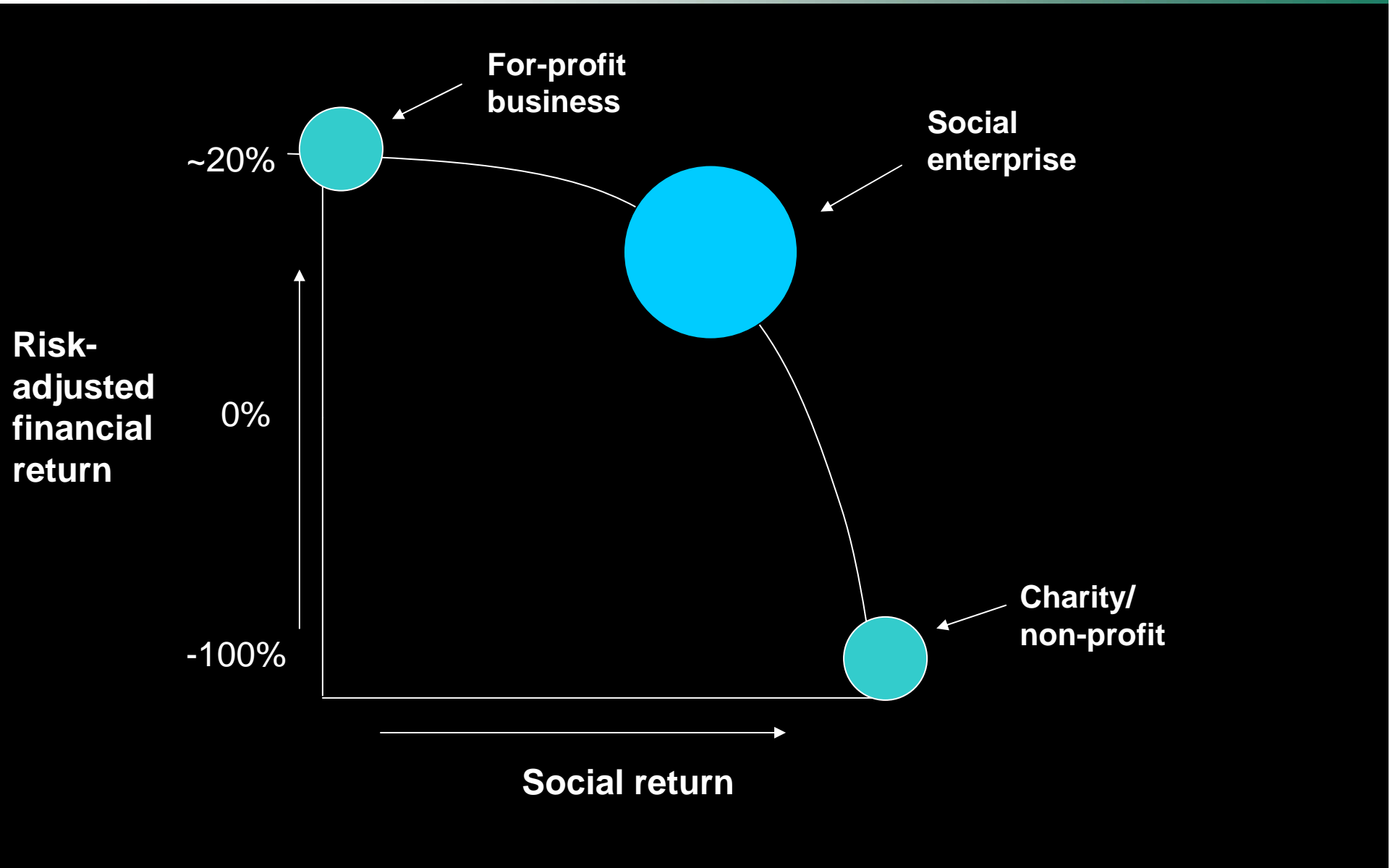


***Impact Investing:  
A potential source for financing  
social enterprises***

***Antony Bugg-Levine  
Managing Director***

**March 2009  
Social Enterprise 2009,  
Seoul, South Korea**

# Social enterprises stuck in the middle when trying to raise funds



# Current system leaves social enterprises stuck without capital

Funding cycle of...

...for-profit business

...charity/  
non-profit

...social enterprise

Start-up phase

- Personal funds
- Angel investors

- Personal funds
- Angel donors

- Personal funds

Initial growth

- Bank loans
- Venture capital
- Government

- Charity
- Foundations
- Fee for service

- Revenues

Scale up

- Trade sale
- Public offering
- Government

- Government
- Foundations?

- ??

# Impact investing industry emerging to fund social enterprise

## Impact investments are...

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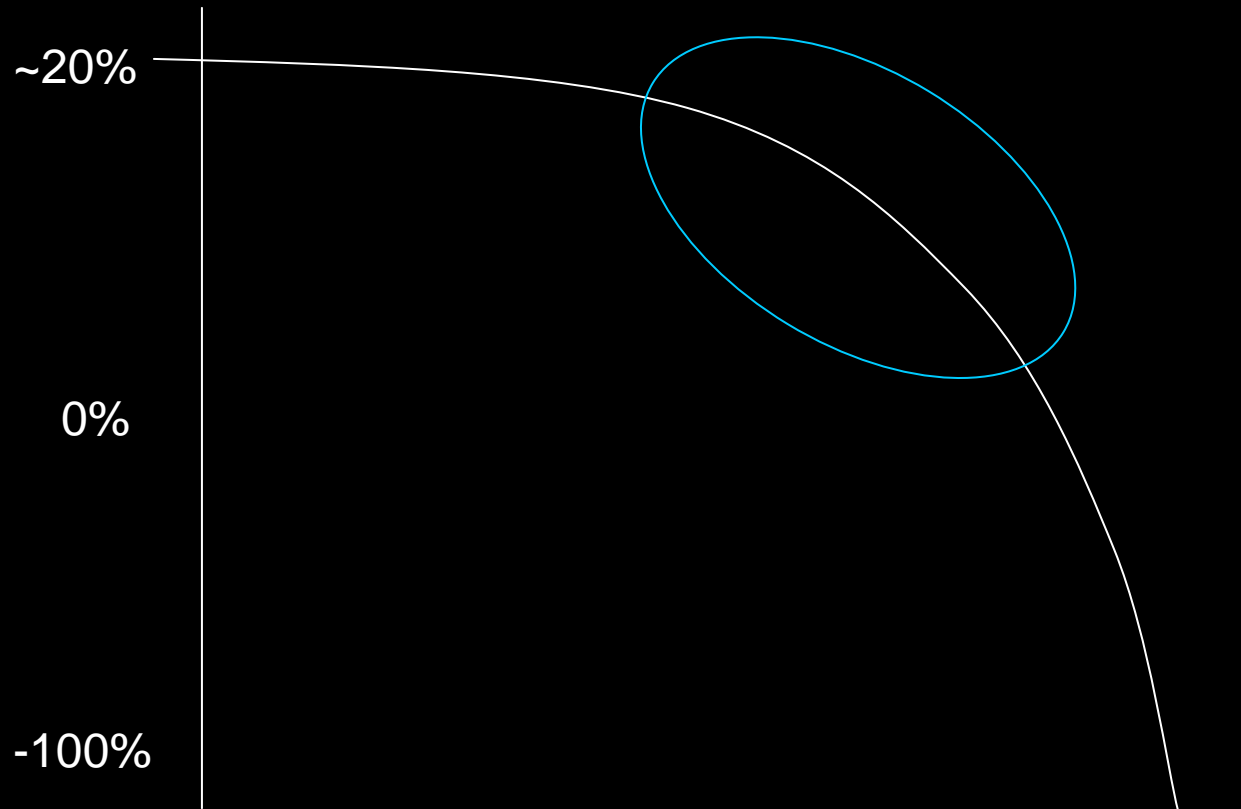
...investments that seek to  
generate **social or  
environmental benefit**  
while also providing the  
investor with **financial  
return**



...a method to  
pursue social  
objectives with  
**investment**  
rather  
than just **charity**

# Impact investing industry emerging to fund social enterprise

Risk-  
adjusted  
financial  
return

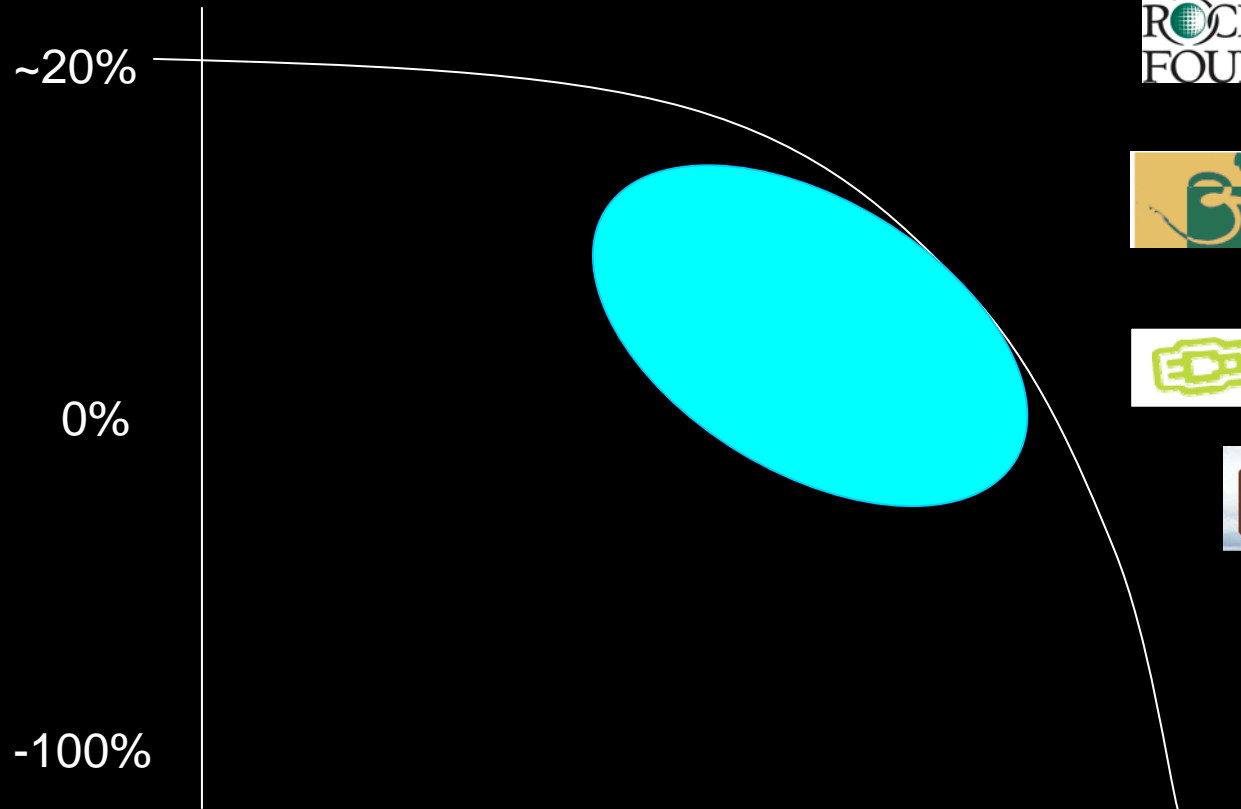


Social return

# Impact investing industry emerging to fund social enterprise

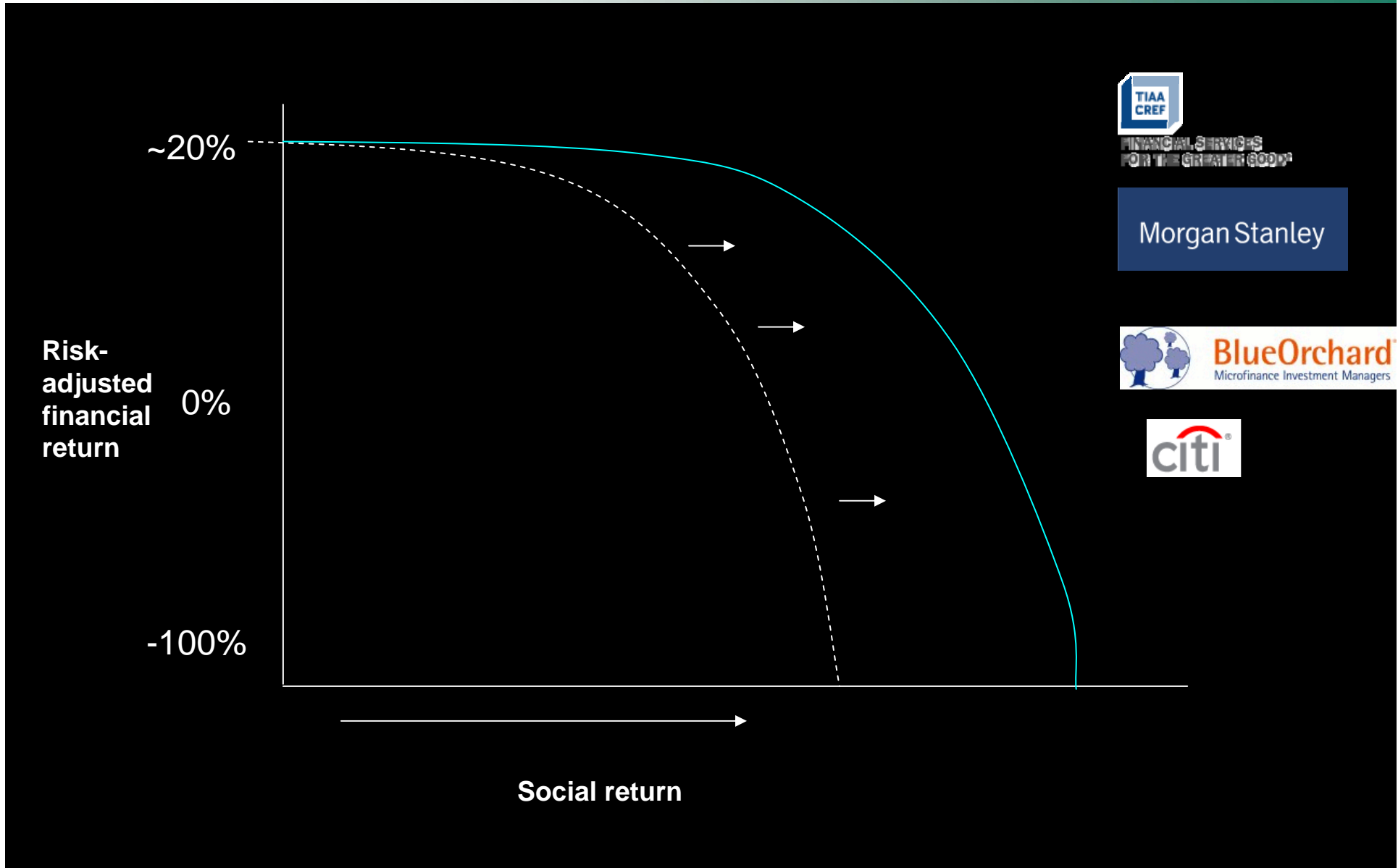
## Double-bottom line trade-off

Risk-  
adjusted  
financial  
return



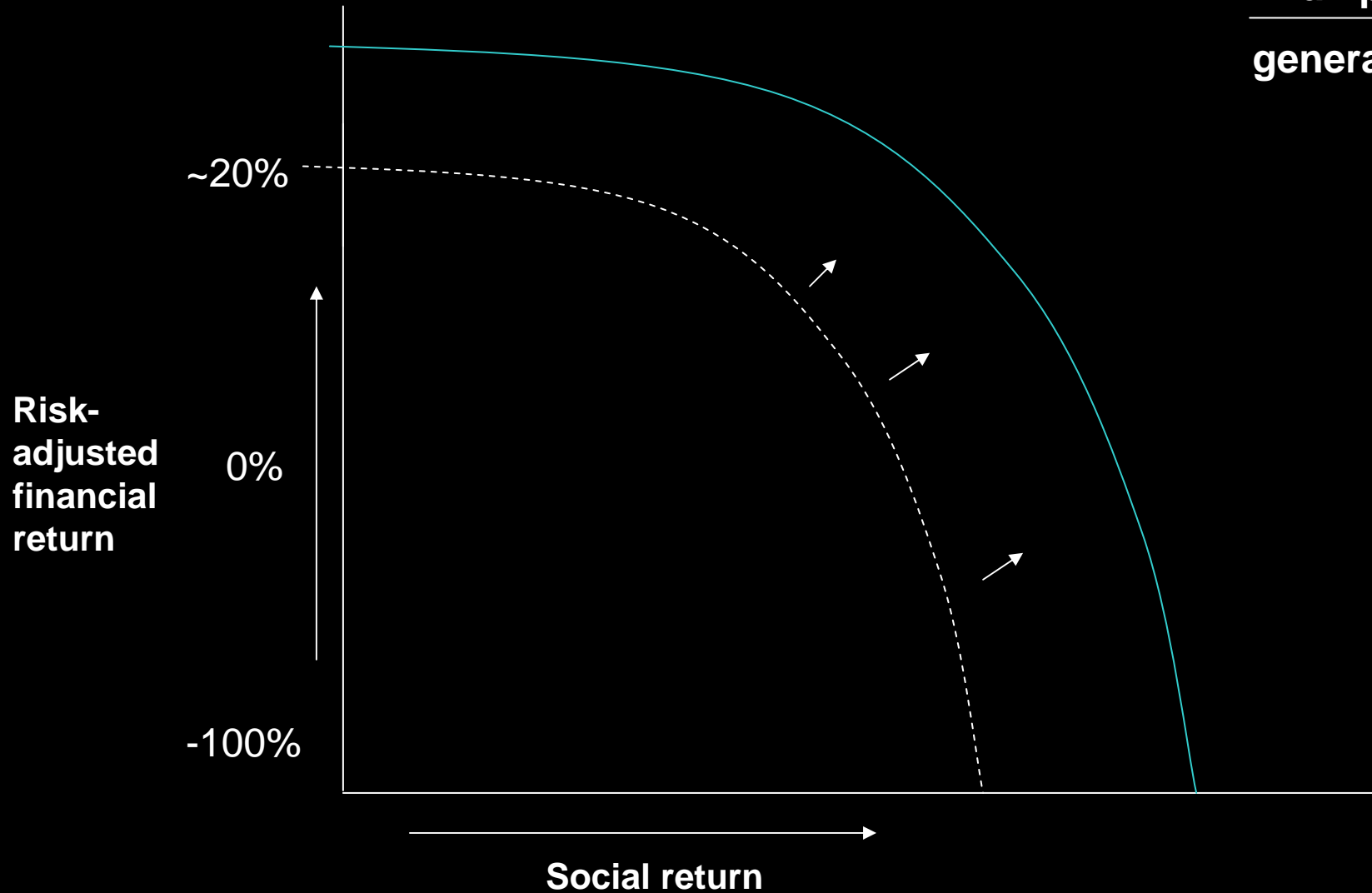
Social return

# Market-rate impact investing



# Market-beating impact investing

Examples:  
generations\_\_



# Opportunities for entrepreneurs

## Investment firms

- Structure deals
- Make investments



JPMORGAN CHASE & CO.

## Start-up firms

- Asset management
- Investment banking
- Advisory

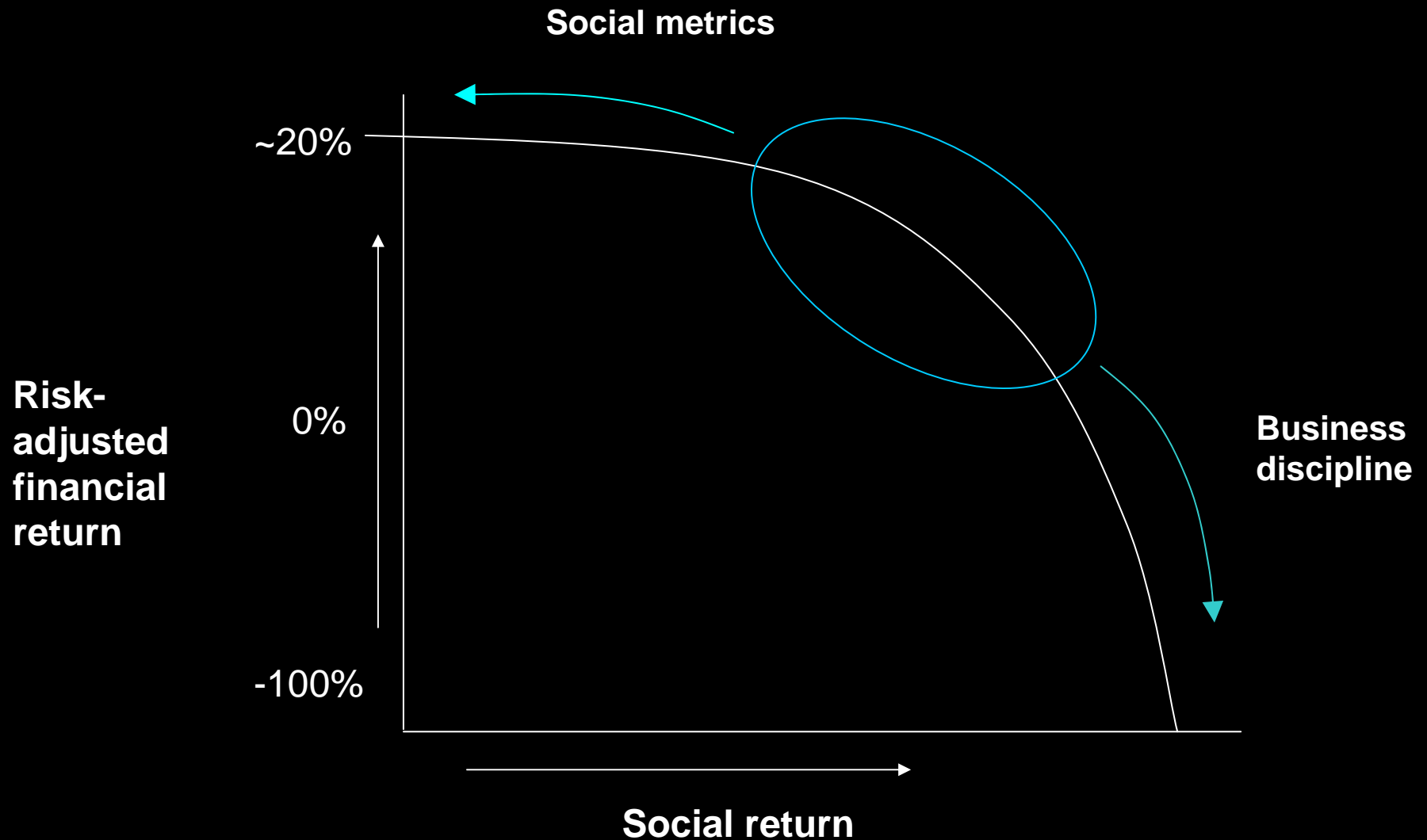


## NGOs

- Trade sale
- Public offering
- Government



# Can impact investing become a stable equilibrium?



# How can impact investing become a stable equilibrium?

Risk-adjusted financial return



Social return

[abugglevine@rockfound.org](mailto:abugglevine@rockfound.org)

[info@impactinvesting.org](mailto:info@impactinvesting.org)

[www.globalimpactinvestingnetwork.org](http://www.globalimpactinvestingnetwork.org)

# Opportunities for the **Majority Initiative**



**International Conference on Social Enterprise**

*Social Enterprises – Latin American Perspective*

**Korea, March 2009**



# :: A partner for Latin America and the Caribbean

The IDB Group is the main source of multilateral financing and expertise for sustainable economic, social and institutional development in Latin America and the Caribbean



**Inter-American Development Bank** (IDB), the **Inter-American Investment Corporation** (IIC) and the **Multilateral Investment Fund** (MIF).



**48 member** countries and offices located in **its 26 borrowing countries**, which hold 50% of the voting power.



Over **US\$ 10 billion** in lending in annual lending.



**Strategic areas: opportunities for the majority**, sustainable and renewable energy, water and sanitation and education.



# :: Why opportunities for the majority as a strategic sector for the IDB? Exclusion and lack of opportunities...

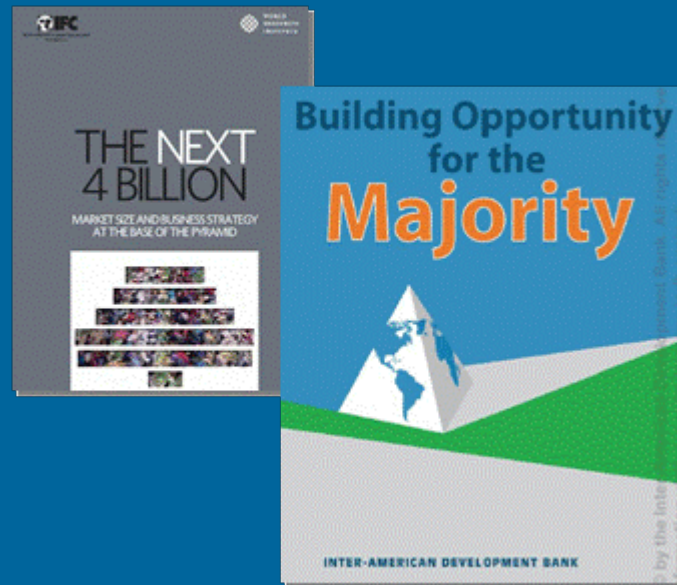


Traditional private sector lending was not addressing the needs of low-income communities, that 70% of the population in Latin America and the Caribbean at the base of the pyramid.



# ::: The origin of the Opportunities for the Majority initiative...

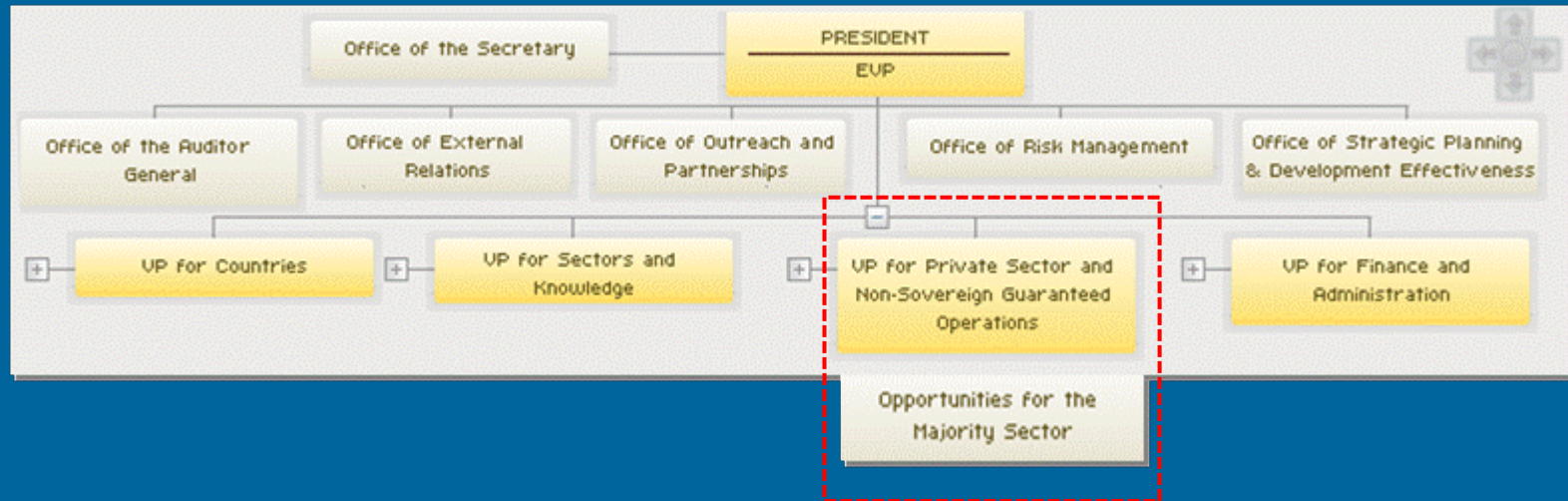
Latin America and the Caribbean's US\$500 billion per year majority market remains largely untapped



This is the right time to introduce new models based on models of collaboration between the public and private sectors



# :: Opportunities for the Majority within the IDB...



The IDB is the only multilateral institution that has a dedicated group working to promote market-based business models for low-income markets.



# :: The incubation phase...

Organize market information in a way that would generate a flow of potential business models to be developed and financed by the IDB



**Applied research** through strategic partnerships with leading actors in each field to gain market knowledge and practical applications of market-based solutions...

- Partners: Atlas, Next 4 billion, SNV
- Market sectors: Housing, ICT, Health

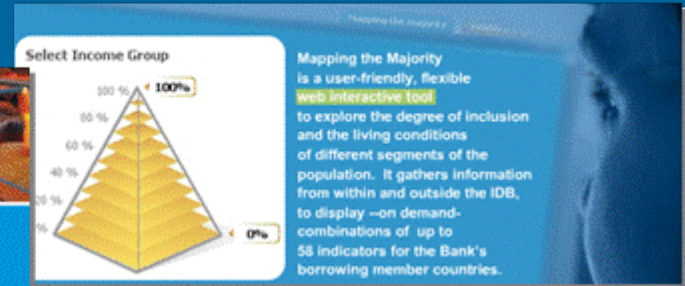
**Opportunities for the Majority Index:  
Analysis of Corporate  
Performance in Latin America and  
the Caribbean**

Final Report

Prepared for: The Inter-American Development Bank



**A Firm-Level Approach to  
Majority Market Business:  
Private Sector  
Mapping Project**



# :: The Private Sector Mapping...

**Challenge:** Knowledge gap related to companies working in low-income markets in Latin America and the Caribbean.

**Solution:** In partnership with SNV Opportunities for the Majority created a database with information from 521 large and medium private companies, including data about business strategies for low-income segments, entry barriers by sector and interest in working with the IDB.

**SNV** Proyecto de Mapeo del Sector Privado

Búsqueda por empresas | Tablas cruzadas | Presentación del proyecto

Información general  Modelo de negocios  Mayorías como parte de la cadena productiva

**Resultado 521 empresas.**

Argentina	18 de Sieteochos - Cooperativa de Trabajo
	Aguar - Servicios Argentinos S.A.
	Bolívar - Cooperativa de Trabajo 18 de Diciembre
	Ceracha
	Ceramica de Cuyo - Cooperativa de Trabajo
	Ciba
	Coca-Cola South Latin Business Unit
	Cooperativa de Trabajo 11 de Noviembre Limitada (antes Inbafin S.A.)
	Cooperativa de Trabajo Arbolado Limitada
	Cooperativa de Trabajo Casas Argentinas
	Cooperativa El Ceibo
	COTAPA - Cooperativa Trabajo Paraná
	Dalmeida Argentina S.A.
	Desbordes Herrerera - Producción y Comercialización
	Disordina S.A.
	Dos Locos - Fabrica y Pastryshop
	Dos Argentinos
	Edenor
	Edenor S.A.
	El Gaucho Limitada - Cooperativa de Trabajo
	El Grupo Social S.A.

# :: The beginning of operations...

In early 2008 the Board of Executive Directors approved the strategy of OM to move forward into financing operations



**Direct investment** in market-based business models through the OM Facility...

- U\$S 250 MM
- Loans, Guarantees and partial guaranteed
- U\$S 5 to 10 MM
- Up to 12 year tenors
- Market rates



## :: Business models....



**Foster co-creation of opportunities for business and local managers**

Engage community associations, NGOs, local governments, social entrepreneurs and social agents in the creation of new opportunities.



**Enhance product value**

Including several services in one package is often a successful strategy to promote low-income communities' access to essential services.



**Adapt products, services and distribution channels to increase access**

Products and services can be adapted to the consumption patterns and financial constraints of the low-income market.



**Promote higher quality and lower prices**

Technology as a tool to create a significant price breakthrough to supply low-income markets with high-quality, accessible products.



**Build local value chains**

Using local ecosystems and localizing value creation through local micro entrepreneurs is a winning strategy to build supply chains, distribution and markets.



# :: What are the opportunities for social businesses?

-  Forge multi-sector partnerships...
-  Develop market-based strategies...
-  Realize the potential of majority markets...
-  Transform the lives of millions by scaling the impact of development projects...



# :: What is the key to successful social enterprises?

Installed Distribution Networks



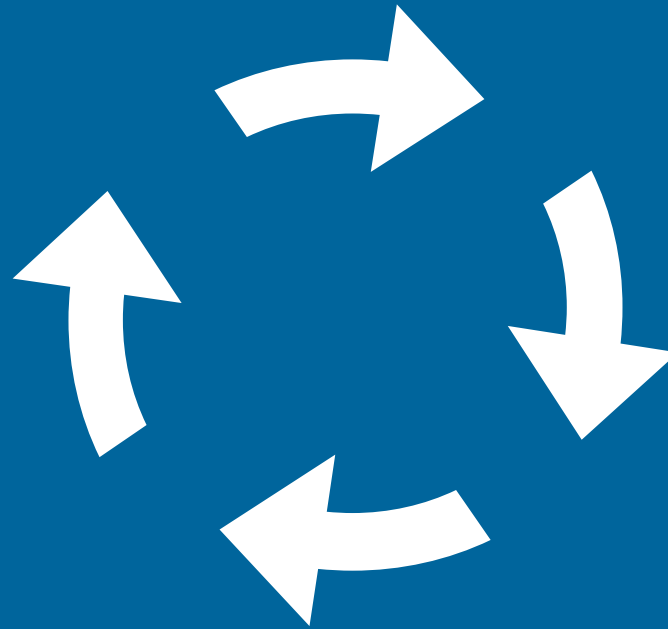
Private Sector Engagement



Scale



Development Impact



# :: Venture capital for low-income markets...

## Challenge:

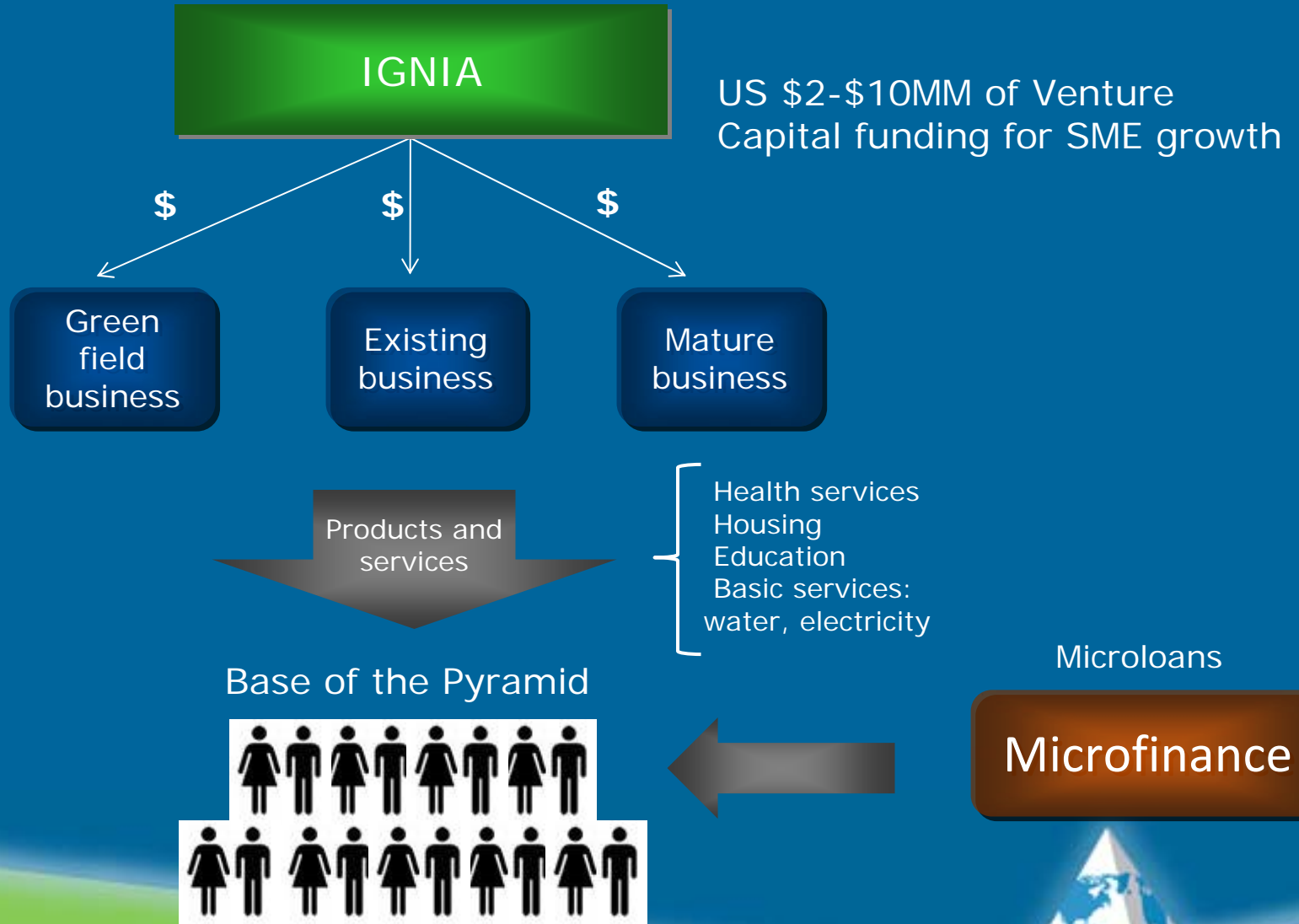
The lack of readily accessible financing for business startups is one of the major roadblocks for the development of enterprises interested in addressing the needs of the poorest communities in Latin America and the Caribbean.

## Solution:

IGNIA, a venture capital investment fund, has launched a pioneering strategy that will benefit the poorest in the region by highlighting the multiple advantages of empowering local entrepreneurship and generating social impact.



# :: Investment game plan...



# :: Microloans as an engine for social businesses...



## Installed Distribution Networks

Using the customer base of *Banco Compartamos*, IGNIA is able to leverage the installed capacity to provide additional goods and services for low-income communities.



## Scale

IGNIA has the potential to scale small operations and reach millions through the regional network of ACCION Internacional.



## Investor Engagement

By partnering with the IDB IGNIA is taking the lead in creating a vanguard of new profitable social businesses to attract other investors.



## Development Impact

By addressing market failures, IGNIA is providing a solution to the "poverty penalty" that can be measured in terms of real investments.



# :: Why for-profit social enterprises?



To make economic and social progress available everywhere and for everyone...

For the Majority, 70% of the population of Latin America and the Caribbean, with low-incomes...



*Delivering Business Solutions for Underserved Markets in Latin America*

*Elizabeth Boggs Davidsen*  
*Inter-American Development Bank*

**Introduction**

The IDB launched the Opportunities for the Majority initiative in 2006 to organize new tools to help break the poverty cycle. The goal was to channel greater amounts of private investment with a high, positive development impact into underserved or excluded markets, which in Latin America and the Caribbean constitute about 360 million people. Investing in this previously excluded market, which taken as a whole possesses enormous market potential, can be profitable for both businesses and for communities they serve, delivering a substantial public good. In 2007 the Bank established the Office of the Opportunities for the Majority following an overall IDB reorganization.

**Background**

A successful market-based initiative to development is consistent with the traditional mission of public and multilateral institutions but calls for a novel approach. As the World Resources Institute explains, a market based approach starts “from the recognition that being poor does not eliminate commerce and market processes ... [and] focuses on the poor as consumers and producers and on solutions that can make markets more efficient, competitive and inclusive.”<sup>1</sup> A market-based approach assumes that the private sector, working with communities and governments, can create jobs, increase income, and incorporate local communities as producers while being profitable.

Applying business solutions to the problems of low income markets presents a number of opportunities and challenges for sustainable development and growth. Business solutions can contribute to building opportunities for low income populations by giving the poor access to the products and services that give them control over how they achieve their well-being, including access to savings, credit, insurance and other financial services, and by incorporating local producers into sustainable supply chains.

Over the past few decades Latin America has experienced significant improvements in the functioning of private markets and increased economic activity but the benefits have

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<sup>1</sup> See WRI, *The Next Four Billion: Market Size and Business Strategy at the BOP*, 2007.

been very slow in reaching the poor and reducing inequality. In fact, inequality has increased, becoming one of the distinguishing factors of Latin America and the Caribbean. The present world economic and financial crisis makes the Opportunities for the Majority initiative more relevant than ever before. Governments around the world are placing a premium on protecting private businesses by taking drastic steps to unfreeze credit markets. While shielding firms from financial disruptions, governments are also encouraging them to become more competitive to increase their chances of survival and growth. The mass market of the majority — whether in low-cost mortgages, affordable insurance, etc.— is surging in prominence as a priority in economic policy. In some cases governments have taken equity positions in firms to provide them stability and a better chance at survival. Companies large and small are considered strategic national assets — the large enterprises because of their scope, organization and impact, and the small firms because of their cumulative contribution to growth and employment.

In this context a business policy that encourages innovative investment in the mass market—the majority of the population—can be a tool to help achieve national economic stability. The vast market offers the potential for national recovery and growth that a narrow, more exclusive market can not match. Governments in both the developed world and the developing world recognize this fact and are stressing the resumption of more vigorous consumption in the larger, shrinking mass market to pull their economies out of the current recession.

### **The IDB's Innovation and Opportunities for the Majority Initiative**

The Opportunities for the Majority (OM) initiative promotes and finances emerging business models that engage private sector companies, local governments and communities in the development and delivery of quality products and services, the creation of employment, and the participation of low-income producers and consumers in the formal economy.

The initiative encourages the Bank to look at the low income sector as a market that has strong growth potential and one where many of the essentials have been taken for granted by conventional markets from healthcare, education, housing, and basic utilities. This pent up demand represents a trend available to be tapped by business models able to package access and quality services at affordable prices.

In 2007 the Bank authorized a \$250 million financing facility to support specific projects developed under the auspices of the initiative. To qualify for IDB financing projects must be innovative, targeted to low-income communities at the “base of the pyramid” and have the capacity to be repeated on a larger scale. Although the Office of the Opportunities for the Majority is a part of the IDB's Vice Presidency for Private Sector and Non-Sovereign Guarantee Operations, its focus is on public-private partnerships and on building even broader-based alliances among businesses, nongovernmental organizations, foundations and philanthropies as well as government entities. Most of the lending under the initiative is channeled to the private sector.

## **New Pathways to Partnerships**

It is becoming increasingly clear that successful development strategies require multisectoral alliances to create maximum effectiveness and the scale needed to reach the base of the socioeconomic pyramid. Through the Opportunities for the Majority initiative the Bank is working to build new pathways to reach these low income or majority markets, including new alliances that stand on the capabilities of three main partners: the private sector with its investment resources and skills in innovation and efficiency; the public sector, which plays a critical role in decision and policy making and has a massive reach into low income markets through its social welfare programs; and civil society, which offers sustained commitment to bringing benefits to the majority and developing specialized knowledge.

Neither business nor government nor a development bank like the IDB can contribute to progress by itself. Particularly in current times, when the lines between the public and private sectors are blurred, all sectors must pull together and share responsibility to confront a challenging macroeconomic environment. The private sector is now increasingly looking to government for assistance, and government is increasingly aware of the social implications and benefits of a healthy private sector. The private sector represents 90% of economic activity and 80% of the capital flowing into developing countries. It is a critical partner in any development effort.

Governments are using their leverage to create a productive and strong relationship with private firms. Enabling private firms to use public sector platforms that have deep penetration and wide reach in majority markets – e.g. conditional cash transfer programs, neighborhood improvement programs - by layering additional goods and services onto these existing networks is seen as a new way for governments to assist companies in diminishing costs and logistical barriers of entry into majority markets, while providing enhanced and more effective social and economic value to low income populations.

Civil society organizations are also highly motivated to enter into partnerships with governments and the private sector. Major philanthropic foundations are now focused on impact investing and using profit seeking investment criteria to generate social and environmental good. The lines are increasingly blurred between what constitutes social versus investment approaches to development challenges and civil society organizations are increasingly interested in sharing expertise and leveraging technical and financial resources among all actors.

The Opportunities for the Majority initiative is an active mediator among private firms, the public sector, and civil society to assist in the formation of an enabling environment for successful social enterprise partnerships in Latin America and the Caribbean. Working with the different actors the Bank plays a central role in articulating the different skills and capacities in each sector to help build partnerships that can deliver the best results in bringing opportunities to the majority.

## **Project Models**

The first two Opportunities for the Majority projects approved in 2008 by the Board of Executive Directors of the IDB are illustrative of the type of social enterprises the OM initiative is supporting:

- A \$25 million loan to the newly formed IGNIA Fund, which will provide up to \$75 million in investments in low-income markets in areas such as housing, healthcare, education and basic utilities in selected countries.
- A \$10 million partial credit guarantee to CEMEX Mexico for a municipal street paving plan known as *Mejora tu Calle*. Neighborhood residents who join the program will receive microloans that will finance half the cost of street pavement. Municipalities will finance the other half of the cost. The program, accompanied by a \$250,000 IDB grant for technical assistance to municipalities to improve their financial operations, will reduce the time of paving municipal streets to 70 weeks compared with previous delays of up to 10 years.

These two projects represent innovative approaches to investing in low-income communities and have the potential of being repeated on a larger scale in either a single country or in several countries. The loan to IGNIA represented the Bank's first large investment of the Opportunities for the Majority initiative. It illustrates the Bank's ability to form partnerships to expand investments that serve low-income markets and to leverage resources that attract other investors who have the skills, experience and capacity to develop focused projects with a significant, positive impact on low-income groups. At the same time these projects offer an attractive rate of financial return. The IDB loan enables IGNIA to leverage the needed \$75 million for investments benefitting the majority in up to 12 portfolio companies throughout Latin America. The fund has closed on three investments and is focusing on small- and medium-sized companies, with revenues less than \$10 million a year, and on firms that operate in the "last mile" of the value chain: businesses that provide services directly to consumers. In addition to improving the quality of life of low-income groups, a firm receiving an IGNIA investment must have a proven, robust business model with low fixed costs and the ability to generate sufficient cash flow quickly. IGNIA expects to make an exit from all its investments after 12 years with a significant profit. The venture fund platform enables the Bank to increase the impact of a single operation to several countries while generating new ideas and opportunities, leveraging a \$25 million commitment to obtain a total of \$75 million in targeted investments in low-income communities.

In the case of the project with CEMEX, the \$10 million guarantee from the IDB will help leverage \$64 million in street pavement investment in the first phase of the project alone, which will improve neighborhoods in 12 targeted Mexican cities servicing 35,000 resident microborrowers. In the second phase of the project, another 48 to 60 municipalities will be added to the program reaching 200,000 microborrowers.

Throughout Latin America low-income neighborhoods have difficulty in paving city streets. Municipalities are typically short of funds, and many informal urban settlements have not yet been properly incorporated into the tax base.

Using private funds to leverage public resources and accelerate the delivery of public works is the objective behind the program *Mejora tu Calle*. Under the project, city residents receive individual microloans and then pool the resources to finance half the cost of street pavement for their neighborhood. Municipalities contribute the other half of the cost. The microloans average less than \$1,000 each and are repaid over a period of 70 weeks, the time it will take to complete paving works. CEMEX organizes a sales force consisting of a network, comprised mainly of women, known as *promotores*, to market the loans and collect the payments. An evaluation has shown that the income of a family participating in *Mejora Tu Calle* — typically there will be two wage earners in a family—is expected to rise by more than eight times the amount of their original investment in road improvement after five years. The time frame for paving a neighborhood street will be reduced from as long as 10 years to just 70 weeks. Paving municipal streets improves public health and neighborhood security and allows wage earners to travel to their jobs faster and become more productive. Property values rise, and so do incomes. In addition, thousands of neighborhood residents who participate in the microloan program will develop credit histories that will enable them to have access to other forms of financing in the future to meet their needs.

By participating in the project the IDB reduces the risk of other investors, encouraging its partners to move ahead on a larger scale. The Bank has the capacity to incorporate the program into a more ambitious mission of demonstrating to the region the advantages of public-private partnerships in neighborhood improvement projects.

What these two projects have in common is their ability to leverage existing distribution platforms and organizational structures to deliver a greater impact for Bank investments, particularly in the area of microfinance. CEMEX has developed an apparatus and public good will with its microfinance solutions for low-cost housing. Borrowers who successfully repay the microloans distributed and serviced by CEMEX financial vehicles develop a credit history that will open up additional lines of credit elsewhere.

The proprietors of IGNIA have a proven track record in the field of microfinance and networks of contacts and clients throughout Latin America. These enterprises have demonstrated that other organizations with a low-income clientele and distribution platform — be they public utilities, banks, nongovernmental organizations and suppliers — have the capacity to expand and diversify services in low-income communities to the benefit of both investors and consumers.