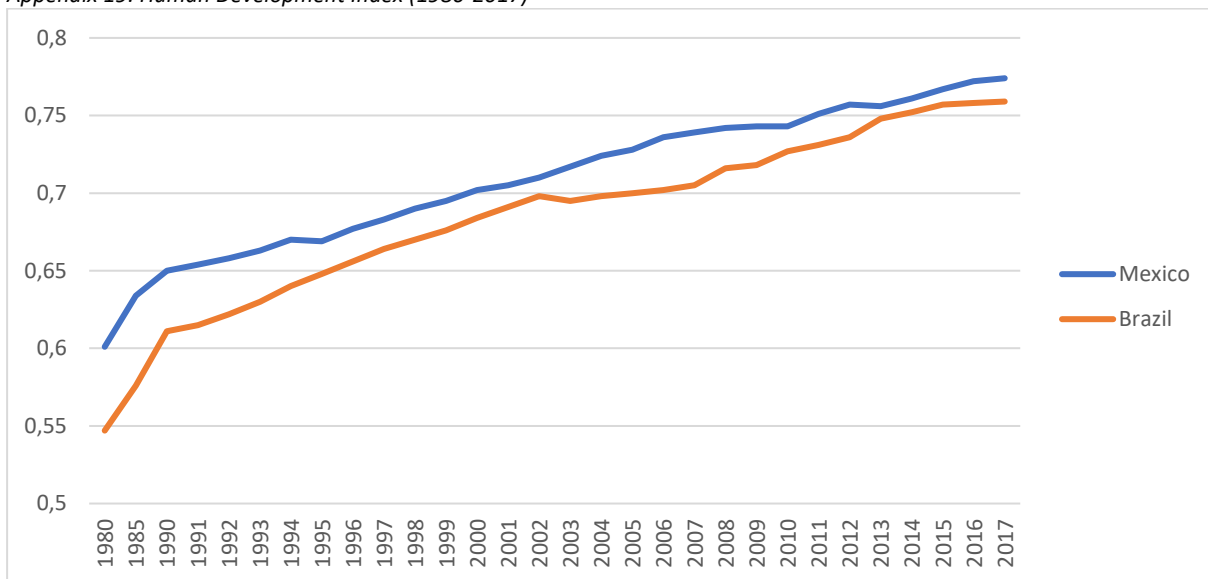
Note: data derived from Davidson, A., Rocha, R., Valencia, N., Roman, E., Parkinson, R., Rossi, L., . . . Hume, V. (2018).

Appendix 18: Primary orientation of Latin American start-ups (as % of respondents)



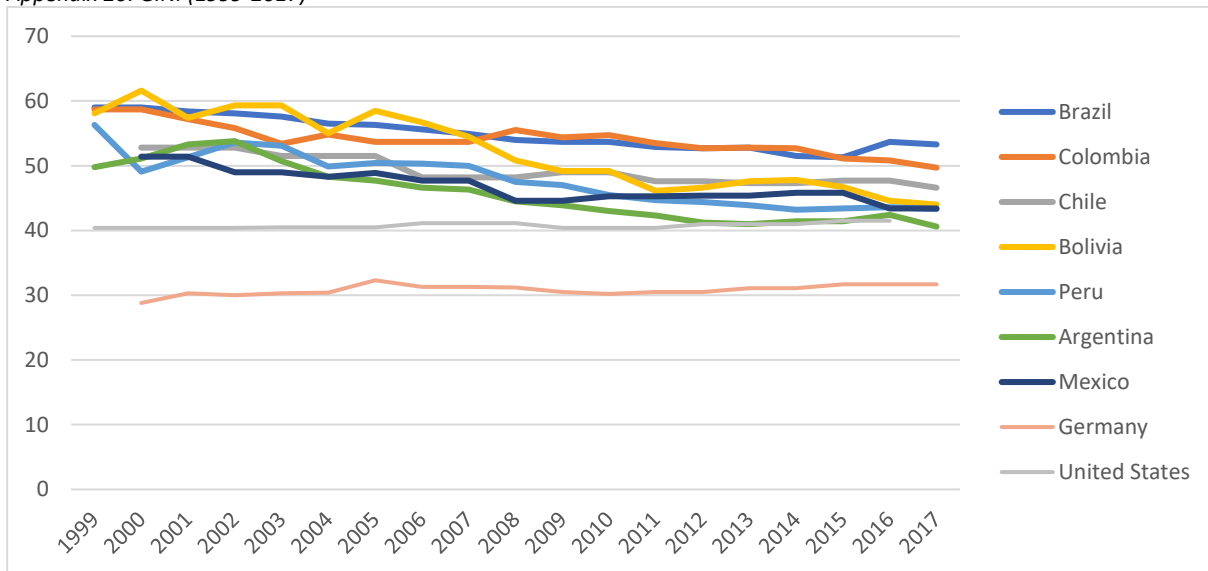
Note: data derived from Latin American Venture Capital Association. (2019).

Appendix 19: Human Development Index (1980-2017)



Note: data derived from United Nations Development Programme. (2019).

Appendix 20: GINI (1999-2017)



Note: data derived from Worldbank. (2019)

## Appendix 21: Interview protocol – Impact investors

Thematic category	Questions
Presentation	Hi, [interviewee's name]! My name is Peter Berkenheide. I am in the last stages of my double degree master program in International Management at Fundação Getúlio Vargas in Sao Paulo and ESADE business school in Barcelona. Currently, I am writing my master thesis about the development of the Impact Investing industry in Latin America, especially Brazil and Mexico.
	Is it okay for you if I record this interview? This would facilitate the data treatment and my further analysis? Only the data that you will authorize me to publish will be presented in the final work.
Impact Investing	From your point of view: How would you define Impact Investing?
	Formally Impact Investing is defined as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.”
	Would you say that this definition applies to your business model and investment thesis?
Business model	I have done my research and read about your company. Could you, nevertheless, explain in a few words what is the core business of your company?
	Could you explain to me your investment thesis?
	Analysing the different sources of information, one finds out that you mainly invest in [name of the industries the interviewee's fund primarily invests in]. Why have you chosen this focus?
Dominance of international investors?	Analysing the data provided by both the GIIN and the LAVCA, it becomes evident that international Impact Investors dominate in Latin America.
	Would you agree with this observation?
	How would you explain this?
	On a global scale, investors have identified the lack of appropriate investment options as the main challenge. On a local scale, in contrast, access to investment capital represents the major challenge. Would you, consequently, agree that Latin America is an attractive destination for international investors?
	What do you think about this dominance of international players?
	How would you describe the relationship between international and local investors?
	What is the role of local Impact Investors that have smaller ticket sizes than their international peers?
Impact Investing and scaling a business	There is a range of Latin American companies that have the potential to transform society positively. The probably most prominent example is Nubank. How do you feel about the fact, that only in a few cases Impact Investors have participated in any investment round and that traditional, aggressive Venture Capital firms drive those businesses?
	Would you agree that Impact Investors can play the role of early investors allowing social businesses to grow? By doing so, those businesses may attract investors with bigger ticket sized in later funding rounds.
Additional information	Do you have some additional information and thoughts you would like to share with me?

Note: created by the author


## Appendix 22: Interview protocol – Social Entrepreneur

Thematic category	Questions
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Presentation	<p>Hi, [interviewee's name]!</p> <p>My name is Peter Berkenheide. I am in the last stages of my double degree master program in International Management at Fundação Getúlio Vargas in Sao Paulo and ESADE business school in Barcelona.</p> <p>Currently, I am writing my master thesis about the development of the Impact Investing industry in Latin America, especially Brazil and Mexico. Is it okay for you if I record this interview? This would facilitate the data treatment and my further analysis? Only the data that you will authorize me to publish will be presented in the final work.</p>
Business model	<p>I have done my research and read about your company.</p> <p>Could you, nevertheless, explain in a few words what is the core business of your company?</p> <p>Could you tell me about the stage of development of your business?</p>
Social enterprise	<p>Do you consider your business a social enterprise?</p> <p>What kind of impact do you create?</p> <p>Do you measure the impact? And if yes, how do you measure it?</p>
Investors	<p>Did you raise any capital to grow your company?</p> <p>Did any of your investment rounds include Impact investors?</p> <p>How would you describe those Impact investors compared to the other investors?</p> <p>Which additional value do the Impact investors create for your business?</p> <p>Did the Impact investors evaluate your business differently? If yes, how?</p> <p>Did they enter at a different valuation than the others?</p> <p>Do you report impact metrics to them?</p>
Dominance of international investors?	<p>Analysing the data provided by both the GIIN and the LAVCA, it becomes evident that international Impact investors dominate in Latin America.</p> <p>Would you agree with this observation?</p> <p>How would you explain this?</p> <p>On a global scale, investors have identified the lack of appropriate investment options as the main challenge. On a local scale, in contrast, access to investment capital represents the major challenge.</p> <p>Would you, consequently, agree that Latin America is an attractive destination for international investors?</p> <p>What do you think about this dominance of international players?</p> <p>How would you describe the relationship between international and local investors?</p> <p>What is the role of local Impact investors that have smaller ticket sizes than their international peers?</p>
Impact Investing and scaling a business	<p>Would you agree that Impact investors can play the role of early investors allowing Social Businesses to grow? By doing so, those businesses may attract investors with bigger ticket sized in later funding rounds.</p> <p>Have you faced trade-offs between impact and scale?</p> <p>How do you deal with this trade-off?</p> <p>Which role did the investors play?</p>
Additional information	<p>Do you have some additional information and thoughts you would like to share with me?</p>

*Note: Created by the author*

## Appendix 23: An overview of the five interview partners

	Pedro Vilela	Brazil	Rise Ventures	Pedro Vilela is the managing director of Rise Ventures. Rise Ventures is a Brazilian Venture studio that seeks to help social business scale. Rise Venture delivers strategic and business planning, fund raising services, and people development.
	Luis Fransisco Fonseca de Laranja	Brazil	Kaete Investimentos	Luis Fransisco Fonseca de Laranja is a partner of Kate Investimentos. Kaete Investimento is a Brazilian impact investing fund that focuses on sustainable investments in the Amazon region.
	Armando Laborde	Mexico	New Ventures	Armando Laborde is a partner of New Ventures. New Ventures is a Mexican impact investin fund and accelerator that engages in a variety of programs that seek to support social entrepreneurs in Mexico and Latin America.
	Enrico Robles	Mexico	Endeavor	Enrico Robles is CFO and Intelligence Director at Endeavor Mexico. Endeavor is a global organization that supports high impact entrepreneurs in developing economies. By doing so, it seeks to promote economic and social development.
	Angel Sahagun	Mexico	albo	Angel Sahagun is founder and CFO of albo. albo is one of Mexico's latest Fintech companies that seek to provide improved financia services that contribute to incremental financia inclusion.

*Appendix 24: Translated transcript from the interview with Pedro Vilela*

Pedro Vilela is the co-founder and CEO of Rise Ventures. Rise Ventures is a Brazilian Venture Studio that aims to support Social Businesses in the process of different managerial functions such as strategy development and fundraising efforts.

Pedro Vilela articulated his interest in engaging in an interview, but due to several business trips, a Skype interview was unfeasible. All contact was established through Rodrigo Vidigal, who is a former colleague from Peter Berkenheide and is currently working at Rise Venture. Peter prepared a set of questions that, then, was forwarded by Rodrigo to Pedro. Pedro recorded his answers and sent them back to Peter.

This is the coded transcript of Pedro Vilela's voicemail:

Message	Category 1	Category 2
He asked why we excluded technology start-ups from our target group. So, I think there are two reasons for this.	Business model	Target industries
The first is the fact of the real economy start-ups. We define the real economy as anything but technology. It can be any tangible product or service, not only a physical product, but education and healthcare are also considered as part of the real economy by us. Those are markets, especially when the companies are still in the Early Stage, with much more need for funding in Brazil compared to technology companies. So, whoever has a technology company with a good business strategy and a good team has access to Venture Capital funds to make the funding rounds and to grow his business.	Business model	Target industries, business stages
In the beginning, everyone has some access to capital, both the real economy enterprises as technology, from zero to two, three million Reais per year. After this size, the real economy is completely lacking access to finance in later stages, such as Private Equity rounds. That is when the investment rounds or the amounts invested are very aggressive, something like seventy, eighty million Reais per every delivered check. The company already must be factoring at least 50 to 100 million reais from the start. So, the real economy company that is generating between two to three million and fifty to seventy million in sales is lacking, as we have talked about before, access to funding.	Business model, Industry development	Target industries, business stages
Technology companies, here in Brazil, move beyond the starting phase. In the beginning, both real economy and technology companies have access to incubators, accelerators and business angels. But the tech companies that grow passing this size have the support of Venture Capital with checks of 500 thousand US dollars to 20 million dollars to be part of the companies (Series A, Series B, Series C).	Business model, Industry development	Target industries, business stages

<p>The reason is this. The first reason is that the natural market gap, the gap in the Brazilian financial market. The United States and other developed countries also have this gap, but the gap is smaller. They have Seed Capital funds for Early Stage companies that also include real economy companies.</p>	<p>Industry development</p>	<p>Business stages, Foreign investors, Local investors</p>
<p>I think it's a matter of time for the financial market in Brazil to decrease the gap. I'm talking about Brazil and not Latin America as a whole. I have no knowledge to speak of other Latin American countries. Although I think that should be very similar to Brazil as an "educated guess of mine." I think, over time, this gap will decrease with initiatives like ours and other players that are coming to the market.</p>	<p>Industry development, Business mode</p>	<p>Local investors</p>
<p>So that's the first point.</p>		
<p>And the second question here: "what are the biggest Challenges for Social Businesses in Brazil? How hard is it for these businesses to raise capital?" I'll start here.</p>		
<p>I think the Challenges for Social Business are no different from those for any normal business. Social businesses suffer from a lack of capital and qualified people, inevitably.</p>	<p>Social Business</p>	<p>Challenges, Capital needs</p>
<p>Then, that's how we defined Rise as a Venture Studio with the business model that we have.</p>	<p>Business model</p>	
<p>So, first, the Social Business ecosystem in Brazil is very new, as well as the resurgence of entrepreneurs who have the intention of doing Social Business. It has less than 25 years, this ecosystem in Brazil.</p>	<p>Social Business, Industry development</p>	
<p>And then, given the Mortality Rate of 80 percent of companies every five years or so, that leaves a few large Social Businesses in Brazil. That's why most Social Businesses are considered Early Stage. Those are businesses that bill little every year.</p>	<p>Social Business</p>	<p>Business stage, Challenges</p>
<p>The biggest challenge of business is that the business has little cash. This means that they have few resources to deal with any problems of the entrepreneurial journey.</p>	<p>Social Business</p>	<p>Business stage, Challenges</p>
<p>And in that sense of having little cash, the Social Business cannot attract and retain more senior talents. Those people would be able to plan for growth structuring and to plan, execute and lead business expansion movements. The most capable people are more expensive employees. Even if the company has the cash, it usually does not have the skill to attract, retain and motivate employees to achieve over time within the business.</p>	<p>Social Business</p>	<p>Business stage, Challenges</p>
<p>So, to me, these are the largest Challenges for Social Business in Brazil. All this part of being Early Stage, the</p>	<p>Social Business</p>	<p>Business stage,</p>

difficult access to financial resources and human capital at the beginning of the entrepreneurial journey.		Challenges
And then, how hard is it to raise capital? Super hard! Even for a technology company it is difficult, but a technology company still has access to Venture Capital, as I mentioned in the previous answer. In contrast, a real economy company has nothing. So, it's even harder in the real economy.	Social Business, Industry development, Business model	Challenges, Fundraising, Target industries
And then the third question: "Most impact investing in Latin America is made by foreign investors (as a percentage of deal volume)." How do I think the local investors should position themselves? This, in fact, is true. If you take the total asset under management of all funds that make impact investments in Brazil, most are rather foreign.	Industry development	Foreign investors
But it is due to the market size of the same things.	Industry development	Foreign investors, Local investors
I think the amount of intended capital for Impact Investing has grown in Brazil.		Local Investors
Nevertheless, it is an older issue and has already evolved more in other countries out there. Those countries see more capital designated to this means. And obviously, other countries simply have, of course, to have generally larger financial markets and thus investors with more money. Consequently, this relative share of foreign investors will continue to be the greatest actor for some time still.	Industry development	Local Investors, Foreign investors
I do not think the Local Investors are doing anything wrong; you have a natural maturation time until the Local Investors grow.	Industry development	Local investors
Foreign investors will maintain to play a dominant role. So, I think that reason is difficult to reverse. I do not know, I may be wrong, but compare Impact Investing to any equity investment market or credit (it doesn't need to be only impact), the percentage of foreign capital will be higher the percentage of local capital.	Industry development	Expectation
Unless perhaps specific Brazilian topics as agribusiness.	Industry development	Explanation
I do not know exactly, but the topic of Impact Investing is much hotter and bigger outside Brazil than in here yet.	Industry development	Explanation
I think for the local investors, it is a matter of time. Fortunes go migrating from fathers and mothers to sons and daughters so that these investments increase intentionally, perhaps even with a lower percentage.	Industry development	Expectation, Local Investors

But honestly, it does not matter, what matters is the amount of capital, in general, grows significantly for this market.

It will grow locally due to some tax issues that local investors, in contrast to foreign investors, do not incur.

However, on the other hand, the interest rates outside Brazil are much lower. So, to generate some positive returns is already satisfying for many investors from developed countries. In Brazil, in contrast, the CDI has historically yielded high returns. It is only until now that we are moving to a better level because those interest rates always competed with the equity investment market. Now we are coming to a more competitive position that allows us to capture more capital because the basic interest rate in the country is not yielding much. what matters is the amount of capital, in general, grow enough for this market (hopefully grow internally as well as a matter of taxes that the entity does not incur). However, on the other hand, the interest outside Brazil are much smaller, then return the dollar more something is already suitable for many developed countries of the world while in Brazil the CDI has a high historical now and just now going to a better place (our interest to always competed with the equity investment market). Now we are coming to a more competitive position to achieve capture more money because the basic rate in the country is not yielding much. what matters is the amount of capital, in general, grow enough for this market (hopefully grow internally as well as a matter of taxes that the entity does not incur). However, on the other hand, the interest outside Brazil are much smaller, then return the dollar more something is already suitable for many developed countries of the world while in Brazil the CDI has a high historical now and just now going to a better place (our interest to always competed with the equity investment market). Now we are coming to a more competitive position to achieve capture more money because the basic rate in the country is not yielding much. then return to the dollar something else is already suitable for many developed countries of the world while in Brazil the CDI has a high historical now and just now

Industry  
development

Expectation

Industry  
development

Explanation,  
Expectation

Industry  
development

Explanation,  
Expectation

going to a better place (the interest we always competed too much with the equity investment market). Now we are coming to a more competitive position to achieve capture more money because the basic rate in the country is not yielding much.

Well, I expanded a little bit the context of this question, but I think local investors will position themselves increasingly regarding Impact Investing. This growth of consciousness that has occurred around the world is showing us that sustainability is not a luxury or a trend, but a need to preserve our species, a need to increase empathy. Finally, channeling this through businesses helps to promote consciousness for the fact that the world today is sick in general in its processes, systems and mentalities.

Impact investing, indeed, is correcting a historical issue.

However, if your friend has any further questions, you can send them to me. I'm happy to answer. Sorry for the rather high noise here in my background. I have no control over the forest and has a buzzer on the living room ceiling. So, I leave the door open for Peter if he has more questions. A big hug earned. I hope it helped you.

Industry  
development

Explanation,  
Expectation,  
Local Investors

Impact Investing

*Appendix 25: Transcript from the interview with Pedro Vilela (original in Portuguese)*

Fala Vidigal. Vou responder aqui as perguntas que você colocou que estão acima aqui pro Peter para a tese de mestrado dele.

Então ele perguntou aqui por que a gente exclui StartUps de tecnologia do nosso target group.

Então, acho que tem dois motivos para isso.

O primeiro, o fato das startups de economia real (e a gente define economia real como sendo tudo menos tecnologia, ou seja, qualquer produto ou serviço tangível. Não só produto físico, mas educação, saúde também são considerados economia real para a gente. São mercados muito mais carentes de funding no Brasil quando ainda em Early Stage do que empresa de tecnologia. Então, quem tem uma empresa de tecnologia com uma tese boa e um time bom, tem acesso aos fundos de Venture Capital para fazer as rodadas de captação e ir crescendo)

Lá no comecinho todo mundo tem algum acesso, tanto empresas de economia real quanto de tecnologia, de zero até dois, três milhões de reais por ano. Depois desse porte, a economia real fica totalmente carente até ao ciclo de Private Equity que é quando as rodadas de investimento ou os montantes investidos são bem agressivos, coisa de setenta, oitenta milhões de reais para cima a cada cheque entregue, sendo que a empresa já tem que estar faturando pelo menos entre 50 a 100 milhões de reais logo de início. Então, a empresa de economia real que está entre dois a três milhões de faturamento ano e cinquenta a setenta milhões ao ano, é uma carência, como a gente já conversou, de funding.

Empresas de tecnologia, aqui passam do momento inicial, que tem as incubadoras, aceleradoras e os anjos que aí têm para os dois lados, tanto para economia real quanto para tech. Mas a tech que passa este porte ela tem o suporte dos Venture Capital que têm cheques de 500 mil dólares até 20 milhões de dólares para fazer parte nas companhias (série A, Série B, Série C).

A razão é essa. O primeiro motivo é esse gap do mercado natural, essa lacuna do mercado financeiro brasileiro que nos Estados Unidos e em países desenvolvidos tem também essa lacuna, mas o gap é menor. Eles têm fundos de Seed Capital para empresas de Early Stage que também inclui economia real e tudo mais. Acho que é uma questão de tempo para o mercado financeiro do Brasil diminuir o gap. Estou falando do Brasil e não de toda a América Latina, não tenho conhecimento para falar dos outros países da América Latina. Apesar de achar que devem ser muito parecidos com o Brasil como um “educated guess meu”. Acho que com o tempo esse gap vai diminuir com as iniciativas como a nossa e também de outros players que estão chegando ao mercado.

Então esse é o primeiro ponto.

E a segunda pergunta aqui: “quais são os maiores Challenges para Social Businesses no Brasil? Quão difícil é para estes negócios levantarem capital?”

Vou começar por aqui.

Eu acho que os Challenges para os Social Business não são diferentes dos Challenges de um Normal Business. Os Social Business também passam pela falta de capital (dinheiro) e de gestão de gente qualificada, inevitavelmente.

Então posto isso, cai bem na tese da Rise do modelo de Venture Studio que a gente tem.

Então, primeiro o ecossistema de Social Business no Brasil é muito novo assim como os empreendedores que até intencionalidade de fazer Social Business. Ele tem menos de 25 anos, esse ecossistema no Brasil.

E então dado a Mortality Rate das empresas de 80 por cento cada cinco anos mais ou menos. Sobram poucos negócios grandes no Brasil de Social Businesses. Então todos eles cairão no Early Stage quase que são negócios que faturam pouco ainda por ano.

O maior Challenge de negócio é que o business fatura pouco, tem pouco caixa (dinheiro), tendo poucos recursos para lidar com eventuais problemas da jornada empreendedora. E nesse sentido ao ter pouco caixa (dinheiro), o social business não consegue atrair e reter talentos mais seniors que seriam pessoas capazes de planejar estruturas de crescimento, conduzir, executar e liderar movimentos de expansão dos negócios. As pessoas mais capacitadas são funcionários mais caros. Mesmo se a empresa tem a Caixa (dinheiro), geralmente não tem o skill de gestão para atrair, reter e conseguir motivar os funcionários ao longo do tempo dentro do negócio. Então esses para mim são os maiores Challenges para um Social Business no Brasil. Toda essa parte por ser Early Stage, dificuldade de acesso a recursos financeiros e de capital humano no início da jornada empreendedora.

E aí, how hard to raise capital?

Super hard! Mesmo para tecnologia é difícil, mas empresa de tecnologia ainda tem acesso aos Venture Capital como eu comentei na resposta anterior. Já a economia real não tem nada, então é mais difícil ainda na economia real.

E aí a terceira pergunta aqui: “A maior parte dos Impact Investing na América Latina é feita por investidores estrangeiros como percentual do deal volume.” Como eu acho que os Local Investors deveriam se posicionar.

Esse na verdade é uma verdade se você pegar o total Asset under management de todos os fundos que fazem investimentos de impacto no Brasil, a maior parte é estrangeiro sim. Mas é muito mais pelo market size natural das coisas mesmo.

Acho que o montante de capital intencionado para investimentos de impacto tem crescido no Brasil, só que como é um assunto mais antigo e os países lá fora mais envolvidos já têm mais capital para esse meio, naturalmente por ter mercados financeiros maiores, investidores com mais dinheiro e tudo, esse percentual vai continuar sendo o maior ator o grande tempo ainda.

Eu não acho que os Local Investors estão fazendo nada de errado, tem um tempo natural de maturação até que os Local Investors cresçam também, só que lá fora vai estar maior ainda. Então, eu acho que essa razão dificilmente se inverte. Não sei, posso estar errado, mas comparar qualquer mercado de investimento de equity, o crédito (não precisa de ser só de impacto) vai ser maior o percentual de dinheiro de fora vindo para isso. A não ser talvez temas específicos do Brasil como o agronegócio, eu não sei, precisaria levantar, mas a parte de impact investing, esse assunto é muito mais hot and big outside Brasil do que aqui dentro ainda. Acho que os Local Investors é questão de tempo e as fortunas irem migrando de pais e mães para filhos e filhas para que esses investimentos aumentem de forma intencional, ainda talvez com um percentual menor, mas sinceramente pouco importa, o que importa é o volume de capital de uma forma geral crescer bastante para esse mercado (tomara que cresça internamente também por uma questão de taxes que a gente não incorre). No entanto por outro lado os juros fora do Brasil são muito menores, então retornar ao dólar mais alguma coisa já é satisfatório para muitos países desenvolvidos do mundo enquanto no Brasil o CDI tem um histórico alto agora e só agora está indo para um lugar mais adequado (os juros nossos sempre competiram muito com o mercado de investimento de equity). Agora a gente está chegando à posição mais competitiva para conseguir captar mais dinheiro dado que a taxa básica do país não está rendendo tanto.

Bem, eu expandi um pouco do contexto dessa pergunta, mas acho que é natural que os Local Investors vão se posicionar cada vez mais em impacto, posto essa expansão de consciência média que tem ocorrido nas pessoas do mundo inteiro de modo a perceber que isso não é um luxo ou uma modinha e sim uma necessidade de preservação da espécie, é uma necessidade de aumento de empatia, enfim tudo isso por meio dos negócios conseguir promover num mundo que hoje está doente de uma forma geral em seus processos, sistemas e mentalidades. A gente está, na verdade, corrigindo uma coisa histórica e com o impact investing. No entanto, se o seu amigo tiver mais alguma dúvida pode mandar. Eu fico feliz em responder. Desculpem se a cigarra bastante alta aqui no meu background. Eu não tenho controle sobre a floresta e tem uma cigarra no teto da sala que eu

estou falando. Então deixa a porta aberta para o Peter mandar mais perguntas. Um grande abraço valeu. Espero que tenha ajudado.

*Appendix 26: Transcript from the interview with Luis Fernando Laranja da Fonseca*

Luis Fernando Laranja da Fonseca is the co-founder and managing director of Kaete Investimentos.

Kaete Investimentos is one of the first Impact Investing funds in Brazil.

The interview was held and recorded via Skype.

PB stands for Peter Berkenheide

LF stands for Luis Fernando Laranja da Fonseca

This is the coded transcript of the interview:

Speaker	Message	Category 1	Category 2
PB:	Hi Luis! Thanks for taking the time to talk to me.		
LF:	Okay, great.		
PB:	So, let me explain to you what all this is about.		
LF:	Okay, great.		
PB:	That's also why I read about Kaete Investimentos.		
LF:	Yes, no problem.		
PB:	Okay, cool. Thank you.		
LF:	So how long do you think it'll last, our call? Just for me to have an idea.		
PB:	I think it should be around 20 to 30 minutes.		
LF:	Perfect. Okay, great.		
PB:	I've read different definitions, different papers, different books about Impact Investing. How would you, from your personal perspective, define Impact Investing?		
LF:	Oh, well, it's a kind of an investment that may besides the financial return must – must is an important, really important word - and must cause or create a good impact. Good results for the community, for the environment. So, I mean, social and environmental impact.	Impact Investing	Definition
PB:	Ok, cool.		
LF:	Well, Kaete Investimentos was created originally to manage a specific fund to invest in the Amazonas region. We created the first Private Equity fund for the region.	Business Model	Regional focus,
PB:	Ok, cool. Let me talk about the history.		
LF:	Well, there was an interesting opportunity eight years ago when the Development Bank of Brazil, BNDS, decided to create to incentive the creation of this first Private Equity fund in Amazonia. So, they gave strong support for the creation of this fund and they invest a large part of the fund. And so, there was the opportunity at that time.	Business strategy	Business development,
PB:	Very interesting! You mention it's a Private Equity fund.		
LF:	No, it's a Private Equity fund. In Brazil, the name is FIP – Fundo de Investimento em participacoes.	Business strategy	Investment category
PB:	Ok, cool.		
LF:	Yes. Actually, in the beginning, we defined, we created a spreadsheet where we defined some qualitative parameters to analyze, to filter, to select the business in which we would invest.	Business Strategy	Target industry,
PB:	Ok, cool. Interesting.		

LF:	Yes. We are used to doing that. We use the B-Corp system to measure the impact because we understand that the B-Corp system is the best way to, instead of first creating a system, to measure the impact of the companies.	Business strategy	Impact measurement
PB:	Ok, cool. Interesting.		
LF:	Yes. The focus is Amazonia, but there is no specific industry defined. So, we analyze opportunities for investment like in energy business, food, and beverage, tourism, infrastructure, etc.	Business strategy	Regional focus,
PB:	I imagine it's often the process, right, that you say, okay, we want to invest in different companies, but then you see all the best opportunities you sign in one field.		
LF:	Yeah.		
PB:	And on your webpage, I saw you make minority investments, right. Who are other investors in the same company?		
LF:	Yes. This fund, by definition, is a minority investment fund.	Business strategy	Investment category,
PB:	Ok. So, you would say it's a very local market? There are only very few international players.		
LF:	Sorry, could you repeat it, please?		
PB:	So, you would say in the Amazon region, it's mainly Brazilian and local investors, international investors.		
LF:	No, no. Only local investors. Yes.	Industry development	Local investors
PB:	Because if I read the studies of the Global Impact Investing Network or by the Latin American Venture Capital Association, I think if you look simply at the numbers, most of the impact investment is made by international investors in Brazil.		
LF:	Yes. Yes. Actually, we haven't. We never had a good opportunity to involve international investors, you know, for some reason.	Industry development	Local investors, International investors
PB:	Ok. I've seen a lot of international investors in companies in Sao Paulo, Rio de Janeiro. Probably Nubank is the most prominent example of international investors investing in Latin American companies. Why do you think they don't go to Amazonia? Don't they have the knowledge or why don't they go there?		
LF:	Well, I would say that's because of the risks. It's not an easy market to invest in. There are more risks than in traditional places like Sao Paulo, Rio, Minas Gerais, etc.	Industry development	International investors
PB:	And what kind of risks? You mentioned the risk, and I totally understand it. So, I would like to understand a little bit more detail. What kind of risks do you see in the Amazon that someone wouldn't see in Sao Paulo?		
LF:	Well, I can point out one specific risk: land title, for example. If it's a risk or more risky to invest in a company that's the owner of a land in the Amazon when compared to any other part of Brazil. So, this is a specific kind of risk.	Industry development	Business risks

PB:	Yeah, I totally see it. I think maybe literally by nature.in the Amazon, as you said, its logistics. Everything is much more complicated.		
LF:	Well, we usually make a detailed analysis of the business we invested in. I mean, a previous detailed analysis. So, we measure the risk that logistic problems, for example.	Business model	Risk management
PB:	Ok. And what kind of or stage of the company do you invest in? Is it more early stage, is that growth stage?		
LF:	Well, we invested both in early-stage and growth-stage. One company is a typical growth stage, the babbasuc company. The babassuc-processing company is the growth-stage. And we invested in in in one very early stage. It's a fish-processing company. So, we invest in both stages.	Business model	Investment stages
PB:	Ok.		
LF:	And we try to avoid doing greenfield projects, start-ups.	Business model	Investment stages
PB:	Ok. So, it has to have some revenue already, some profit already.		
LF:	Preferentially yes.	Business model	Investment stages
PB:	How is your exit strategy? I think, especially for impact investment funds, also the exit is a big risk, right. So, you don't know if there's a buyer for your company. Have you had any exit already?		
LF:	No, not yet. So, you're absolutely right. Exit. This is a very delicate or very important issue. Every part of the issue, especially when you invest in small or medium companies, it's more difficult. It's more and more difficult.	Business model	Exit strategy
PB:	So, let's imagine you convert your bond into equity, and then you can choose to whom you sell your equity. Who would be an ideal buyer for you if you can choose to whom to sell your company?		
LF:	Well, I think it should be a strategic investor. I mean, once we invest the money in the local company and the company became larger, bigger, it could attract the investment of strategic investors. But it's not easy, of course.	Impact Investing	Scale and Impact
PB:	Totally. Maybe in 10 or 20 years later. If it has grown much bigger, maybe. Yeah.		
LF:	Well, I don't believe that any investors would invest in a company like the companies we invested, and after investing, they would give up all the impact characteristics of the company. I mean, the impact, the positive thing of the company, in my opinion, would be - how can I say - an asset for the company.	Impact Investing	Scale and Impact
PB:	I'm totally convinced. I think it's a very fair argument. I think that's also the definition of a Social Business, right? Using impact is one of the main characteristics of the business. Once you separate business and impact, the business as one loses a lot of its strategic advantage.		

LF:	Yes. Yeah, that's my understanding.	Social Business	Definition
PB:	Great, Luis. I think I have learned a lot from you. I think I've asked the questions I had about creating this Kaete Invetimentos. I've read already about you. I'm going to look up a little bit more about the investments you have done about the companies you mentioned.		
LF:	Okay, great. And if at any moment you have a specific question you can send me a message, know, we can have another short call. No problem. I am absolutely available to collaborate with you.		
PB:	Perfect. Great. Thanks a lot. You are helping me a lot. I hope I am going to finish my thesis in a few weeks or in a month or so. And once it's done, I'm going to send you the results.		
LF:	Perfect. Excellent. I would be very interested in reading your thesis. And congratulations for choosing this theme, this issue.		
PB:	Great. Thank you. Thanks a lot. Bye.		
LF:	Bye.		

*Appendix 27: Translated transcript from the interview with Armando Laborde*

Armando Laborde is one of the managing partners of New Ventures.

New Ventures is one of the first Impact Investing funds in Mexico.

The interview was held and recorded via Skype.

PB stands for Peter Berkenheide

AL stands for Armando Laborde

This is the coded transcript of the interview:

Speaker	Message	Category 1	Category 2
AL:	Hi Armando, how are you?		
AL:	Hi Peter. Well, thank you, and you?		
PB:	Also, fine, thank you. Hey, the organizational topics first. Is it okay for you if I record the conversation?		
AL:	Can you record via Skype? You should know, I have never used this function.		
PB:	There are three dots down on the right.		
AL:	Ah, of course.		
PB:	There you can do it.		
AL:	Share screen add people. Look and here very correctly, I get the message: 'Peter is recording the call.' That's good. All good.		
PB:	Ah, well. It sends you a message. So, you can't abuse the tool.		
AL:	No, it's okay, it's okay.		
PB:	If you want, I tell you a little bit what it's about what I'm doing. And that's where we could start.		
AL:	Yes, please.		
PB:	Perfect, first I tell you a little bit of my background and my interests. Already a few years ago, I went to Mexico, fell in love with Latin America and then I always went back to study, to do some internships in different countries. I was also in Endeavor in Mexico.		
AL:	Ah look, what year were you in Endeavor?		
PB:	In 2016 and that's also when I first heard the first time of New Ventures. Returning to Europe, I wanted to stay in Europe, but a friend told me that there is a study program that allows you to go to Brazil for one year and then another year to Barcelona. So, I studied International Management in Brazil, in Sao Paolo, for a year and Finance in Barcelona for another year. Now I am done with all the classes. Currently, I am writing my thesis, which is the final project. My first experience in Mexico was a social service in a small village, in Ixmiquilpan in Hidalgo.		
AL:	Ixmiquilpan? I know it well. We had a branch of Promover just right there.		
PB:	Ah cool. I mean, you're the first person, really the first person, who knows Ixmiquilpan.		
AL:	And it has its ow Diana statue, the original one.		

PB:	The original, yes. Well, the topic of my research is the development of Impact Investing in Latin America, especially in Brazil and Mexico, as both are the two dominant countries in the region. And I'm also looking at the opportunities and which sectors and which financial methods can be used to develop the ecosystem.		
AL:	Where are you originally from?		
PB:	From Germany.		
AL:	Peter from Germany. You're German. Very well. And right now, you're where? Still, in Barcelona or are you back in a German city?		
PB:	In fact, I've already been in Germany for three months now already. But who knows how long I will stay?		
AL:	And where are you living? In Berlin or, where are you?		
PB:	In a very small town, in Munster.		
AL:	Ah look, I don't know that one.		
PB:	A very beautiful city. In 2004, it was even selected as the best city to live in the world, in the size of 200 to 500 thousand inhabitants.		
AL:	Really? How do you spell it? Send me a message with the correct spelling here in the Skype chat!		
PB:	I will do so. I can also send you an article so you can see that I'm not making it up, it's true.		
AL:	I'm simply asking because I am curious. Oh look, that's nice. Okay, let's move on. Sorry about the distraction.		
PB:	No, I'm always proud of my city. I mean, I could tell you a lot about it. But if you want, we can start with the interview, with my questions if it's okay for you.		
AL:	Go ahead, please.		
PB:	Okay. From your point of view, regarding Impact Investing, which economic sector, which social problems represent the greatest opportunities? For both social entrepreneurs and impact investing funds?		
AL:	What problems? I think I think not all social problems can be solved with business models. I learned that from Ashoka and many of Ashoka's Social Entrepreneurs. In other words, I think there are efforts that must be made by the public policy level. There are more sensitive issues like organ donation that would be difficult to address with business models. But I think we don't know yet what can be done by business and what cannot. At least that's how I would describe it. I think there was an industry that started to show us that there were problems such as promoting the economic development of resource-poor communities. The rise of microfinance was the first sector that showed that we could use business models to address this problem. At least in Mexico, that sector began to mature in the 1990s and grow in the 2000s. Then, I think, it was like until 2000, the mid-2000s that we started to see other sectors developing this model. We started to see companies regarding housing, energy, alternative energy.	Impact Investing	Challenges, Target Industries, Industry development

	<p>Many businesses started, companies such as Ilumexico, to offer interesting models, like, for example, how to bring solar panels to communities with limited financial resources. The oldest business is Échale a Tu Casa with an assisted living program. We moreover see companies like Biobolsa that made biodigesters for rural communities. And then we have started to see now topics related to health issues, mobility. What is exciting, I think, is that every year we're finding innovations in models. For example, a year and a half ago. I tell you fast; I loved it. I got to know about Escuelas Promesa; for example, I personally liked a lot because I have a friend who works on environmental education issues for schools and that always, all the time I've known her, always complained that she had few resources and couldn't get grants. And she wanted to take an educational program to more schools and worked with 10 and then with 15 and then dropped to 8. And she always complained that there are only a few grants to develop programs with more schools. Then suddenly, I met Julio, and he also did environmental education in schools. He would come and tell the school: "I have a fantastic program in the curriculum to work with an environmental education program at the school. Primary, High School, and Baccalaureate". And the school always I was telling him: "Your program is fantastic, but there's no budget this year. So we need to see if the year that comes in, we can do it." So, he could almost never start his program, and he realized that, so he wasn't going to grow. But his program is very hands-on. So, he realized that, when waste management campaigns began, they could market the waste, and with what they sold, he pays the promoters. Now the value proposition for the school is Peter; you're the rector of a school, the director. I have a fantastic program. I'm going to assign a promoter that's not going to cost you anything. Let me do the work with students. We're going to be at some point making trash collection campaigns and sell the trash. With that earned money, we will pay the promoter. Going ahead with that, he now already works with about 300 schools.</p>		
PB:	And that, in how long?		

AL:	<p>Now it's going to be about a little bit more than two years. And he is working with a hundred, more than 100 thousand students now. If you had asked three years ago, I would have told you that this sector, this problem is still not viable for a business model. But suddenly there's an entrepreneur who tells you, "you can do it." Do I make myself clear? So, that border of how far we can reach, of what can be served with a business model, we don't know it completely yet. We are gradually getting to know new businesses relevant to specific problems. What we have already seen working are, of course, economic development, energy, housing - although housing has a strong component still consisting of government supports - and education. We have seen very interesting proposals for mobility. Products obviously from responsible providers or handicrafts. And what we have seen a range of topics that cannot be addressed with business models because there are many more issues. Well, I think everything that has to make more effort. There are a lot of environmental issues that, although efforts are made with the intention of business models, there are many efforts that are matters of public policy, strategic litigation. And they operate better with grants. I think we're going to see more and more. And I think that's how we like to do it. Yes, not everything can be solved with the business model. Whatever can be solved, there we see a trend. And it is a trend we like to see. Each time it will show us that certain sectors can become more and more self-sufficient. And that's a trend we like to see. What can be served with a sustainable model will be. And let's allocate the scarcest resource that is the grants for those strategies that do not have the possibility to develop by themselves so.</p>	Impact Investing	Challenges, Limitations Role of the State, Target Industries, Industry development
PB:	<p>That could be quite a few industries. Resulting from that, I also see that there are two questions. I looked at New Ventures' portfolio or let's say Adobe Capital's portfolio. I see that you work with many different companies from different sectors. You don't focus on one or three specific sectors, do you? You are open to any industry.</p>		

AL:	<p>Exactly. Adobe started seven years ago. Back then, Venture Capital was still a pretty incipient sector. Then it was a very healthy strategy to look for companies that, in their activity, generate a positive impact, and that can generate returns. There wasn't much to choose from, and what you see there in the portfolio was what was selected. Right now, we're in Fund 2, but it has been contemplated for maybe sometime in the future. That is, this Fund 2 already has an expansion in terms of geography. Fund 1 was only for companies in Mexico. Fund 2 can now allocate part of its portfolio for Latin American companies. For the first time, we are evaluating companies in other countries. And perhaps later, if the sector continues to grow, it makes sense to start making funds a little more specialized funds, such as in healthcare where we can already strengthen the knowledge of the sector itself and are able to have greater knowledge to evaluate a sector. But right now, if it's generating impact and has the potential to generate returns, you can qualify for Adobe and for a new company that is called Viwala.</p>	Business Strategy	Target companies, Investment tickets, Investment methods
PB:	<p>You mention different names. Adobe, New Ventures, and now a new company. I find it very interesting. What is your concept? It is not only an Impact Investing Fund, but it's also much more, isn't it?</p>		
AL:	<p>Exactly, New Ventures came up 15 years ago. We're turning 15 now. I joined three and a half years ago. But how the mission has developed: We want to catalyze businesses with social and environmental impact. Adobe started in 2004. Back then, I couldn't know everything. It's more. In Ashoka, we had not yet chosen social entrepreneurs with business models. It started at a very early stage. What he started doing in New Ventures was the first action. Today we work on three major axes. The first is acceleration programs for entrepreneurs. It was with what New Ventures started. It was to look for entrepreneurs through workshops, mentorships, and investor networking to help entrepreneurs grow their business. If it impacts business and we help you grow. Obviously, the impact will grow. That's it the theory of change. We don't charge the entrepreneur for their participation; we don't ask for equity. However, we finance the program through partnerships with a financial ally. We have a program that BBVA funds. It's called Momentum. It's in its seventh edition, and that's for Mexican entrepreneurs of all kinds. It is a very big program. There we select 100 entrepreneurs per year. We have another one, financed by Citi Banamex, which is for entrepreneurs with a profile that contributes to reducing carbon emissions through mobility and energy alternatives. That's the kind of entrepreneurs we work with. It is the first program we did a little bit more focused on a single sector. We have a program that the Swiss</p>	Business Strategy	Company development, Financial tools, Partnerships

	<p>government's Development Agency funds out there your neighbors. That is also interesting. They started for the first time to work - it's, in fact, a project that we execute with Ashoka. It's the first time they've started as an agency through social entrepreneurship. This is a program to support entrepreneurs in Latin America that have an impact on their products and services or the generation of employment at the base of the pyramid. This one is running its sixth edition right now. We select 10 per year. And we have one more. We made a partnership with the U.S. Development Agency (USAID), and its theme was violence prevention. We did a program to strengthen entrepreneurial skills for productive projects that generate employment in prison populations and help social reintegration. It's a very specialized program. All the programs we do, we adapt a little bit to the interests of the ally, if they're designed for impact companies. Every year, on this first axis, we work directly with 130 companies. That allows us to get to know which interesting cases are going on. The second axis of New Ventures' work is access to capital and financing. There is where Adobe comes into play. As you could see, Adobe has Fund 1 and Fund 2. Fund 1 was \$20 million that was invested in 8 Mexican companies. Fund 2 has already done its closure. It's 30 million that is currently being invested. We are in 4 operations. What's very interesting about Adobe, I think, is that it has innovated a lot regarding the concept of debt Mezzanine or structured debts. Erick, the second partner, always says that investing is relatively easy. The problem is the exits. I mean, I invest in your company, and then I need to pay the return to my investors. It's hard to find. There is not a big market for buying and selling a business, and even less for impact companies. Even if the company goes well, it may be that you do not find investors who want to buy this company. Then what Adobe did a lot was this structured debt: I'll lend you an amount, you must pay me back as a multiple. On an operational basis, you pay me as a percentage of the sales. Doing so, you define a structured exit. Once the multiple is paid, we're out. I, as an investor, recovered my investment, and you, as an entrepreneur, got rid of me as an investor and didn't get diluted. In fact, the whole Fund 2 is operating this way, in this form of debt, Mezzanine.</p>		
PB:	The whole fund? There's no equity, no debt?		

AL:	<p>In Fund 1, it was half and half, debt and equity. But in Fund 2, everything is being traded through mezzanine debt that is working well for entrepreneurs and for investors. This year we created the average Adobe ticket of three million dollars. So, it's already a major investment. That's for companies that bill at least a million dollars. But many of the companies we work with have quite minor funding needs. We didn't know much to offer them. Then last year, thinking about what to do, things lined up. There was a challenge by USAID, a program called PACE (Partnering to Accelerate Entrepreneurship). It offered grants for innovative ways of financing with a gender lens perspective for investment. We allied with Promujer and made a proposal. We won, fortunately. We got some grants to cover the operating expenses and got an investor. So, this year, we started a financing company that starts to give financing to small and growing impact businesses in much smaller amounts. Amounts of 50 thousand to 250 thousand dollars. The first product we launched was exactly a revenue-based lending product, very similar to what Adobe does. But we are starting to experiment with other products as well. We have, by the nature of this new company, more flexibility to pilot things. However, it just started operations this year, and it's just making its first disbursements now. This is New Ventures' second pillar of work, access to capital through Adobe and loans through Viwala. The third axis is all everything that has to do with promoting the sector. So, there we have several activities. One is the FLI. We do the Latin American Impact Investment Forum that will turn 10 now in February. It is always done in Merida. It unites, they were like, 300 people, investors, and entrepreneurs. It has been a very good space to close deals for entrepreneurs. There are some plenaries, many parallel workshops. It is a good space for networking space and learning about some new topics. It's also been a good space for new actors to go to and start getting to know the sector. We are also pitching. I don't know if you heard about it, TONIC, the network of angel investors on issues of impact. We are helping to launch the first chapters of TONIC here in Mexico, and we want to do it in Latin America. And that's what we do right now. However, for me, the most exciting thing is to ask ourselves: what else constantly? What do we need? What do we see as the industry's bottlenecks and other things we could launch? That's the constant question we ask ourselves. We're just now starting to reflect upon what things to do during the coming year.</p>	Business Strategy	Investment methods, Partnerships
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PB:	<p>Ok, cool. Quite interesting. Three million is a large number of dollars. There, I see two questions, two little problems that might arise curiosity. On the one hand, 3 million can be a lot for some companies. They might need less. On the other hand, other companies might need much more than three million. There might be companies that could be very interesting for Impact investors but haps the Impact Investing funds do not have enough funds to participate in the investment rounds. How do you identify your investment targets?</p>		
AL:	<p>Adobe works in ranges, 3 million is an average. There are operations in Fund 2 that can start at a million. But there's also one that's being evaluated for 6. When they're bigger, we also seek for co-investors. This makes it possible to attend businesses that need larger amounts. Adobe can't, right now I don't remember the exact percentage, but there's a concentration camp about what we can invest in a single investment. Then, if we would be limited by this cap, we must go with co-investors. So that's the way it's taken care of. There's also a minimum that's right now a million. Less than that starts to cost you too much in terms of operations, to do Due Diligence. And because of that, the idea of operating a totally new entity that focuses more on small businesses came up. And that's been called Viwala. Obviously, they are starting operations, but we think that they can become self-sufficient. And it's a prosperous sector. We don't aspire to be the total suppliers of everything that impact companies need. Viwala and Adobe were created with two objectives. As one goal of we, yes, want to be a relevant actor that helps certain companies get access to capital and to help them grow. But we also want to be a demonstrative example. And there's no better way than to encourage other investors than proving that it is feasible to manage a fund is generating returns and creating impact. This is the idea of Adobe and Viwala. We obviously want to contribute and be the resource provider for impact companies. But we're also interested, and that's the explanation of the second goal, contribute that Impact Investing gets to know to a broader audience? And, the real goal is to mobilize more private resources to impact companies. What we dream is that there are more impact companies, that there are more universities that deal with the topic, that there are more investors who consider it as an option, that there are more consumers who want to learn about this type of product. And that's what we've done since the last job. I don't forget to mention, by example, with the FLI for several years. We paused it these last two years. We organized an event called the Ecofest, which is more like an event aimed at consumers and with an educational component. And we're in talks the government of Mexico City to see if we can relaunch it to again favor and educate the consumer on how your consumer decision can have a</p>	Business Strategy	Investment methods, Investment targets Partnerships

	<p>social impact and favor such companies at the same time. Then Adobe, I mean, it's not about attending all kinds of needs. Because of our investment thesis, we operate in this range. It seems to be very exciting because if you had asked me five years ago, ten years, I would have had a hard time thinking that impact companies would have needed these investment amounts. But we already start to see them. Adobe is not the only one, but I see it in the case of Adobe. There are many smaller companies that can't be served by something. In the acceleration programs, it often happened to us that entrepreneurs, whose models we liked, told us, 'I need capital, ¿can I get close to Adobe?' You can. But I know you're not going to be taken care of right now because you're still very small. And that's why the idea of creating another entity came up. We want to be free, and we believe that even the chapter of TONIC investors can help. As a matter of time, it will liberate the capital that is very seed-stage capital, very early. And we exactly want to provide capital for the different stages. But we already offer what you can. And yes, there are several companies that we cannot serve. There are even challenges that are going to be lacking. You start to see some sectors that are not as profitable. There are themes that we'd like to start experiencing in the coming year, and Viwala lends itself to do that. Exist mechanisms like blended finance for example. How we can use mixtures of grants or create guarantee funds (first loss) for certain slightly riskier sectors, as it can create incentives to support a little more women-led company. The combination of investment and novel mechanisms helps us to be less demanding on collateral issues for companies. Also, being more attractive to investors and being able to mobilize more private resources to this sector. These are the kind of things we want to pilot next year</p>		
PB:	<p>That were many strategic topics. I have a more operational question. How is an impact investment fund, let's take your example, distinguished from a traditional fund? For example, you invest in Econduce. There are also traditional investors that generally do not care so much about the impact.</p>		

AL:	<p>Exactly there are companies that we have in Adobe that would qualify for a traditional fund because they are good companies. The companies we are looking for are companies that we believe can perform well. Then it is likely that several of these companies could have and indeed have been supported by some other more traditional funds. What makes us distinctive is that in the first place, we evaluate if a company has the intention to generate impact. And if you don't have it, we're not interested, even if the performance would be interesting. So, what you can see is that in all the companies in the portfolio, there was always a discussion of does this have an impact? Does this not only create impact, but is it also in the intention and the objective of the company to generate it? And that's what makes us distinctive. If you are a company today, in the beginning, there is no very strong trade-off between performance and impact. So that makes a range of companies, good companies that could be supported by another fund. In fact, in some, there is co-investment with more traditional funds. But what you can tell is that all adobe companies do have an impact component. And not so if you go to another fund. There will be one or another company that has an impact, but it is not the common denominator.</p>	Impact Investing	Traditional investors, Differentiation, Impact focus
PB:	<p>And in the same direction, now speaking only of one company: can you see a difference between the different investors? For example, two weeks ago, I spoke to Angel Sahagun about albo. And they have Omidyar Network as investors. He says that they are like any normal investor. There is no difference between an impact fund and a traditional background.</p>		
AL:	<p>You don't notice the difference looking at whom, them or us?</p>		
PB:	<p>That is from the entrepreneur's point of view. He doesn't see a difference between the two types of investor.</p>		

<p>AL:</p>	<p>Exactly, if you ask an entrepreneur. In fact, sometimes there we have a company. I don't know if I understood the question. But for example, there are entrepreneurs who suddenly believe that being an impact investment fund means softer conditions. And not necessarily. I'll explain it. We are talking about investment money that is not ours. We are the administrators of this fund. There are some expectations of return. The feasibility of getting the next fund is very strongly related to the performance of the current one. Well, then, yes. Well, when it comes to negotiating, there are business negotiations. And certain returns are requested, and certain conditions are tied in the contract, to have a seat on the board and capacity to decide. But the only difference is that money will only go dedicated to this type of company. That are not grants, that are nor are preferential conditions right now. But we think that soon we can experiment with some of these things. I think I would like to test it in certain sectors, for example, agro, conservation companies. It would be hard for them to get higher returns. So, I think we would test different mechanisms. But this kind of company that is approaching Adobe right now telling me: "I thought that you were going to be softer or offer friendlier conditions." Well, no, it's money, and it's like that. We must take care of the interests of investors, and certain returns are expected. The conversation is business. Shall I explain? The only difference is that money is only going to be dedicated to companies that have intentionality of impact. But it is part of the responsibility of the Adobe team to take care that they are not intended for the most impactful companies, but to those that combine precisely an issue of impact and cost-effectiveness. So yes, I've sometimes had a couple of comments from entrepreneurs who come up thinking it's an intermediate mix between a grant and a traditional investor and that it's going to be a little bit more condescending. And no, I think there's still a mistake on the part of the entrepreneurs. That is, this money is from investors, and we must take care of the interests of the investors and place them in impact companies. And yes, they push us very well. We have some guarantee mechanisms for cases like if I fail too much even to take control of the company to be able to sell it or try to lift it. I don't know if that's what I answered your question.</p>	<p>Impact Investing</p>	<p>Traditional investors, Investor relations Differentiation, Impact focus</p>
<p>PB:</p>	<p>no, you answered it perfectly. That's exactly what I asked about. We're talking about your investors: is it a bigger problem to find investors who want to invest in an impact fund? Or isn't it that hard to raise capital?</p>		

AL:	<p>No yes. I am not directly in the activities of raising capital. Erick and Rodrigo have done that mostly. But it takes time, a long time. And you must talk to a lot of people to make a few deals. This is always the dilemma. For some of them, we are a very small Fund. For many investors, then, yes, it does take time. In fact, the goal of the second fund was to reach 40 million. We achieved 30. We are happy. It is a significant increase from 20 to 30. We hope Fund 3 will be a little easier. At Fund 1, they were telling us that Fund 2 is a little more difficult because the fund is starting. There are investors who don't want to try. Fund 2 no longer attracts the ones that were the most adventurous. They say: "I've already tried at the initial stage, but you still don't have all the history to prove that you can do it very well." So, it's still very new in the country. I still can't see your performance." So, we did it in a macro context that was a little difficult. The new administration has created a bit of uncertainty in the private sector. And there have been some investors who decided to postpone their investment decisions in Mexico. So, I think it was a good result for the stage we're at. And there are plans to eventually start making efforts to raise resources for a third fund, perhaps by the end of the coming year.</p>	Impact Investing	Challenges, Business stages, Fundraising
PB:	<p>Cool, congratulations. I hope it goes well. And well maybe one last question. You said an exit is difficult. The industry is still very young, and it's hard to convince a lot of investors. What role can the Impact Investing industry play in the growth of some companies? Can you imagine that the early-stage, growth-stage is yours and then, afterward come to the big funds and you sell your investments to them?</p>		
AL:	<p>Yes, in fact, is what has started to happen. For example, Nazca with one of the companies. We caught it in growth stages and then arrived a large investor, led by UBS, and already prepared a round. What they wanted was for the other investors to sell their stakes. Then I think that's what can happen. There are going to be certain growing sectors that show that they are already attractive to other funds at that time. And that's exactly what we'd like the most. Let these impact companies start moving now into those leagues. This, if eventually that's what we aspire to happen.</p>	Impact Investing	Exit options, Relation to other investors
PB:	<p>I hope so. Well, that were all the questions I've had. I had read a lot about New Ventures, about the mezzanine capital that had been mentioned. I had seen the report on your page. I find it very interesting. I think the interview gave me some ideas to complement and supports some thesis that I already had. Thank you so much!</p>		

AL:	A pleasure, Peter.		
PB:	I don't know if you have anything else to tell that I didn't ask, and you think it's very important.		
AL:	No, I think it's okay. When you have your thesis, just let us know to see how it looks. And we're available whatever you need, Peter.		
PB:	Perfect. Thank you very much.		
AL:	Take care. Bye.		
PB:	Thank you very much. Bye.		

*Appendix 28: Transcript from the interview with Armando Laborde (original in Spanish)*

*PB:* ¿Hola Armando, como estas?

*AL:* Hola Peter. ¿Bien, gracias y tu?

*PB:* También bien, gracias. Oye, lo organizacional primero. ¿Está bien para ti si grabo la conversación?

*AL:* ¿Se puede grabar por Skype? Fíjate que esa función nunca la había usado.

*PB:* Ahí abajo a la derecha tienes tres puntitos.

*AL:* Ah claro.

*PB:* Ahí puedes hacerlo.

*AL:* Compartir pantalla, agregar personas. Mira y aquí muy correctamente ya me llega el mensaje: 'Peter está grabando la llamada'. Muy bien.

*PB:* Ah bien. También te viene a ti. No se puede hacer nada indiscreto entonces.

*AL:* No, está bien, está bien.

*PB:* Si quieres te cuento un poco de qué se trata qué estoy haciendo. Y ahí ya podríamos empezar.

*AL:* Por favor.

*PB:* Perfecto, primero te cuento un poco de mi background y mis intereses. Hace unos años ya me fui a México, me enamoré de América Latina y después siempre volví a estudiar, a hacer internships a diferentes países. Estaba en Endeavor en México.

*AL:* ¿Ah mira, en que año estuviste en Endeavor?

*PB:* En 2016 y ahí también fue cuando escuché la primera vez de New Ventures. Volviendo a Europa quería quedarme en Europa, pero un amigo me contó que hay un programa de estudios que te vas un año a Brasil y luego otro año a Barcelona. Entonces estudié un año International Management en Brasil, en Sao Paolo, y un año de Finance en Barcelona. Ya terminé todas las clases. Hoy estoy escribiendo mi tesis que es el proyecto final. Mi primera experiencia en México fue un servicio social en Pueblo chiquito en Ixmiquilpan en Hidalgo.

*AL:* ¿Ixmiquilpan? Mira conozco bien. Ahí teníamos una sucursal de *Promover* justamente.

*PB:* Ah cool. O sea, eres la primera persona, de verdad la primera persona, que conoce Ixmiquilpan.

*AL:* Y tiene si fuente de la Diana, la original.

*PB:* La original, sí. Bueno, y ahora el tema es el desarrollo del Impact Investing en América Latina, sobre todo en Brasil y México como son los dos países principales. Y también estoy viendo cuales son las oportunidades y qué sectores y también qué métodos financieros se pueden usar para desarrollar el ecosistema.

*AL:* ¿De dónde eres originalmente?

PB: De Alemania.

AL: Peter de Alemania. Eres alemán. Muy bien. ¿Y ahorita estás en dónde? ¿Todavía en Barcelona o ya estás de regreso en alguna ciudad alemana?

PB: De hecho, ya llevo tres meses ahorita de vuelta en Alemania. Quién sabe cuánto tiempo me quede.

AL: ¿Y en donde es tu casa? ¿En Berlín o dónde estás?

PB: En una ciudad muy pequeña, en Münster.

AL: Ah mira, ahí no conozco.

PB: La ciudad más bonita. Hasta en el 2004, de verdad, fue elegida como la mejor ciudad para vivir en el mundo, en el tamaño de 200 hasta 500 mil habitantes.

AL: ¿Así? ¡Mira! ¿Cómo se escribe? ¡Mándame en el chat de Skype como se escribe!

PB: Ahí te lo mando. Y después te pueden mandar el artículo para que veas que no estoy inventando, sino que es verdad.

AL: Estoy aquí nomás porque debo saber. Ah mira, qué bonito sí. Ok, sigamos. Perdón por la distracción.

PB: No, yo siempre estoy orgulloso de mi ciudad. O sea, te podría contar mucho de ella. Pero si quieres, podemos empezar con la entrevista, con mis preguntas si está bien para ti.

AL: Adelante por favor.

PB: Dale pues. Para ti, el Impact Investing, ¿qué economía qué problemas sociales representan las mayores oportunidades? ¿Tanto para social entrepreneurs como para fondos de inversión?

AL: ¿Qué problemas? Creo que, creo que no todos los problemas sociales pueden ser resueltos con modelos de negocio. Y eso me lo enseñó mucho Ashoka y muchos de los Emprendedores Sociales de Ashoka. O sea, creo que hay esfuerzos que se tienen que hacer como a nivel de política pública o hay temas más delicados como donación de órganos que sería difícil atenderlo con modelos de negocio. Pero, creo que también no acabamos de saber muy bien. Al menos como me gusta verlo. Creo que empezó un sector a demostrarnos que había una problemática como el promover un desarrollo económico de comunidades de escasos recursos que surgió microfinanzas y que fue el primer sector que nos demostró We can use, podemos usar business models para atender esta problemática. Al menos en México ese sector empezó a madurar en los noventas y a crecer en los 2000 y después creo que fue como hasta 2000, mediados de los 2000 que empezamos a ver otros sectores que empezaban a crecer en este modelo y empezamos a ver actividades en temas de vivienda, de energía, energía alternativa. Muchos empezaron, empresas como *Ilumexico*, a ofrecer modelos interesantes de cómo llevar paneles solares a comunidades de escasos recursos. Las más antiguas fue *Échale a Tu Casa* con un programa de vivienda asistida. Empezamos a ver empresas como *Biobolsa* que hacían biodigestores para comunidades rurales. Y ahí hemos empezado a ver ahora temas de salud, movilidad. Pero lo que es emocionante creo que cada año vamos encontrando innovaciones en modelos. Por ejemplo, hace año y medio. Te cuento rápido, me encantó. Conocí *Escuelas Promesa* por ejemplo que personalmente me gustó mucho porque tengo una amiga que trabaja en temas de educación ambiental para escuelas y que siempre, toda la vida que la conocí, siempre se quejaba de que tenía pocos recursos y no conseguía grants. Y ella quería llevar su programa educativo para más escuelas y trabajaba con 10 y llegaba 15 y luego bajaba 8. Y siempre se quejaba que tenía pocos grants para que haya más escuelas.

Y de repente conozco a Julio y que también hacía educación ambiental en escuelas. Él llegaba y le decía a la escuela: “tengo un programa fantástico en el currículo para trabajar con un programa Educación Ambiental en la Escuela. Primaria, Secundaria y Bachillerato”. Y la escuela siempre le decía: “esta fantástico tu programa, pero no hay presupuesto este año a ver si el año que entra.” Entonces nunca podía arrancar su programa y se dio cuenta que así no iba a crecer. Entonces su programa es muy hands-on. Entonces, se dio cuenta de que cuando empezaban las campañas de manejo de residuos pues ellos podían comercializar los residuos y con lo que vendían podía pagar el promotor de la escuela. Ahora la propuesta de valor para la escuela es: Peter, tú eres el rector de una escuela, el director. Entonces tengo un programa fantástico. Voy a asignar un promotor que no te va a costar nada. Me dejas hacer el trabajo con estudiantes, alumnos. Y vamos a estar en algún momento haciendo campañas de recolección de residuos para vender y con eso lo pagamos. Adelante ya con eso trae como 300 escuelas lo que logró.

PB: ¿Y eso, en cuánto tiempo?

AL: Lleva como dos años y fracción. Ya está trabajando con ciento, más de 100 mil alumnos. Si hubieras preguntado hace tres años, te diría que este sector, esta problemática todavía no es viable para un modelo de negocio. Pero de repente llega un emprendedor que te dice sí se puede. ¿Me explico? Entonces esa frontera de hasta dónde va a llegar lo que se puede atender con modelo de negocio todavía no la acabamos de conocer y vamos conociendo poco a poco nuevos modelos pertinentes para problemáticas. Lo que ya hemos visto probado obviamente son desarrollo económico, energías, vivienda - aunque vivienda tiene un componente fuerte todavía de apoyos de gobierno -, educación. Hemos visto propuestas muy interesantes de movilidad. Productos obviamente de proveeduría responsable, de artesanías. Y lo que hemos visto que no se puede atender con modelos de negocio pues son mucho más algunos temas. Pues creo que todo lo que tenga que ver más esfuerzos. Hay mucho en temas ambiental que, aunque si se hacen esfuerzos con temas de modelos de negocio hay muchos esfuerzos que son materia de política pública, de litigio estratégico. Es que operan más bien con grants. Pero creo que cada vez vamos a ir viendo más, más y creo que así es como nos gusta hacerlo. Sí, no todo se puede resolver con modelo de negocio, lo que sí pueda lo vemos como una tendencia. Cada vez nos va a ir demostrando que como sí se pueden ser cada vez más autosuficientes ciertos sectores. Y esa es una tendencia bienvenida. Lo que se pueda atender con un modelo sostenible, así sea. Y destinemos el recurso más escaso que son los grants para aquellas estrategias que no tengan la posibilidad de hacerlo así.

PB: Podrían ser bastantes industrias. Y también veo que hay dos preguntas. Vi el portafolio de New Ventures, ósea Adobe Capital. Yo veo que trabajan con muchas empresas diferentes de diferentes sectores. Ustedes no se enfocan en un o en tres sectores, ¿verdad? Están abiertos a cualquier industria.

AL: Exacto. Adobe empezó hace siete años y entonces todavía era un sector bastante incipiente en el tema de Venture capital y entonces en ese momento fue una estrategia muy sana, es decir, vamos a buscar empresas que en su actividad tengan impacto y que puedan generar retornos. No había muchísimo de dónde escoger y lo que ves ahí en el portafolio fue lo que sí se seleccionó. Tal vez, o sea ahorita estamos en el Fondo 2, pero sí se ha contemplado si tal vez en algún momento a futuro. O sea, este fondo dos ya tiene una ampliación en términos de geografía. El Fondo 1 era solamente para empresas en México, el Fondo 2 ya puede destinar parte de su portafolio para empresas de América Latina. Por primera vez estamos evaluando empresas en otros países. Y tal vez, más adelante, sí se ha contemplado que tal vez, si el sector sigue creciendo, tenga sentido empezar a hacer fondos un poquito más especializados como en salud donde podamos ya fortalecer incluso el conocimiento del sector mismo y poder tener mayor capacidad para evaluar un sector. Pero ahorita todavía, mientras sea de impacto y posibilidades de generar los retornos, puede calificar en *Adobe* y en una nueva empresa que creamos que se llama *Viwala*.

PB: Ahí mencionas diferentes nombres. *Adobe*, *New Ventures* y ahora una nueva empresa. Me parece muy interesante, ¿Cómo es el concepto de ustedes? No sólo es un Impact Investing Fund, es mucho más, ¿no?

AL: Sí, *New Ventures* surgió hace 15 años, estamos cumpliendo 15 años ahora. Yo me incorporé hace tres años y medio. Pero cómo empezó a moverse a las misiones: Queremos catalizar negocios con impacto social y ambiental. *Adobe* empezó en el 2004. En este entonces no podía conocer todo. Es más, en *Ashoka* todavía no hayamos elegido emprendedores sociales con modelos de negocios. Empezó en una etapa muy temprana y lo que empezó haciendo *New Ventures* fue lo primero. Hoy por hoy trabajamos en tres grandes ejes. El primero es programas de aceleración para emprendedores. Fue con los que arrancó *New Ventures*. Fue buscar emprendedores y a través de capacitaciones, mentorías, vinculación con inversionistas ayudarles a crecer su negocio. Si es un negocio de impacto y le ayudamos a crecer, pues obviamente crecerá el impacto. Eso es la teoría de cambio. Ahí como operamos, no le cobramos al emprendedor por su participación, no le pedimos Equity. Por lo tanto, pagamos el programa a través de alianzas con un aliado financiero. Entonces tenemos un programa que financia *BBVA* que se llama *Momentum* que está en su séptima edición y ese sí es para emprendedores mexicanos en todo tipo. Es un programa muy grande. Ahí seleccionamos a 100 emprendedores por año. Tenemos otros que financia *Citi Banamex* que es para emprendedores con un perfil que contribuyen a reducir emisiones de carbono a través de movilidad y energías alternativas. Es el tipo de emprendedores que trabajamos. Ahí fue el primer programa que hicimos ya un poco más enfocado en algún sector. Tenemos un programa que financia la Agencia Desarrollo del gobierno suizo, por ahí tus vecinos, que también es interesante. Empezaron por primera vez a trabajar - es un proyecto de hecho que hacemos de la mano con *Ashoka* y es la primera vez que empezaron como agencia de trabajado a través del emprendimiento social. Este es un programa para apoyar a emprendedores de América Latina que inciden con sus productos y servicios o la generación de empleo en la base de la pirámide. Este iba ahorita corriendo su sexta edición. Seleccionamos 10 por año. Y tenemos uno más. Hicimos una alianza con la Agencia Desarrollo de Estados Unidos (USAID) y hoy su tema era prevención de violencia. Entonces hicimos un programa de fortalecer habilidades emprendedoras para proyectos productivos que generan empleo en poblaciones en situación de cárcel y ayudar a la reinserción social. Es un programa súper especializado, pero era por el tipo. Entonces todos los programas que hacemos los adaptamos un poquito a los intereses del aliado, siempre y cuando sean para empresas de impacto. Cada año en este primer eje trabajamos con 130 empresas de manera directa. Entonces nos permite conocer que casos interesantes qué está pasando. El segundo eje de trabajo de *New Ventures* es el acceso a capital y a financiamiento. Ahí tenemos *Adobe* que, como pudiste ver, tiene el Fondo 1 y Fondo 2. El Fondo 1 fueron 20 millones de dólares que se invirtió en 8 empresas mexicanas. El Fondo 2 ya hizo su cierre, son 30 millones que se están apenas invirtiendo. Van 4 operaciones. Sobre todo, lo que es interesante de *Adobe* es, creo que, innovó mucho en el concepto de deuda mezanine o deudas estructuradas. Lo que comenta mucho Erick quien es el segundo socio. El dice que invertir es relativamente fácil, el problema son las salidas. O sea, si yo invierto en tu empresa y luego necesito salir para pagar el rendimiento a los inversionistas. Es difícil encontrar, no hay mucho mercado de compraventa de empresas y menos para empresas de impacto. Aunque la empresa vaya bien pueda hacer que no encuentre inversionistas que quieran comprar esta empresa. Entonces lo que hizo mucho *Adobe* fue esta deuda estructurada: yo te presto una cantidad me tienes que pagar un múltiplo y me lo vas pagando como un porcentaje de las ventas. Entonces se va haciendo la salida de manera estructurada acabando, completándose el pago de ese múltiplo. Ya estamos fuera, yo como inversionista recuperaré mi inversión y como emprendedor ya me sacaste como inversionista y no te diluiste. De hecho, todas las operaciones del Fondo 2 se están haciendo en este concepto, en esta forma de deuda mezanine.

PB: ¿O sea todo? ¿No hay nada de equity, no hay nada deuda?

AL: En el 1 fue mitad y mitad, deuda y equity. Pero en el 2 todo se está operando a través de deuda mezanine que está funcionando bien para los emprendedores y para los inversionistas. Este año creamos el ticket promedio de *Adobe* de tres millones de dólares. Entonces ya es una inversión

importante. Ya son empresas que facturan cuando menos un millón de dólares. Pero muchas de las empresas con las que trabajamos tienen necesidades bastante menores de financiamiento que no sabíamos mucho qué ofrecerles. Entonces el año pasado, Pensando qué hacer, se alinearon las cosas. Hubo una convocatoria de USAID. Justamente un programa que se llama PACE (Program to accelerate entrepreneurs). Justamente ofreciendo grants para *innovative ways of financing with a genderlense perspective for investment*. Nos aliamos con *Promujer*. Hicimos una propuesta. Ganamos afortunadamente. Nos dieron un poco de grants para cubrir los gastos operativos. Conseguimos un inversionista. Y este año iniciamos operaciones de una financiera que empieza a dar financiamientos a *small and growing businesses* de impacto, en montos mucho más pequeños. Montos de 50 mil a 250 mil dólares. El primer producto que sacamos fue justamente un *revenue based lending*, muy similar a lo que maneja *Adobe*. Pero estamos empezando a experimentar otros productos. Tenemos, por la naturaleza de cómo es esta nueva empresa, más flexibilidad para pilotear cosas. Pero apenas acaba de iniciar operaciones este año y está haciendo sus primeros desembolsos apenas. Este es el segundo eje de trabajo de *New Ventures*, el acceso a capital a través de *adobe* y de préstamos con *Viwala*. Y el tercer eje son todo lo que tienen que ver más como favorecer el sector de manera más amplia. Entonces ahí tenemos varias actividades una es el *FLI*. Hacemos el Foro Latinoamericano de Inversión de impacto que va a cumplir 10 años ahora en febrero. Se hace siempre en Mérida. Convoca como, que fueron como, 300 personas, inversionistas y emprendedores. Ha sido un muy buen espacio para cerrar deals para los emprendedores. Hay algunas plenarias, muchos talleres paralelos y entonces un buen espacio de networking y de aprender de algunos temas nuevos. Ha sido un buen espacio para que actores nuevos vayan y empiecen a conocer el sector. Estamos también lanzando, no sé si ha sido hablar de TONIC, esta red de inversionistas ángeles, en temas de impacto. Estamos ayudando a lanzar los primeros capítulos de TONIC aquí en México y queremos hacerlo en América Latina. Y eso es lo que hacemos ahorita hasta la fecha. Pero para mí lo más emocionante es como constantemente preguntarnos: ¿qué más? ¿Qué nos hace falta? ¿Que vemos como cuellos de botella del sector y que otras cosas pudiéramos lanzar? Siempre está como está esa pregunta constante en los trabajos. Justamente estamos empezando a ver qué cosas se les ocurren para el año que entra.

*PB*: Dale cool. Bastante interesante. Tres millones es un monto bastante grande de dólares. Ahí veo dos preguntas, dos problemitas que podrían surgir curiosos. Una vez tres millones de dólares es mucho para algunas empresas. O sea, ellas ni necesitan tanto. Y para otras empresas tal vez 3 millones no es suficiente. Hay algunas empresas que tienen un impacto social y podrían ser muy interesante para Impact investors, pero tal vez el Impact Investing fund no tiene los fondos suficientes para participar en la ronda. ¿Como identifican ustedes sus targets?

*AL*: *Adobe* trabaja en rangos ,3 millones es un promedio. Ha habido operaciones en el fondo 2 que pueden ir desde un millón. Hay una que se está evaluando de 6. Cuando son más grandes incluso buscan coinversionistas. Eso permite atender. *Adobe*, no puede ahorita recordar el porcentaje, pero, hay un tope de concentración que podemos tener una sola inversión. Entonces y rebasar eso, tenemos que ir con coinversionistas. Entonces eso es la forma que se atiende. Si hay un mínimo que está ahorita en un millón. Por qué menos que eso ya no le empieza a costear en términos de operación hacer un due diligence. Y por eso surgió la idea de operar una entidad nueva que se enfoque más en las pequeñas empresas y eso ha sido ahora *Viwala*. Están obviamente iniciando operaciones, pero sí creemos que pueden ser autosuficiente. Y es un sector prospero. Ahora tampoco aspiramos a ser los proveedores totales de lo que necesitan las empresas de impacto. Mucho del objetivo de *Viwala* y de *Adobe* es, desde que se creó *Adobe* se creó con dos objetivos. Hay un objetivo de sí yo quiero por un lado ser un actor relevante para ayudarle a ciertas empresas a conseguir su capital y ayudarles a crecer. Pero también quiero ser un ejemplo demostrativo y no hay mejor forma que de animar a otros inversionistas de que esto puede ser factible que si logramos hacer un fondo que sea rentable en temas de impacto y demostrar que sí se puede hacer. Y entonces la idea de *Adobe* y de *Viwala* es si queremos obviamente aportar y ser el proveedor de recursos para empresas de impacto pero también nos interesa, y por eso el eje del tema de trabajar en el sector, qué podemos hacer para que esto se conozca? Y en realidad el verdadero objetivo es que se movilicen más recursos privados hacia empresas de impacto y lo que soñamos es que haya más empresas de impacto que haya más

universidades que practiquen este tema y que haya más inversionistas que lo consideren como una opción que haya más consumidores que quieran inclinarse por este tipo de productos. Y eso es lo que hacemos más bien desde el último trabajo. No se me olvida mencionar, por ejemplo, a parte del FLI tuvimos muchos años, lo pusimos en pausa estos últimos dos años, pero teníamos un evento que se llama el *Ecofest* que es más bien como un evento dirigido a los consumidores y con un componente educativo. Y estamos ahorita en pláticas con incluso con el gobierno de la ciudad de México a ver si lo podemos relanzar para otra vez favorecer y educar al consumidor sobre cómo tu decisión de consumo puede tener un impacto social y favorecer este tipo de empresas al mismo tiempo. Entonces *Adobe*, o sea, no se trata de que atienda todas las necesidades o sea por su tesis está en esta en este rango. A mí me parece por un lado muy emocionante porque si me preguntabas hace cinco años, diez años, me hubiera costado trabajo pensar que empresas de impacto hubieran necesitado estos montos de inversión. Pero este ya las empieza a ver. Pero no es el único pero que le veo a *Adobe*. Es que sí hay un gran número de empresas mucho más pequeñas que no pueden ser atendidas por algo. Muy seguido nos pasaba en los programas aceleración de emprendedores que nos gustaban sus modelos que nos decían ‘necesito capital, ¿puedo acercarme a *Adobe*?’ Pues de que puedes puedes. Pero sé que no te van a atender ahorita porque eres todavía muy pequeño. Y por eso surgió la idea de trabajar en otra entidad. Entonces queremos ser libres y creemos que incluso el capítulo de TONIC de inversionistas puede ayudar al rato para detonar un sector que todavía falta mucho que es el capital en etapa muy semilla, muy temprano. Y queremos justamente ir trabajando y detonando poco a poco las distintas etapas. Pero si se ofrece lo que se pueda. Si hay varias empresas que no podemos atender. Hay incluso retos que nos van a faltar. Se empieza a ver algunos sectores que no son tan rentables. Por ejemplo, un tema en el que nos gustaría empezar a experimentar el año que entra y *Viwala* se presta para hacer eso. Existen mecanismos de *blended finance*. O sea, cómo podemos usar mezclas de grants o crear fondos de garantía (first loss) para ciertos sectores un poco más riesgosos como puede ser agro o crear incentivos para apoyar un poco más empresas lideradas por mujeres donde podamos con la combinación de inversión y de mecanismos novedosos que nos ayude a hacer menos exigentes en temas de garantías para las empresas. Pero ser como hacernos más atractivos para inversionistas y poder movilizar de mejor manera más recursos privados a este sector. Son el tipo de cosas que queremos pilotear el año que entra

PB: Ahora eran muchos temas estratégicos. Tengo una pregunta más operacional. ¿Cómo se distingue un fondo de inversión de impacto, su ejemplo, de un fondo tradicional? Por ejemplo, ustedes invierten en *Econduce*. Ahí también están fondos tradicionales que generalmente no les importa tanto el impacto. ¿Cómo es el día a día?

AL: Exacto hay empresas que tenemos en *adobe* que calificarían en un fondo tradicional porque son buenas empresas. Las empresas que estamos buscando son empresas que creemos que tienen la capacidad de dar un buen rendimiento. Entonces es probable que varias de estas empresas pudieran haber y de hecho han sido apoyadas por algunos otros fondos más tradicionales. De lo que lo hace distintivo es que lo primero que evaluamos cuando llega una empresa es tiene la intencionalidad de generar impacto. ¿Me explico? Y si no la tiene no nos interesa, aunque el rendimiento fuera. Entonces lo que sí puedes ver es que en todas las empresas del portafolio siempre hubo una discusión de ¿esto genera impacto? ¿esta no solamente genera impacto, pero además está en la intencionalidad y en el objetivo de la empresa el generarlo? Y eso es lo que lo hace distintivo. Si es una empresa hoy por hoy al principio no hubo un trade-off muy fuerte entre el rendimiento y el impacto. Entonces eso hacía que esto es una buena empresa y pudiera ser apoyada por otro fondo. De hecho, en algunas hay coinversión por fondos más tradicionales. Pero lo que puedes distinguir es que todas las empresas de *adobe* sí tienen un componente de impacto. Y no así si tú vas a otro fondo habrá una que otra empresa que tiene impacto, pero no es el común denominador.

PB: Y más o menos en la misma dirección, ahora hablando solo de una empresa: ¿se nota una diferencia entre los diferentes inversionistas? Por ejemplo, hace dos semanas hablé con Ángel Sahagún de *albo*. Y ellos tienen inversión de *Omidyar Network*, Y él dice que ellos son como un inversionista normal. No se nota ninguna diferencia entre un fondo de impacto con un fondo tradicional.

AL: No se nota la diferencia de quién de ellos o de nosotros.

PB: O sea del punto de vista del empresario. El no ve una diferencia entre los dos tipos de inversionista.

AL: Exacto, si tú le preguntas a un emprendedor. De hecho, a veces ahí tenemos una empresa. No sé si entendí la pregunta. Pero por ejemplo hay emprendedores que de repente creen que por ser un fondo de inversión de impacto eso quiere decir condiciones más soft. Y no necesariamente. Me explico. Estamos hablando de inversión el dinero no es nuestro, somos los administradores de este fondo. Hay unas expectativas de retorno. La viabilidad de que consiga un siguiente fondo está muy marcada de que pueda generar buenos retornos. Entonces sí. Pues a la hora de negociar son las negociaciones de negocios y donde se piden ciertos retornos y se amarran ciertas condiciones en el contrato de tener Asiento en el consejo y capacidad decidir. Pero la única diferencia es que un dinero que solo va a ir dedicado a este tipo de empresas, que no son grants que no son condiciones preferenciales ahorita. Si creemos que al rato podemos experimentar alguna de estas cosas. Creo que a mí donde me gustaría experimentar hay ciertos sectores, por ejemplo, agro, empresas de conservación. Qué va a ser difícil que puedan conseguir retornos más altos que creo que vamos a probar mecanismos distintos. Pero esta empresa ahorita que se está acercando a Adobe me dicen: “es que yo pensé que iban a ser condiciones más blandas o más amigables.” Pues no, es dinero y es así. Tenemos que cuidar los intereses de los inversionistas y se esperan ciertos retornos. La conversación es de negocios. ¿Me explico? La única diferencia es que ese dinero sólo va a estar dedicado a empresas que tienen una intencionalidad de impacto. Pero es parte de la responsabilidad del equipo de Adobe cuidar que se destinan no a las empresas de mayor impacto, pero a las que combinan justamente un tema de impacto y condiciones de rentabilidad. Entonces este sí a veces me ha tocado un par de comentarios de emprendedores que se acercan pensando que es una mezcla intermedia entre un grant y un inversionista tradicional y que va a ser un poquito más condescendiente. Y no, creo que haya un error todavía de parte de los emprendedores. Es decir, este dinero es de inversionistas y tenemos que cuidar los intereses de sus inversionistas y colocarlos en empresas de impacto. Y si, nos jalaban muy bien. Tendremos unos mecanismos de garantía o si fallaré demasiado incluso tomar control de la empresa para poderla vender o tratar de levantar. Entonces no sé si con eso he respondido tu pregunta.

PB: no, la respondiste perfectamente. Justo eso es. Ya hablamos de sus inversionistas: ¿es un problema mayor encontrar inversionistas que quieran invertir en su fondo de impacto? ¿O no es tan difícil levantar capital?

AL: No sí. Yo no estoy directamente en las actividades de levantar capital. Eso lo han hecho sobre todo Erick y Rodrigo. Pero lleva tiempo, mucho tiempo. Y hay que hablar con muchos para que poquitos cuadren. Este, siempre es el dilema. Para algunos somos, son fondos muy pequeños. Para muchos inversionistas entonces sí, sí se lleva tiempo. De hecho, la meta del segundo fondo era llegar a 40 se consiguió 30. Estamos contentos es un incremento importante de 20 a 30. Esperamos que el Fondo 3 sea un poquito más fácil. Del Fondo 1 lo que decía que nos decían es que el Fondo 2 es un poco más difícil porque el fondo está empezando y como que hay inversionistas que no se animan a que prueben y el Fondo 2 ya no quieren los que era el más aventados son más aventureros. Dicen “Ya probé en la etapa inicial pero todavía no tienes todo el historial para demostrar que lo puedes hacer muy bien.” Entonces como que todavía sigue siendo suficientemente nuevo en el país si todavía no puedo ver tu desempeño. Entonces este, se pudo conseguir, en un contexto además macro un poquito difícil. La nueva administración ha generado un poquito de incertidumbre en el sector privado. Y sí ha habido algunos inversionistas que decidieron aplazar sus decisiones de inversión en México. Entonces creo que fue un resultado para la etapa en la que estamos. Y hay planes de eventualmente empezar a hacer esfuerzos de levantar recursos para un fondo 3, tal vez a finales del año que entra.

PB: Cool, felicidades. Ojalá que salga bien. Y bueno tal vez una última pregunta. Tu dijiste que el éxito es difícil y aún es muy joven y es difícil convencer a muchos inversionistas. Qué papel puede jugar el Impact Investing en el crecimiento de algunas empresas. ¿Te puedes imaginar que el early stage,

growth stage sea de ustedes y después vienen los fondos grandes y ustedes venden sus situaciones a ellos?

*AL:* Sí, de hecho, es lo que ha empezado a pasar. Por ejemplo, Nazcas con alguna de las empresas. La agarramos en etapas de crecimiento y justamente acaba de llegar un inversionista grande, liderado por UBS y ya una ronda. Lo que querían era que salieran los otros inversionistas. Entonces creo que es lo que puede pasar. Va a haber ciertos sectores que crecen que demuestran que ya se hacen en ese momento atractivos para otros fondos. Y eso es justamente lo que más nos gustaría. Que estas empresas de impacto empiecen a moverse ya en esas ligas. Este si eventualmente es lo que aspiramos que suceda.

*PB:* Ojalá que sea así. Bueno, eso eran las preguntas que he tenido yo. Había leído bastante *New Ventures*, sobre el mezanine capital que habías mencionado. Había visto el reporte en su página. Me parece muy interesante. Creo que a mí la entrevista me dio algunas ideas para complementar y también soporta unas tesis que ya tenía. ¡Muchísimas gracias!

*AL:* Un gusto Peter.

*PB:* No sé si tú tengas algo más que contar que no pregunté y que tú piensas que sí es muy importante.

*AL:* no, creo que está bien. Cuando tengas tu tesis, ahí nomás copártenos para ver cómo quedó. Y ya estamos a la orden cualquier cosa que necesites, Peter.

*PB:* Perfecto. Mil gracias.

*AL:* A ti, cuídate. Bye.

*PB:* Muchas gracias. Bye.

Appendix 29: Translated transcript from interview with Enrico Robles

Enrico Robles is the CFO and Intelligence Director of Endeavor Mexico. Endeavor is an NGO that seeks to support high-impact entrepreneurs in emerging markets. Thereby, the organization aims to foster economic and social development.

The interview was held and recorded via Skype.

PB stands for Peter Berkenheide

ER stands for Enrico Robles

This is the coded transcript of the interview:

Speaker	Message	Category 1	Category 2
PB	Hi Enrico! Thank you for taking the time to talk to me!	Introduction	
ER	Hi Peter! Fine and you? If you want, you can talk about the project.	Introduction	
PB	Okay! Well, I've always liked Mexico. The experience, also in Endeavor, was unique. Returning to Germany I decided, well, I worked half a year at Adidas. I liked Latin America so much that a friend told me that there is a master's degree that can be done a year in Brazil and a year in Spain. Then I went to Sao Paulo to study International Management and another year in Barcelona to study finance. I'm literally in the last two weeks. I'm writing my thesis to finish the two master's degrees. I believe that since my internship in Endeavor I always followed the entrepreneurship movement in Latin America. I really liked the companies I've seen there. I mean, it's very interesting and I also see a lot of potential. You can do very interesting things. So, I decided to write my thesis on Impact Investing in Latin America, as I have always loved entrepreneurship, but also the other side, the investor side.	Introduction	
ER	Perfect, sounds interesting. A nice project, a good master's degree.	Introduction	
PB	Yes, and you? What did you do at Stanford? What was it about?	Introduction	
ER	We had a conference and a workshop at the Artificial Intelligence Center. Which is the Human Center for AI. And they just hold an annual conference to see all the stakeholders who nurture an index that they developed, along with MIT and different U.S. government organizations. They have an artificial intelligence index. The idea was just a series of early days of lectures on trends, what's happening globally. A lot of American people in the U.S. government and people who are undertaking in the industry, very large companies like Alphabet and MIT people who are also very involved with Stanford. And the third day was a workshop to see what the right way to measure the impact of AI companies. And that's a part of the index they talk about today's startup. So, the idea was how to talk about what was going on, what initiatives exist at the global level. We as Endeavor have an artificial intelligence index for Latin America that we launched in 2018. And we're going to relaunch it in 2020. Now I have been led by to lead	Introduction	

	that part that is the research area of Endeavor, and we have done several projects in Latin America. That's why we were invited to participate.		
PB	Nice, congratulations! Actually, I read your research about EdTech. That's how I found out that you - well, you have always been the CFO - now have an additional job, the one at Endeavor Insights,	Introduction	
ER	Exactly. 2 areas.	Introduction	
PB	That's exactly why I wrote you. I mean, I've interviewed some investors, some funds. And I thought that you from Endeavor might have a slightly more independent, a little more observant, a little more generalist. And I wanted to know how you see it. Which industries have the greatest potential for Impact Investors? Do sectors of society also have a greater need for social entrepreneurs?	Introduction	
ER	Yes of course. And it's all about impact investing. You define it as social, no, as the social impact.	Introduction	
PB	Exactly. It can also be environmentally friendly, but I think, what I've seen in dice, everything is much more social than environmental at the time of Latin America.	Introduction	
ER	First of all, we have sought to do some research on that issue. First of all, what we see and what is part of our thesis is that we believe that all entrepreneurs always have an impact in three dimensions: economic, social and environmental impact. We believe that's a metric that's not pursued, it's not measured properly because there are different ways to do it. Most entrepreneurs, we do not believe that they are catalogued under a vertical that could be as impacts investing or social impact. Normally, most simply because they exist attack to a greater extent one of these three dimensions. There are some that are sometimes very, very, very marked as could be a Grupo MIA that at the time you knew them. They are now "Social Global Leaders". Or SalaUno that when dealing with the health sector with a certain problem and bringing a solution to a market of scarce resources that come to solve many problems that the Government is not attending. Not necessarily because you want to make social impact but simply to develop a profitable business model.	Impact Investing	Impact measurement
PB	And you if you look at different entrepreneurs approaching Endeavor and also those who have not approached, which industries, you believe, have the greatest potential to create both an impact and profitable models?		

ER	<p>From my point of view, what we've seen in the last few months, even in the last year, I think it's very interesting. It has to do with financial inclusion and all the solutions that have come out in Mexico and Latin America. For example, if you look at the Fintech Radar of Mexico and Brazil, because in recent years we have more than 400 ventures. Around Fintech, financial technology, most focus on a purpose, which is to bring better services to people. Now most, in a first stage, are looking to serve a subprimed segment, which is a segment that already has an account. In the end, this segment, in particular because it already has access to financial services, it is simply not well served. The average has within its strategy gradually going to massify from a freemium model, where you start with an educated consumer who you already know will interact with the platform that is doing poorly taken care of with banking, but gradually you are massifying. In the topic we also see a loan topic. That's where we also see P2P platforms and crowdfunding platforms like KuboFinanciero grow, as Kueski is doing. These platforms are eventually agreeing to provide credit to people in these segments and by the time they are also competitive advantages, different risk models are being created that are more flexible in authorizing this sector. So, I believe that in the area of financial inclusion and through technology, these services will be very much available in Mexico and Latin America. This is going to achieve a very important level of financial inclusion. Now Blockchain here also plays an important role. This causes certain barriers to be broken and through technologies like Blockchain you can make financial inclusion in a very massive way. What we see too and that is interesting is the region in numbers because the penetration of smartphones and phones. Despite the large part of the population, in Mexico it is common as penetration of almost 75 percent. The other one we saw, in fact we're going to talk a little bit in a study that we're probably going to publish in December, are all these technology platforms as what this model of geek economy could be like. Like wholesale platforms, such as the Cornershop model, Postmates or Rappi. If you see these platforms, but you see them as a new way to employ people in a geek economy model they have an unprecedented two-way impact. The first is to attract new sources of jobs for people who do not have or seek flexibility or do not have access to formal employment. On the other hand, also digitally enabling businesses that are completely analogous, or offline, as here in Mexico is happening in many cases where you see a traditional trade that was perhaps not completely formal and that thanks to these platforms is increasing its sales or is selling more and is being formalized. I believe that all these platforms from networks like Uber and Cabify are</p>	Industry development	Fintech, financial inclusion
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	generating an impressive impact through using this technology model.		
PB	Great! In Europe, in the United States we had already had a lot EdTech, a lot Of HealthTech. How you see the state in Latin America. Are there many companies in Mexico, or are there still few companies?		
ER	We saw this a lot with our studio. When we released “EdTech”, there is now a market that is growing quite a bit. Access to capital is still needed. They are the entrepreneurs of all sectors that we support with less capital. They haven't raised much. And that's a challenge because research and development is important. So, they can keep growing. I believe that within this whole equation of digital inclusion they develop new skills. They play a very important role. I think we can catalog EdTech here. If it makes a vertical of very clear impact, the end in this new need to have new skills of having digital skills and as a concept of future of work if there is a need for all these platforms to work and do well. Then. I think there is a market as we saw it in the studio and there you have important data, but most are still very small companies with little raised capital. So, this is a challenge for companies like Platzi that is growing a lot in Colombia. In the end you want to massify the content in Spanish that in 80 percent of the content on the Internet is in English or another language. You want quality content in Spanish. I think they can get to do this and digitally enable more people with new courses.		
PB	And what is the reason that there is so little access to capital? because every time I read an article about some Mexican startups or in Latin America I see that a record O is there is capital in Latin America.		
ER	I think the issue, and particularly in Mexico, was a bit of that the funds are a little skeptical about these models, no. A little bit in the investigation, too. We showed that much of the online content searches tend to be free. The consumer does not want to pay for that kind of solution. On the other hand, another challenge they have is the lack of official certifications. There are two things that, within the business model, even if some have, a good example is Platzi who has grown a lot and starts to have several courses in different languages, but one of the challenges remains the raising of capital to keep growing. I think it's a matter of time right now. It's like what it would have been e-commerce and Fintech about five or six years ago, they didn't have access either. Now, as much of the funds are very focused on not missing the next opportunity of Fintech and e-commerce. The last big rounds in Mexico, which we've been with in the year, have been raised nearly \$900 million in just one year, they're in Fintech and e-commerce.		
PB	Quite a lot, yes.		

ER	and that's only in the last year. And if you look at the entire technology ecosystem of Mexico City in the last 10 years, three billion dollars has been raised. But in the last 10 months it's almost a billion. And that tells you a little bit about where the focused funds are. Players like Softbank. Its last rounds, if you see them, is Fintech and e-commerce. If you look for example the big rounds of Goldman Sachs, both are in companies that give credits online.		
PB	Who are those of Goldman Sachs in Latin America?		
ER	Goldman Sachs invested in Credijusto. He gave them \$100 million.		
PB	Is he Mexican?		
ER	Yes. And the other was for Konfio which is a company that has grown a lot and they have raised like 350 million. As half has been debt of the other half capital.		
PB	So, you mentioned Goldman, you mentioned Softbank. Is the participation of international investors increasingly important? Or are Mexican funds also growing?		
ER	Exactly, what you're going to see a lot and we're just seeing in the last few rounds are co-investment where it's actually a group of funds that come to join to make an investment. And I think that's part of what's been generated in the ecosystem. We will always see Softbank and General Atlantic, Quona, all these Silicon Valley funds that have also co-invested in Mexico. Well, all the local funds are also invested as the Cornershop case which is also very clear that there was a group of funds that invested there. In the case of clip that also in its first series then there are several local backgrounds.		
PB	I remember that, when I was in Mexico, in 2016, AllVP Fernando spoke "today we are well in the process of investing, but we need to have success stories."		
ER	At that time, in fact, there was no, and they are in their third fund right now. The fund raised more than \$100 million. They are an ideal example of a VC that was formed, started with a \$2 million fund that today has more than 100 million managed. I think they were waves of maturation of the ecosystem where right now you are seeing all the fruits, we are now have probably had like five interesting exits that have been and have been in three or four. They were invested in Cornershop. They were also invested in Aventons which was also one of the exits. And let me see if I have another one of your last interesting outings in mind. Now I don't remember anyone else. Those are the most significant, no, because Cornershop ended up selling to Uber. And that was like the way out of the biggest ones they've ever had.		
PB	You see if some impact funds may measure the impact on businesses, i.e. job creation or financial inclusion generation. It is often also a theoretical concept. They have the idea to do it. And doing so gets a little harder. Have you had any experience with impact generation		

	funds? Do you see that they really measure it or what their relationship with entrepreneurs is like?		
ER	No, I don't know funds that do come with an accurate methodology beyond financial impacts, even from funds like IGNIA. All that are given as an Investimento impact, is not really that they have a methodology as it is like Social Return of Investment. I don't know that they have a methodology, that they are indicators, that i publish something like this that says this form is generating a return or if it is three times not. But there's like there's no one outside the multiple who's generating sales. Not that it comes to mind that I've seen a report about. The impact is seen more by the growth of sales not. They would be a little more tied to that and growth also by capital.		
PB	Then you could be on the question of branding, marketing. and in the end are VCs like any other.		
ER	They're really just a capital fund. Even the terms and conditions they sign are both no different from those of a traditional fund.		
PB	Something interesting because I've read a lot of literature and. The literature indicates that it is also about return, but also that they are special funds. Increasingly speaking to people in the ecosystem I have the impression that the difference is that if they focus on sectors that can have an impact. once they've been identified it's like any other venture capital.		
ER	You don't see it with a significant difference.		
PB	Dale, that was most of my questions. Do you see companies from different Latin American countries think that Mexico is a good indicator for the region? or do you see many regional differences? Is Mexico replicating? Do Mexican companies expand to other countries? What's your impression like?		
ER	What we see is that Mexico is one of the largest markets in the region and Mexico has become a Latam Entrepreneurship Hub to come and expand its operations and become international. Why? Because companies like Cornershop, like Rappi come to Mexico because of the size of the market and the opportunity it represents and here they begin to expand to Brazil and the United States. start to grow into other markets and it's because of the transactions and growth they get in Mexico is because of the markets they get the valuations and the rounds they're having- most of them, you see them, although they're Latin American companies come to Mexico and raise capital in co-investment with local funds. All that is I think the difference that Mexico has with the markets. Brazil for example is a very large market, but it is a market that protects very locally the most complicated markets to expand to. The market even for market adoption poses several challenges so right now Rappi is the second market it is adopting		

	because it expanded to Mexico. It is in fact migrating their HQ to Mexico and from there they are also launching operations in Brazil.		
PB	Yes, in fact, in Brazil they are already quite large. many people use them and even already have a cooperation with an e-Scooter company. So, you think Mexico is becoming the starting point for a lot of startups?		
ER	yes, because of the size of the market and the size of the funds that there is and so it has happened with other cases. That's why it's become that hub. even in Mexico as an office Endeavor is one of the most entrepreneurial reoffices that receives to give you services and also create a reflection of the large number of entrepreneurs who come here to expand and be supported by us.		
PB	Good Enrico! I wanted to understand a little bit about the ecosystem or if there's enough research. and the Insights I generate for you have been the last mosaics to complement my research. I don't know if there's anything more interesting to know about the impact of investing in Mexico in Latin America.		
ER	I think that's just what you've said if someone really exists doing or justifying that measure of social, environmental or economic impact that doesn't. If really within your investment that has some weight, or it is simply Venture Capital with an investment thesis focused on seeing a particular segment not.		
PB	Good question that in that thesis I will say I have another approach, but maybe if one day I will write a Doctorate could be interesting question.		
ER	All right, all right.		
PB	Dale, Enrico. Thank you so much.		

*Appendix 30: Transcript from the interviews with Enrico Robles (original in Spanish)*

PB: ¡Hola Enrico! ¿Como estas? ¡Gracias por tomarte el tiempo para hablar conmigo!

ER: ¡Hola Peter! ¿Bien y tu? Si quieres, puedes platicar sobre mi proyecto.

PB: ¡Vale! Bueno, a mí siempre me ha gustado México. La experiencia, también en Endeavor, fue única. Volviendo a Alemania decidí, buen, trabajé medio año en Adidas. América Latina me gustó tanto que un amigo me contó que hay una maestría que se puede hacer un año en Brasil y un año en España. Entonces me fui a Sao Paulo a estudiar International Management y otro año a Barcelona a estudiar finanzas. Ahorita estoy, literal, en las las últimas dos semanas. Estoy escribiendo mi tesis para terminar las dos maestrías. Creo que desde mi internship en Endeavor siempre seguí el movimiento de emprendimiento en América Latina. Las empresas que he visto ahí me encantaron. O sea, es muy interesante y también veo mucho potencial. Se pueden hacer cosas muy interesantes. Allí decidí escribir mi tesis sobre Impact Investing en América Latina, como siempre me ha gustado el emprendimiento, pero también el otro lado, el lado del inversionista.

ER: Perfecto, suena muy bien. Un buen proyecto, buena maestría.

PB: Sí, ¿y tú? ¿Que hicisteis en Stanford? que fue?

ER: Tuvimos una conferencia y un workshop del Centro de Inteligencia Artificial. Que es el Human Center for AI. Y justo hacen una conferencia anual para ver a todos los stakeholders que nutren un índice que ellos desarrollaron, junto con el MIT y diferentes organizaciones del gobierno de Estados Unidos. Tienen un índice de inteligencia artificial. La idea era solo una serie de conferencias los primeros días sobre las tendencias, lo que está pasando a nivel mundial. Mucha gente de Estados Unidos en el gobierno y gente que está emprendiendo en el sector, empresas muy grandes como Alphabet y gente de MIT que también están muy involucrados con Stanford. Y el tercer día fue un workshop para ver cuál es la forma correcta de medir el impacto de las empresas de inteligencia artificial. Y eso es una parte dentro del índice que ellos hablan sobre el startup de hoy. Entonces la idea era pues como platicar sobre qué estaba pasando, qué iniciativas existen a nivel mundial. Nosotros como Endeavor tenemos un índice de inteligencia artificial para Latinoamérica que lanzamos en 2018. Y lo vamos a volver a lanzar en el 2020. Ahorita me ha tocado liderar esa parte que es el área de investigación de Endeavor y hemos hecho varios proyectos en Latinoamérica. Por eso nos invitaron a participar.

PB: Olé felicidades. De hecho, yo leí la investigación sobre EdTech. Ahí descubrí que tu – siempre has sido el CFO - tienes un puesto adicional, de Endeavor Insights.

ER: Exacto. 2 areas.

PB: Justo por eso te escribí. O sea, he entrevistado a algunos inversionistas, algunos fondos. Y pensé que ustedes de Endeavor tal vez tengan un punto de vista un poco más independiente, un poco más observador, un poco más generalista. Y quería saber cómo lo ves tú. ¿Qué industrias tienen el mayor potencial para Impact Investors? ¿También sectores de la sociedad tienen una mayor necesidad de emprendedores sociales?

ER: Sí claro. Y todo va encaminado a impacto impact investing. Tú lo defines como social, no, como el impacto social.

PB: Exacto. También puede ser de medio ambiente, pero creo, lo que yo he visto de datos, todo es mucho más social que environmental en el momento de América Latina.

ER: En primer lugar, nosotros hemos buscado hacer una investigación en ese tema. En primer lugar, lo que vemos y lo que es parte de nuestra tesis es que creemos que todos los emprendedores siempre tienen un impacto en tres dimensiones: impacto económico, social y ambiental. Creemos que eso es una métrica que no se persigue, no se mide de forma adecuada porque hay diferentes formas de hacerlo. La mayoría de los emprendedores, no creemos que estén catalogados bajo una vertical que pudiera ser como impacta investing o social impacto. Normalmente, la mayoría simplemente por el hecho de existir atacan en mayor medida a alguna de estas tres dimensiones. Hay unos que a veces es muy, muy, muy marcado como pudiera ser un grupo MIA que en su momento lo conociste. Ahora son Social Global Leaders. O SalaUno que al momento de atender al sector salud con una problemática determinada y trayendo una solución a un mercado de escasos recursos que vienen a solucionar muchos problemas que el Gobierno no está atendiendo. No necesariamente por querer hacer impacto social sino simplemente por desarrollar un modelo de negocio rentable.

PB: Y tú si observas diferentes emprendedores que se acercan a Endeavor y también los que no se han acercado, qué industrias, tú crees, ¿tienen el mayor potencial para crear tanto un impacto como modelos rentables?

ER: Desde mi punto de vista, lo que hemos visto en los últimos meses, incluso en el último año, creo que es muy interesantes. Tiene que ver con la inclusión financiera y todas las soluciones que han salido en México y en Latinoamérica. Por ejemplo, si ves el Fintech Radar de México y Brasil, pues en los últimos años tenemos más de 400 emprendimientos. Alrededor de Fintech, tecnología financiera, la mayoría enfoca a un propósito, que es hacer llevar mejores servicios a las personas. Ahora la mayoría, en una primera etapa, está buscando atender a un segmento subbancarizado, que es un segmento que ya tiene una cuenta. Al final este segmento, en particular pues, ya tiene un acceso a los servicios financieros, simplemente no está bien atendido. La media tiene dentro de su estrategia poco a poco ir masificando a partir de un modelo freemium, en donde empiezas con un consumidor educado que ya sabes que va a interactuar con la plataforma que está haciendo mal atendido con la banca, pero poco a poco vas masificando. En el tema también que vemos un tema de préstamos. Ahí es donde también vemos crecer plataformas P2P y plataformas de crowdfunding como KuboFinanciero, como lo está haciendo Kueski. Esas plataformas al final se están accediendo a otorgar créditos a personas de estos segmentos y al momento de que también son ventajas competitivas se están creando diferentes modelos de riesgo que son más flexibles al autorizar a este sector. Entonces yo creo que en el tema de inclusión financiera y a través de tecnología se van a poder masificar mucho estos servicios en México y en Latinoamérica. Esto va a lograr un nivel de inclusión financiera muy importante. Ahora Blockchain aquí también juega un papel importante. Esto hace que se rompan ciertas barreras y que a través de tecnologías como Blockchain puedas hacer inclusión financiera de una manera muy masiva. Lo que vemos también y que es interesante es la región en números pues la penetración de smartphones y de teléfonos. Pese a la gran parte de la población, en México es común ya que una penetración de casi un 75 por ciento. La otra que veíamos, de hecho vamos a hablar un poco en un estudio que vamos a publicar probablemente en diciembre, son todas estas plataformas de tecnología como cómo podían ser este modelo de geek economía. Como las plataformas wholesale, como el modelo de Cornershop, Postmates o Rappi. Si tú ves estas plataformas, pero tú las ves como una nueva forma de emplear a la gente en un modelo de geek economy tengan un impacto sin precedentes y de dos vías. El primero es atrayendo nuevas fuentes de empleos para gente que no tiene o busca flexibilidad o no tiene acceso a un empleo formal. Por otra parte, también habilitando digitalmente a negocios que son completamente análogos, o sea offline, como aquí en México está pasando en muchos casos en donde tú veas un comercio tradicional que a lo mejor no estaba completamente formal y que gracias a estas plataformas está incrementando sus ventas o se está vendiendo más y se está formalizando. Yo creo que todas estas plataformas desde redes como Uber y Cabify están generando un impacto impresionante a través de utilizar este modelo de tecnología.

PB: ¡Buenísimo! En Europa, en Estados Unidos ya habíamos tenido mucho EdTech, mucho HealthTech. Cómo ves el estado en América Latina. ¿En México hay muchas empresas o aún son pocas?

ER: Lo veíamos mucho con nuestro estudio. Cuando liberamos el de EdTech, que hoy existe un mercado que está creciendo bastante. Hacen falta todavía acceso a capital. Son los emprendedores de todos los sectores que apoyamos con menos capital. No han levantado mucho. Y eso es un reto porque para investigación y desarrollo es importante. Para que puedan seguir creciendo. Creo que dentro de toda esta ecuación de inclusión digital desarrollen nuevas habilidades. Ellos juegan un papel muy importante. Yo creo que aquí sí podemos catalogar, pues, EdTech. Si hace una vertical de impacto muy clara, el final en esta nueva necesidad de tener nuevos skills de tener skills digitales y como concepto de future of work si hay una necesidad de que todas estas plataformas funcione y les vaya bien. Entonces. Creo que sí hay un mercado como lo veíamos en el estudio y ahí tienes datos importantes pero la mayoría siguen siendo empresas muy pequeñas y con poco capital levantado. Entonces esto es un reto para empresas como Platzi que está creciendo mucho en Colombia. Al final quieres masificar el contenido en español que en 80 por ciento del contenido en internet está en inglés o en otro idioma. Quieres contenido calidad en español. Creo que pueden llegar a hacer esto y habilitar digitalmente a más personas con nuevos cursos.

PB: ¿Y que es la razón que hay tan poco acceso a capital? porque cada vez que leo un artículo sobre algunos startups mexicanos o en América Latina veo que un récord o sea hay el capital en América Latina.

ER: Yo creo que el tema, y en particular en México, era un poco de que los fondos son un poco escépticos acerca de estos modelos, no. Un poco también en la investigación. Nosotros mostrábamos que gran parte de las búsquedas del contenido en línea tienden el término de gratuidad. El consumidor no quiere pagar por ese tipo de solución. Por otra parte, otro de los retos que tienen es la falta de certificaciones oficiales. Son dos cosas que, dentro del modelo de negocio, aunque algunas tengan, un buen ejemplo es Platzi que ha crecido mucho y empieza a tener varios cursos en diferentes idiomas, pero uno de los retos sigue siendo el levantamiento de capital para seguir creciendo. Yo creo que ahorita es un tema del tiempo. Es como lo que hubiera sido e-commerce y Fintech hace unos cinco o seis años, que tampoco tenían acceso. Ahorita, pues gran parte de los fondos están muy enfocados a no perderse la siguiente oportunidad de Fintech y de e-commerce. Las últimas rondas grandes en México, es de lo que llevamos del año, se han levantado casi 900 millones de dólares sólo en un año, están en Fintech y e-commerce.

PB: Bastante, sí.

ER: y eso sólo en el último año. Y si ves todo el ecosistema de tecnología de la Ciudad de México en los últimos 10 años se han levantado tres billones de dólares. Pero en los últimos 10 meses es casi un billón. Y eso te habla un poco de dónde están los fondos enfocados. Jugadores como Softbank. Sus últimas rondas, si tú las ves, es Fintech y e-commerce. Si ves por ejemplo las rondas grandes de Goldman Sachs, las dos están en empresas que dan créditos en línea.

PB: ¿Quiénes son de Goldman Sachs en América Latina?

ER: Goldman Sachs invirtió en Credijusto. Les dio 100 millones de dólares.

PB: ¿Es mexicano?

ER: Sí. Y el otro fue para Konfio que es una empresa que ha crecido mucho y ellos han levantado como 350 millones. Como la mitad ha sido deuda de la otra mitad capital.

PB: Entonces mencionaste Goldman, mencionaste Softbank. ¿Ahora cada vez es más importante la participación de los inversionistas internacionales? ¿O También los fondos mexicanos también están creciendo?

ER: Exacto, lo que vas a ver mucho y ya sólo lo vemos en las últimas rondas es la coinversión donde en realidad es un grupo de fondos que se unen para hacer una inversión. Y eso creo que es parte de lo que se ha generado en el ecosistema. Siempre vamos a ver Softbank y General Atlantic, Quona, todos estos fondos también de Silicon Valley que han coinvertido en México. Pues todos los fondos locales también están invertidos como el caso de Cornershop que también es clarísimo que ahí había un grupo de fondos que invirtieron. En el caso de clip que también en sus primeras series entonces hay varios fondos locales.

PB: Yo me acuerdo de que, cuando yo estuve en México, en el 2016, Fernando de ALLVP habló “hoy estamos bien en el proceso de invertir, pero nos hace falta tener historias de éxito.”

ER: En esa época, de hecho, no había y ellos ahorita van en su tercer fondo. El fondo levantó más de 100 millones de dólares. Ellos son un ejemplo ideal de un VC que se formó, empezó con un fondo de 2 millones de dólares que hoy tienen más de 100 millones administrados. Yo creo que fueron olas de maduración del ecosistema en donde ahorita están viendo todos los frutos vamos ahorita han tenido probablemente han tenido como cinco salidas interesantes que ha habido y han estado en tres o cuatro. Ellos estuvieron invertidos en Cornershop. También estuvieron invertidos en Aventones que también fue una de las salidas. Y déjame ver si tengo otra de sus últimas salidas interesantes en mente. Ahora no me acuerdo de otra. Esas son las más significativas, no, porque Cornershop se terminó vendiendo a Uber. Y eso fue como la salida de las más grandes que hayan tenido.

PB: Tu ves si algunos fondos de impacto tal vez miden el impacto en las empresas, o sea la generación de empleo o la generación de inclusión financiera. Muchas veces también es un concepto teórico. Ellos tienen la idea de hacerlo. Y al hacerlo se dificulta un poco más. ¿Tú has tenido alguna experiencia con los fondos de generación de impacto? ¿Tú ves que de verdad lo miden o cómo es la relación de ellos con los emprendedores?

ER: No, no conozco fondos que sí lleguen con una metodología precisa más allá de los impactos financieros, incluso de fondos como IGNIA. Todos los que se dan como impacto Inversión, en realidad no es que tengan una metodología como es como Social Return of Investment. No conozco que tengan una metodología, que sean indicadores, que publique algo así que diga este impacto está generando un retorno o si de tres veces no. Pero como que no hay alguien que fuera del múltiplo que esté generando las ventas. No que venga a la mente de haber visto un reporte sobre. El impacto lo ven más por el crecimiento las ventas no. Estarían un poco más vinculado a eso y el crecimiento también por capital.

PB: Entonces podría estar en la cuestión de branding, de marketing. y al final son VCs como cualquier otro.

ER: En realidad no son más que un fondo de capital. Incluso las cláusulas los términos y condiciones que firman ambos no son diferentes a las de un fondo tradicional.

PB: Algo interesante porque yo he leído mucho de literatura y. La literatura indica que también se trata del retorno, pero también que son fondos especiales. Cada vez hablando más con personas en el ecosistema tengo la impresión de que la diferencia es que si enfocan en sectores que pueden tener un impacto. una vez que los hayan identificado es como cualquier otro Venture capital.

ER: No se ve con una diferencia significativa.

PB: Dale, eso ya era la mayoría de mis preguntas. ¿Tú que ves a empresas de diferentes países de América Latina piensas que México es un indicador bien para la región? o tú ves muchas diferencias regionales? ¿México se replica? ¿Las empresas mexicanas expanden a otros países? ¿Cómo es su impresión?

ER: Lo que vemos es que México es uno de los mercados más grandes de la región y México se ha convertido en un Hub de emprendimiento de Latam para venir a expandir sus operaciones y volverse internacional. ¿Por qué? Porque empresas como Cornershop, como Rappi vienen a México por el tamaño del mercado y por la oportunidad que representa y aquí empiezan a expandirse a Brasil y a Estados Unidos. empiezan a crecer hacia otros mercados y es por las transacciones y el crecimiento que obtienen en México es por los mercados por los que obtienen las valuaciones y las rondas que están teniendo- la mayoría, Tú los ves, aunque son empresas de Latinoamérica vienen a México y levantan capital en coinversión con fondos locales. Todo eso es creo que la diferencia que tiene México con los mercados. Brasil por ejemplo es un mercado muy grande, pero es un mercado que protege mucho localmente a los mercados más complicados de expandirse a. El mercado incluso para la adopción de mercados representa varios retos entonces ahorita por ejemplo Rappi es el segundo mercado que está adoptando porque se expandió a México. Es de hecho migrando su HQ para México y de ahí también están lanzando operaciones en Brasil.

PB Sí, de hecho, en Brasil ya están es bastante grandes. mucha gente los usa y hasta ya tienen una cooperación con una empresa de e-Scooter. ¿Entonces tu piensas que en México se está volviendo el punto de partida para muchos startups?

ER: si, por el tamaño del mercado y el tamaño de fondos que hay y por lo que ha pasado con otros casos. Por eso se ha convertido en ese hub. incluso en México como oficina Endeavor es de las oficinas que más emprendedores recibe para darle servicios y también crear un reflejo de la gran cantidad de emprendedores que vienen aquí a expandirse y a ser apoyados por nosotros.

PB: ¡Buenismo Enrico! Quería entender un poco del ecosistema o si hay bastante investigación. y los Insights que genere Por ti han sido los últimos mosaicos para complementar mi research. no sé si haya algo más interesante saber sobre el impact investing en México en América Latina.

ER: Yo creo que es justo lo que comentaste si realmente existe Alguien haciendo O justificando esa medida de impacto social, Ambiental o económico no y que. Si realmente dentro de su inversión eso tiene algún peso o simplemente es Venture Capital con una tesis de inversión enfocada en ver a un segmento particular no.

PB: Buena pregunta que en esa tesis diré tengo otro enfoque, pero tal vez si un día voy a escribir un doctorado podría ser pregunta interesante.

Enrico: Muy bien el.

PB: Dale, Enrico. Muchísimas gracias.

*Appendix 31: Memory protocol from interview with Enrico Robles*

Angel Sahagun is the founder and CEO of albo. albo is a Mexican neo-bank that aims to provide improved financial services to the sub-bankerized part of the Mexican population. The interview was held via Skype. Due to technical issues it was not possible to record the interview. As a consequence, this is a memory protocol of the interview. For this reason, only few quotes are used in the development of the paper.

PB stands for Peter Berkenheide

AS stands for Angel Sahagun

This is the coded transcript of the interview:

Speaker	Message	Category 1	Category 2
PB	Hi, Angel! How are you doing?		
AS	Hi Peter! Fine and you?	Introduction	
PB	Angel, let me tell you why I contacted you. I am in the last stages of my double degree master program in International Management at Fundação Getúlio Vargas in Sao Paulo and ESADE business school in Barcelona. Currently, I am writing my master thesis about the development of the Impact Investing industry in Latin America, especially Brazil and Mexico		
AS	Cool, thanks for considering me as an interview partner.	Introduction	
PB	No, it is the opposite. Thank you for taking the time to talk to me! Obviously, I have done my research and read about your albo. Could you, nevertheless, explain in a few words what is the core business of albo?		
AS	albo is the easiest way to obtain a digital account and control your money in Mexico. We are a 100% digital company offering a unique customer experience and convenience to our customers that want to manage their finance online.  We primarily target the sub-bankerized part of the Mexican population. That means we do not target the unbanked but those who are dissatisfied with their current bank. Moreover, do we focus on those who have a bank account but no access to further formal bankin products.	Business model	Description of albo
PB	Understood. Could you tell me about the stage of development of your business?		
AS	Of course. Right now, we are in a steep growth phase, with more than 150k accounts opened already. In the beginning of the year we raised our Series A of USD 7,4 million led by Mountain Nazca. This investment allows us to scale our business right now.	Fundraising	

PB	First, congratulations to that investment round. I am sure it allows you to lift albo to the next level. Out of curiosity, I had the chance to analyze albo and talk to you back in 2016. Why did you take almost 3 years to raise your Series A?		
AS	Well, I wouldn't say that it took us long. I think it is quite normal that a company raises its Series A after 3 years. And I think our Series A is the biggest one in Mexico so far. So, this might prove us right.	Fundraising	
PB	You mentioned Mountain Nazca. Reading different articles and checking the numbers on Crunchbase, I, moreover, found out that the Impact Investing fund Omidyar Network participated in your round.		
AS	That's right.	Fundraising	Impact Investors
PB	Given the fact that they are an Impact Investing fund, was and is the relationship with them different to the one with traditional Venture Capital firms?		
AS	Indeed, it is. They primarily care about our culture. In every meeting they also talk about and challenge the way we do business. They are mainly about culture.	Fundraising	Impact Investors
PB	Interesting. And in terms of valuation, of finance. Did they value in a different way than other investors? In theory, there are investment funds that enter at a premium, thereby making the investment target maybe attractive for other investors as well. Those could than enter at a premium and aim for higher returns.		
AS	No, not all! They entered at the same valuations just as everyone else as well.	Fundraising	Impact Investors
PB	Okay, interesting. Do you in terms of KPIs any difference to other investors? Do they ask you to report any impact measurement metrics?		
AS	We have our own internal metrics, like conversion rate, retention rate, growth etc. But no, they do not ask any additional KPIs.	Business	Impact measurement
PB	Interesting. Well, I think I have asked all the questions I had prepared. Thanks a lot! Is there anything else you would like to mention that I haven't asked about?		
AS	No, currently not. If there is anything else you want to know, you have my number. You can text me anytime.		
PB	Cool, thank you! Really nice talking to you!		
AS	Ok, great! Thank you! Keep in touch!		

Appendix 32: List of interview candidates

Name	Organisation	Country	Interviewee type	Status
Enrico Robles	Endeavor Mexico	Mexico	Expert of the entrepreneurship industry	Interviewed
Angel Sahagun	albo	Mexico	Social entrepreneur	Interviewed
Armando Laborde	New Ventures	Mexico	Impact investor	Interviewed
Luis Fernando Laranja da Fonseca	Kaeté Investimentos	Brazil	Impact investor	Interviewed
Pedro Vilela	Rise Venture	Brazil	Impact investor	Interviewed
Daniel Izzo	Vox Capital	Brazil	Impact investor	Contacted
Alvaro Rodriguez Arregui	IGNIA Partners	Mexico	Impact investor	Contacted
Otto Graf	IGNIA Partners	Mexico	Impact investor	Contacted
Thiago Alvarez	Guiabolso	Brazil	Social entrepreneur	Contacted
Pedro Conrade	Neon	Brazil	Social entrepreneur	Contacted
Stefan Moller	klar	Mexico	Social entrepreneur	Contacted
Fernando Lelo de Larrea	ALLVP	Mexico	Traditional VC investor	Contacted
Hector Sepulveda	Mountain Nazca	Mexico	Traditional VC investor	Contacted
Guillermo Jaime	Grupo MIA	Mexico	Social entrepreneur	Contacted
Marceloa Claire	Softbank	USA	Traditional VC investor	Contacted
Paulo Bellotti	MOV Investimentos	Brazil	Impact investor	Contacted
Patricia Cordeiro Nader	Vox Capital	Brazil	Impact investor	Contacted
Laura Ortiz Montemayor	SVX Mexico	Mexico	Impact investor	Contacted
Fernando Fabre	Matterscale Ventures	USA	Impact investor	Contacted
Eric Perez Grovas	Jaguar Ventures	Mexico	Traditional VC investor	Identified
Diego Serebrisky	Dalus Capital	Mexico	Traditional VC investor	Identified
Igor Nishimura	MAGNET Venture Capital	Brazil	Traditional VC investor	Identified
Jessica Silva Rios	Vox Capital	Brazil	Impact investor	Identified
Florian Hagenbuch	Canary	Brazil	Traditional VC investor	Identified
Daniel Ibri	Mindset Ventures	Brazil	Traditional VC investor	Identified
Andrea Resende	SITAWI	Brazil	Impact investor	Identified
Daphne Salinas	Challenger 88	Mexico	Impact investor	Identified
Rodrigo Villar	New Ventures	Mexico	Impact investor	Identified
Alvaro Rodriguez Arregui	IGNIA Partners	Mexico	Impact investor	Identified

Santiago Zavala	500 Startups	Mexico	Traditional VC investor	Identified
María José Céspedes	Ashoka	Mexico	Expert of the entrepreneurship industry	Identified