Strategic Resources to Build an Enabling Ecosystem for Impact Investment in Latin America

This introductory paper aims to shed light on Latin America's pivotal role in delivering the impactful returns essential for global sustainability. It underscores the critical importance of comprehensive data within the Latin American impact investment landscape. Additionally, the paper delves into the regional distinctions between the European Union and Latin America, highlighting how the strategically positioned GSGII Latam NABs are poised to unlock this untapped potential.

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In pursuing social progress and a just transition to a green economy, evaluating positive social and environmental impacts, along with economic growth opportunities, necessitates a collaborative approach from various stakeholders. From this perspective, when impact investment takes into account the context, it delivers more effective outcomes necessary for a sustainable impact economy.

1 Introduction: Unlocking Latin America's Impact Investment Potential

Latin America's impact investment ecosystem has shown promise in driving innovation and social progress. However, the growth of impact investing in Latin America hinges on an understanding as deep and diverse as the region itself. Comprehensive data collection and analysis are urgently needed to realise its potential. Understanding the various Latin American landscapes is essential for impactful investment.

Latin America's significance on a global scale is profound due to its rich cultural diversity and vital natural resources. Yet, the region faces complex challenges, such as inequality and climate change, which resonate globally. Impact investing stands as a powerful catalyst for addressing these issues.

Reliable data is crucial for effective impact investment, but it needs improvement in Latin America. Cooperation among agencies, development banks, and philanthropic organisations can provide the necessary resources to build an enabling ecosystem.

This paper emphasises the need for in-depth understanding and data-driven solutions to unlock Latin America's impact investment potential. Understanding the Latin American impact investment landscape is crucial to unlock its full potential. This involves gaining insights into its size, the challenges and opportunities from the demand-side impact investees (pipeline). Additionally, it entails understanding the motivations and requirements of supply-side impact investors, identifying the role of intermediaries and capacity builders in facilitating impact investments and assessing the enabling role of governments in this ecosystem.

Latin America can play a pivotal role in achieving global sustainability goals by addressing challenges and harnessing regional opportunities, such as its abundant resources and global economic significance.

A comprehensive understanding of the Latin American impact investment landscape is crucial to unlock its full potential.

2 Latin America Can Deliver Impact Returns Pivotal to Achieve Global Sustainability

Comprehensive data collection and analysis are urgently needed

With its diverse culture and abundant natural resources, Latin America confronts complex social and environmental challenges. This region houses a substantial portion of the world's primary forests, storing an estimated 104 gigatonnes of carbon. Yet, it contributes less than 10% of global annual greenhouse gas emissions (State of the Climate in Latin America and the Caribbean 2020). Simultaneously, Latin America grapples with staggering inequality and a rapidly changing climate. It is essential to recognise that these challenges resonate globally, reflecting broader struggles with social disparity and environmental degradation across the globe.

Amid this intricate tapestry of challenges and opportunities, impact investing emerges as a powerful catalyst for financing transformative change. The potential for Latin America to leverage the power of impact investments goes beyond regional significance; it holds profound implications for global sustainability. The region's ability to address urgent inequality and climate change directly impacts collective progress toward global sustainability goals.

Latin America's environmental significance is undeniable, with nearly half of its landmass covered by forests. Latin America and the Caribbean collectively account for about 57% of the world's remaining primary forests. These forests are essential for sequestering carbon and mitigating climate change. Remarkably, the region's annual greenhouse gas emissions are disproportionately low compared to its environmental importance.

However, the region faces critical challenges in terms of inequality. Historical disparities, outdated wealth distribution patterns, and a culture of privilege have created structural gaps in various aspects of life. These inequalities manifest in income disparities, unequal access to opportunities and public services, gaps between genders, rural and urban populations, and indigenous and non-indigenous communities. This persistent inequality hampers economic growth and poses significant challenges to achieving the United Nations' Sustainable Development Goals (SDGs).

Despite these challenges, Latin America is essential to the global economy. The region boasts abundant reserves of critical minerals and energy resources, making it a significant player in resource-driven economic growth. Over 60% of export revenue in South American countries is derived from commodities, particularly minerals and food products. Rather than presenting a challenge, this dependence on commodities is

increasingly viewed as an opportunity driven by the growing demand for these resources as the world transitions toward greener technologies.
Latin America's importance extends to critical minerals such as copper and lithium, essential components of low-carbon technologies. For example, electric vehicles require significantly more copper than traditional gasoline-powered vehicles, and offshore wind farms demand substantial amounts of scarce metals compared to conventional power plants. This growing demand could lead to shortages of critical minerals by 2035, making Latin America's resource wealth even more crucial.

Additionally, Latin America is a major global food supplier. As the global population is expected to reach 9.7 billion by 2050, and the middle class is set to double to 6 billion people, the region's role in providing food is projected to become increasingly important. Latin America supplies 60% of the world's traded soybeans and more than 30% of global maise, beef, poultry, and sugar. Net food exports are anticipated to increase by 17% in the coming decade, underscoring the region's significance in global food security.

Latin America's potential to address global sustainability through impact investing, its rich environmental resources, and its pivotal role in food production are critical facets of its significance in the world economy. As we navigate the complex challenges of the 21st century, recognising Latin America's unique position can contribute to a more sustainable and equitable future for the entire planet.

Social Challenges:

Nevertheless, alongside its economic promise, Latin America confronts pressing social challenges. There is a harsh reality that a significant segment of the population, comprising 32.1%, or 201 million people, resides in conditions of poverty, with 13.1%, or 82 million, experiencing extreme poverty. This sobering revelation underscores the urgent need to address the latent crisis in education, thereby averting the peril of a lost generation.

Additionally, Latin America grapples with glaring gender disparities within its business landscape. A study by the Inter-American Development Bank (IDB) reveals a stark reality where women occupy only 15% of management positions and own 14% of companies in the region. These disparities underscore the imperative of initiatives aimed at fostering gender equality and empowering women in the workforce.

Market Size

Currently, there is no comprehensive impact investment market size for Latin America. In attempting to quantify the size of the impact investment market, it's essential to acknowledge the challenges associated with arriving at an estimate. However, a significant marker in understanding this landscape emerges from global assets under management, set to rise to $145.4 trillion by 2025 according to the World Bank. Notably, the Global Impact Investing Network (GIIN) has emerged as a reliable authority in this field, consistently providing transparent insights into impact investment. According to GIIN's 2022 report, 3,349 organisations organisations currently manage a cumulative $1.164 trillion in impact investment assets worldwide. To contextualise this figure, it's pertinent to consider the Latin American context, where the total capital allocated to impact investment is approximately $4.7 billion.

Impact Investment Market Sizing: Challenges

Providing a market sizing for impact investment in Latin America is challenging due to several factors, including the complexity of the impact investment landscape, the need for standardised metrics, and the diversity of impact sectors. Here are some challenges encountered when trying to estimate the size of the impact investment market:

1. **Lack of Standard Definitions:** Impact investments can encompass various industries and strategies, from renewable energy and sustainable agriculture to healthcare and education. The need for standardised definitions and metrics for what constitutes an impact investment can make it difficult to categorise and quantify the market accurately.

2. **Data Availability:** Reliable and up-to-date data on impact investments can be scarce, especially in emerging markets and niche sectors. Private entities make many impact investments and may not be publicly disclosed, making it challenging to gather comprehensive data.

3. **Heterogeneous Impact Metrics:** Impact investments often have diverse social and environmental goals, making comparing and aggregating their impact challenging. Different investors and organisations may use other metrics and approaches to measure and report impact, making it difficult to create a uniform market sizing methodology.

4. **Geographic Variability:** Impact investments can vary significantly by region, with different countries and regions having unique challenges and opportunities. This geographic variability can make creating a global market sizing estimate challenging.

5. **Hidden Impact:** Some impact investments may have indirect or long-term effects that are difficult to quantify. For example, an investment in education may have a societal impact that is not fully realised until many years later, making it challenging to assess the market's true size and impact.

6. **Dynamic Market:** The impact investment market evolves rapidly as awareness of environmental and social issues grows. New investment products and strategies are constantly emerging, and the market's size and composition can change quickly.

7. **Bundled Investments:** There is a blurry line between Impact investment and Sustainable Finance.Often traditional financial products are categorised as ¨sustainability-related¨ making it challenging to separate them and accurately estimate their size.

Market sizing for impact investment is inherently challenging due to the multifaceted nature of impact and the diversity of investment strategies. While these challenges are real, addressing them with robust research methodologies and collaboration can help provide valuable insights into the size and potential of the impact investment market.

Impact Investors´s Challenges in Latin America

The most pressing challenges impact investors face worldwide are widened in Latin America. These challenges include:

- **Measuring Impact:** One of the primary challenges is measuring and assessing investments' social and environmental impact. Defining and quantifying impact metrics can be complex, as the impact can be multidimensional and long-term.

- **Balancing Financial and Impact Goals:** Impact investors strive to achieve financial returns and positive social or environmental outcomes. Balancing these dual objectives can be challenging, as tensions between maximising financial returns and maximising impact might exist.

- **Deal Sourcing and Due Diligence:** Identifying investment opportunities that align with impact goals and meet financial criteria can be difficult. Conducting thorough due diligence to ensure that potential investments are likely to generate the intended impact can also be time-consuming.

- **Exit Strategies:** Impact investors often face challenges in finding appropriate exit strategies for their investments. Exiting an investment while ensuring the continuity of the intended impact can be complex, especially in sectors or regions with limited exit options.

- **Lack of Standardization:** The lack of standardised impact measurement and reporting frameworks across the industry can make comparing and benchmarking impact performance challenging. This can lead to confusion for both investors and investees.

- **Risk Management:** Impact investments might involve higher risks due to the nature of the sectors and regions in which they operate. Managing these risks and ensuring the intended impact is not compromised can be a significant challenge.

- **Market Awareness and Education:** Building awareness and understanding of impact investing among investors, investees, and other stakeholders is an ongoing challenge. Many potential stakeholders may still need to familiarise themselves with the concept and potential benefits of impact investing.

- **Capacity Building:** Supporting investees and impact investors to develop the capacity to effectively measure, manage, and impact reports can be challenging. This is particularly relevant for smaller enterprises or organisations.

- **Policy and Regulatory Environment:** : The policy and regulatory environment can impact the feasibility and scalability of impact investment. Advocating for favourable policies and regulations, specially identifying adequate incentives, to support impact investing can be challenging.

- **Access to Capital:** For social enterprises and impact-focused organisations, accessing sufficient capital can be difficult, especially if traditional financing options are limited. Offering access to blended capital options in early stage markets is essential in Latin America.
- Exit Strategies: Developing exit strategies that align with impact goals and ensure impact sustainability can be complex.

3 Regional Differences between the European Union and Latin America

While impact investment is a global phenomenon, there are notable differences between regions that shape the landscape in Latin America. Comparing the Latin American impact investment ecosystem to that of the European Union (EU) reveals distinct regional variations.

Latin America:

- **Diversity and Complexity:** Latin America's impact investment landscape is marked by diversity and complexity. The region spans numerous countries, each with unique challenges, opportunities, and levels of development. This diversity extends to impact sectors ranging from renewable energy and agriculture to healthcare and education.

- **Emerging Markets:** Many Latin American countries are classified as emerging markets, which presents opportunities and challenges for impact investors. Emerging markets may offer higher growth potential but have greater risks, including political and economic instability.

- **Resource Abundance:** Latin America is rich in natural resources, including critical minerals, energy reserves, and fertile land. This resource abundance presents opportunities for impact investments in sustainable mining, renewable energy, and agriculture sectors.

- **Social Inequality:** Latin America grapples with significant social inequality and disparities, creating a pressing need for impact investments focused on poverty alleviation, education, healthcare, and social inclusion.

- **Environmental Challenges:** The region faces environmental challenges such as deforestation, biodiversity loss, and vulnerability to climate change. Impact investments in conservation, sustainable land use, and climate resilience are vital.

- **Access to Capital:** Access to capital can challenge social enterprises and impact-focused organisations in Latin America, particularly those operating in less-developed regions.

European Union:

- **Mature Ecosystem:** The European Union has a relatively mature impact investment ecosystem compared to Latin America. It benefits from established impact investors, intermediaries, and supportive policies.

- **Regulatory Framework:** The EU has developed a regulatory framework encouraging impact investing, including the European Impact Investing Luxembourg label (ELTIF) and the European Social Entrepreneurship Fund (EuSEF).

- **Impact Measurement:** European impact investors often have access to standardised impact measurement and reporting frameworks, facilitating transparency and comparability. Latin American impact investors as well as European impact investors investing in Latin America, also access this type of impact measurement, but there are important contextual differences when applying them in Latin America

- **Diverse Impact Sectors:** Impact investments in the EU cover many sectors, including sustainable finance, clean energy, social inclusion, and circular economy initiatives.

- **Social Enterprises:** The EU has a significant presence of social enterprises and impact-focused organisations that benefit from a supportive ecosystem.

- **Access to Finance:** Compared to Latin America, access to impact capital may be more readily available for European social enterprises.

Funding for Deeper Contextual Knowledge: Translating Impact

4 Solutions: GSG Strategic Alignment Process & Market Study - Untapped Potential

Impact investing stands as a powerful catalyst for addressing these issues.

About the Latin American NABs Strategic Alignment Agenda

- **Purpose:** Engage in an actionable agenda across Iberia - Latam to foster Impact Investment by leveraging ongoing initiatives, and regional trends, and integrating the local context's challenges and opportunities.
- **Overview:** The NABs' primary role is to foster an enabling environment for Impact Investment to grow and become mainstream in their countries. To achieve this, the NABs have four focus areas: public policy, knowledge sharing, innovations for impact, and market building.

The challenges Latin American countries face are complex and interconnected; progress in one area often depends on progress in others. Latin American countries can achieve greater economic prosperity, political stability, regional security, environmental protection, and cultural exchange by acting together.

The Journey The Latam NABs have the local expertise to drive their countries' agenda, but a joint intersectional plan of shared goals, objectives, and priorities requires collaborative efforts. By identifying the regional trends affecting such a common agenda and what ongoing initiatives support it, the NABs can leverage efforts, take concrete actions, make any contextual adjustments, and work together to achieve a shared vision.

Between July 2022 and July 2023, the Iberia Latam NABs went through a Strategic Alignment Process. In this process, the local advisory councils of each NAB participated in a series of interviews and workshops to answer the question: "How can the GSG Latam NABs' common agenda develop the Impact Investment ecosystem and ground the GSG Global Agenda in Latam?"

The process was led by VIVA Idea, utilising a methodology that integrates the perspective of each NAB's complexity and various stakeholders by collecting and understanding qualitative data about the trends shaping impact investment, the NAB's ongoing projects and initiatives, and the NABs' role in the ecosystem. This was achieved by conducting interviews and executing workshops with each NAB to understand the research question in four dimensions: Resources, Leadership, Value, and Role, allowing a collaborative process based on the context and available means to emerge for knowledge-based solutions.

Data: the basis for moving forward

There is a need for contextual knowledge about Latin America's impact investment ecosystem to design local and cross-country actionable agendas that enable the impact investment ecosystem to grow.

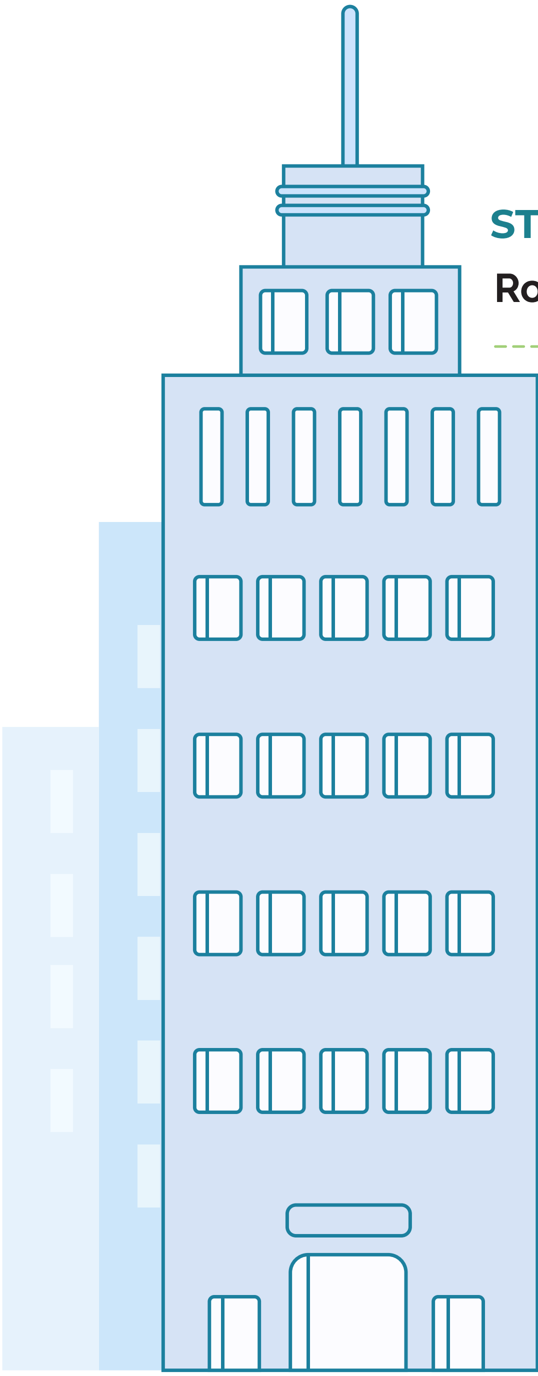
This type of knowledge extends beyond mere market dimensions, delving into the pivotal role of data, the need for comprehensive actor mapping, profound comprehension of influential factors—both positive and adverse—and trends that lay the groundwork for crafting a pragmatic agenda and achievable goals.

Data plays a pivotal role in decision-making, serving as the bedrock upon which informed choices are constructed. In a world inundated with information and perceptions, the value of reliable data becomes paramount. It offers a comprehensive understanding of situations, enabling a deeper analysis of trends, patterns, and correlations that might otherwise remain hidden.

Informed decisions backed by reliable data enhance outcomes' accuracy and foster a culture of accountability and transparency. Relying on general perceptions can lead to misguided strategies. Thus, the need for trustworthy data prevails, offering a dependable compass in the complex decision-making landscape and guiding organisations and individuals toward more effective and resilient choices.

Building on reliable data, the Iberia-Latam NABs aim to accelerate the much-needed impact in Latin America, a region grappling with numerous challenges that the potent dimension of impact investment is uniquely poised to alleviate.

The GSG NAB's approach transcends the conventional notion of impact investment being solely about providing capital with potential for change. We advocate for impact to be measured through the lens of social progress—a transformative force necessitating systemic shifts that uplift communities. This progress is rooted in a society's capacity to fulfil basic human needs, establish foundational elements that empower individuals and communities to enrich and sustain their quality of life and foster an environment where each individual can realise their full potential. Our research underscores the development of robust measurement tools tailored for evaluating social progress, forming a pivotal cornerstone for effective impact assessment.



STEP 4

Roof - Systemic Change

STEP 3

Top Floor – Deployment

STEP 2

Intermediate Floors –

Actionable Agenda & Partnerships

STEP 1

Ground Floor - Data

Given the privileged role of the GSG as an ecosystem's enabler through the Latam NABs, it is very well positioned to drive this, having access to the relevant actors who can provide data and execute tasks. It involves collaborating with stakeholders to identify problems, develop interventions, implement changes, and then evaluate the effectiveness of those changes, with a special focus on contextual impact measurement and influencing public policy, as well as a dissemination communication strategy in the relevant forums and with targeted audiences per country and as a region.

Ecosystem Scholars and practitioners recognise the significance of the contextual factors surrounding Impact Investment, which does not take place in isolation but emerges within a complex and nuanced system influenced by economic, social, and cultural forces.
The elements within the Impact Investment Ecosystem are intricately interwoven within a network that facilitates the realisation of impactful investments. For the context of this introduction, it is vital to grasp that the term " Impact Investment Ecosystem" signifies the intricate network comprising entities, institutions, and individuals dedicated to advancing investments that yield favourable social and environmental outcomes in conjunction with financial profits, all collaboratively engaged either directly or indirectly in fostering sustainable and comprehensive progress.

In this setting, the success of impact investments in Latin America as a catalyst for the impact-driven economy relies on attaining a multifarious comprehension as diverse as the region itself. This endeavour cannot overstate the significance of funding and philanthropy capital. These investment forms are pivotal in nurturing the ecosystem by providing essential resources to fund a thorough market study and develop an effective, actionable agenda throughout Latin America. Such collaboration capital and philanthropic funding empower existing ecosystem builders to orchestrate efforts that drive the development of this ecosystem, ensuring that no corner of Latin America remains untouched by the potential for positive change through impact investments.

Funding for Deeper Contextual Knowledge: Translating Impact

Impact Investment Surveys and Reports indicate that most impact investors in developing countries are based in developed countries (up to 78%). As a result, the assessment methods used by impact investors often reflect those employed in developed nations and need more adaptations to make these methods more applicable and effective in culturally and structurally distinct developing country contexts.

Developed countries have high institutionalisation and access to quality information, enabling impact investors to navigate established capital markets and benefit from regulatory support and reliable data. In contrast, developing countries face investment risks due to institutional voids, underdeveloped capital markets, and a lack of accessible financial information. They often need help with a contentious relationship between the state and the third sector and the state and markets, hindering establishing a supportive environment for impact-oriented businesses. These are only some contextual differences between the Global North and the Global South that make it hard for developed country investors to understand and evaluate the impact reported by developing country investees. What might be a cultural necessity in the context of some developing countries (e.g., hiring men only) might go against the (e.g. gender equality) investment standards of developed countries.

To bridge the challenge of "translating impact" between developed and developing countries, some investors immerse themselves in the context of the developing countries where they invest. They seek to deeply understand the problem they intend to address and the context it is a part of. These investors view their investment as a challenge to fostering systemic change, where they work in tandem or in collaboration with various actors of the context to address issues like poverty and inequality. They recognise they are part of a larger system aiming to improve the social challenges; they collectively define strategic focuses and invest in actors within the system to implement solutions. They measure impact based on the implementation of the solution and its contribution to social progress in the context, considering the local definition of impact and the cultural characteristics and structural limitations that apply.

- **Supply-side Investors or Impact Investors:** These individuals, institutions, and organisations allocate capital intending to generate a positive impact. They may include foundations, family offices, high-net-worth individuals, pension funds, impact-focused investment firms, Impact Investment Funds, and specialised investment vehicles that pool capital from multiple investors and deploy it into impact-focused enterprises and projects.

- **Demand-side Investees or Impact Investees:** SMEs, social enterprises, and businesses that aim to address social and environmental challenges while generating financial returns. They can operate in various sectors, such as clean energy, healthcare, education, and fair trade. They are the recipients of Impact Investment and are accountable for delivering on their social and environmental objectives and economic revenues.

- **Policy and Regulatory Frameworks:** Governments and regulatory bodies create an enabling environment through policies, incentives, and regulations that support and encourage Impact Investment activities. The government catalyses the ecosystem through policymaking.

- **Intermediaries:** Various types of actors and capacity builders play a crucial role in connecting investors with investees. They facilitate deal sourcing, due diligence, structuring, and monitoring of Impact Investment. It also includes impact measurement actors and impact investing networks and associations that foster collaboration, knowledge sharing, and advocacy within the Impact Investment Ecosystem.

5 Conclusion

To unlock the true potential of the impact economy in Latin America, we propose delving deeper than surface-level analysis. To truly foster meaningful change, we must transcend traditional approaches like mere market sizing and actor mapping. Our vision centres on a comprehensive Market Study of the Impact Economy, offering nuanced insights that go beyond numbers, dissecting the intricacies of this dynamic landscape. By understanding the market profoundly – from the underlying social and environmental challenges to the evolving trends and uncharted opportunities – we pave the way for informed decisions that drive robust and lasting impact across the region.

Impact investment does not unfold in isolation; its effectiveness is deeply intertwined with regulations and governmental initiatives, much like historical investment paradigms. Just as governments have historically fostered investment, they are indispensable in propelling impact investment forward.

This dynamic interplay between impact investment and regulatory environments amplifies the impact of positive change.

Based on this data, ecosystem builders like the GSG Latam NABs, in collaboration with local impact economy actors, could draft a strategic, actionable agenda for the region. This agenda should comprehend how to address the institutional voids within the region and join forces with other networks and local impact ecosystem actors to close those voids. Their strategic efforts should encompass lobbying for supportive public policies to promote impact investment and climate change safeguards, nurturing ESG compliance requirements for companies and financial institutions, and enabling a socially inclusive market for SMEs. In doing so, they can effectively address the region's significant challenges and gaps, ultimately contributing to achieving sustainability as defined in the SDGs.

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in Latin America