



THE IMPACT INVESTMENT ECOSYSTEM IN CENTRAL AMERICA


Status quo and opportunities for a regional advisory board within the global movement of impact investment

Costa Rica, 2019




With support from





This report was prepared as part of an application to found a Regional Advisory Board for Central America (RABCA) under the umbrella of the Global Steering Group for Impact Investment (GSG)¹. It is a practical guideline for decision making and is not intended to be a scientifically-grounded text. The purpose of this report is to serve as the basis for strategic decision making to be carried out by the future RABCA team, not to propose a specific strategy.



Authors

Urs Jäger, Research Director at VIVA Idea & Professor at INCAE Business School

Julia Pfirrmann, Researcher at VIVA Idea

Arturo Rodriguez, Researcher at VIVA Idea

Daniel Topolanek, External Consultant



THE IMPACT INVESTMENT ECOSYSTEM IN CENTRAL AMERICA

Status quo and opportunities for a regional
advisory board within the global movement of
impact investment
Costa Rica, 2019

Executive Summary

The global discussion on impact investment largely originates in countries characterized by highly developed, regulated and liquid investment markets. Central America, however, like most other developing countries, lacks the advanced markets and ecosystems necessary for financial, profit-oriented investments and, correspondingly, the impact investment ecosystem is largely lacking. Impact investors in Central America must enter into underdeveloped capital markets with deficient entrepreneurial financing and entrepreneurial ecosystems².

Central America faces various social and environmental challenges, such as poverty, the effects of climate change, corruption, inefficient public institutions, informal markets, and extreme inequality. It is, in fact, one of the most economically disparate regions in the world. Central America is also characterized by a small and fragmented market, one of the main obstacles to accelerating the growth of impact investment. Nevertheless, despite its size and the effects of political turmoil, regulatory hurdles, and problematic macroeconomic indicators, the region offers a rich breeding ground for nascent enterprises seeking to address the many social and environmental challenges the region faces. Throughout our empirical study we observed that investors and other actors in Central America perceive 1) a compromise with respect to sustainability, and 2) opportunities to create high social and environmental impact.

Based on our interviews, we found that investors have a basic understanding of the term “impact,” and the desire to generate impact and contribute to the region’s development in the long-term. Moreover, it seems that traditional, profit-oriented investors do not typically invest in innovations by Central American companies; rather, they devote their money abroad or to more mature businesses that have already been validated by the market. This is because of the high financial risk perceived to be associated with early stage startups and the dual-purpose mission that social entrepreneurs pursue. However, as some investors are specifically interested in impact, a high probability of social and environmental return on investment, as well as mechanisms of portfolio diversification, can outbalance financial risk.

Our study shows that investable capital is available in Central American markets, though is mainly in the hands of wealthy families and individual investors. Governments and international development services in these countries tend to focus on developing entrepreneurial ecosystems and fostering financial inclusion rather than impact investment.

Outstanding innovations that foster the Central American impact investment ecosystem are on the rise. Some examples worth mentioning are:

- The FLII CA&C,³ a conference covering impact investing in Central America and bringing together social entrepreneurs and leaders active in the impact investment ecosystem.
- Various role models representing social enterprises that have received impact investments, such as Kingo Energy⁴ and Solubrite.
- Relatively active ecosystems with respect to impact, such as those in Guatemala and Costa Rica.
- Innovative public-private partnerships that foster national impact investment ecosystems, such as the PIEA program in Costa Rica.

Clearly, Central America has a window of opportunity to foster entrepreneurial ecosystems with impact investment as the starting point, rather than traditional, profit-oriented investment.

In order to foster such an ecosystem, the government must play a key role in developing standards, laws, and transparent entrepreneurial pipelines, as well as coordinating actors to effectively distribute available impact investment funds, while also potentially employing public funds for such projects. Furthermore, governments must support entrepreneurial education and set incentives for intermediaries that strengthen the impact investment ecosystem.

Multiple actors in the ecosystem, such as entrepreneurship hubs, investors, and universities are already active in the fields of education, events, and public awareness-raising, but most seek government funding as they are unable to invest their own time and money into lobbying activities or public-private partnerships with government institutions.

It is necessary to use educational initiatives to cultivate impact investment experts who can be equipped to manage the specific challenges and opportunities the region faces. It is also necessary to articulate and incentivize collaboration among key actors who can potentially make a difference in the Central American markets. These key actors include wealthy families and their family offices⁵, government institutions, investors, and intermediaries such as accelerators and incubators.

This report aims to inform the RABCA's strategic decision-making, enabling it to explore and exploit the opportunities in Central America for the purpose of fostering a regional impact investment ecosystem. Government lobbying, educational efforts, and the support and dissemination of role-model initiatives constitute strategic priorities for the RABCA's future working agenda. We see this report as a milestone (not a result) of the ongoing work of the Central American team. It is intended to help the RABCA team lead data-grounded discussions when developing its strategy.


⁵ Family offices are private firms that provide wealth management services to UHNW (ultra-high net worth) investors such as affluent families (Ref. <https://www.investopedia.com/terms/f/family-offices.asp>). In Latin America, family offices are usually owned and operated by affluent families who invest and manage their own capital.

List of Acronyms


- ANDE - Aspen Network of Development Entrepreneurs
- AUM - assets under management
- BCIE - Central American Bank for Economic Integration
- CAFTA - Central American Free Trade Agreement
- CAGR - compounded annual growth rate
- CSR - corporate social responsibility
- DFI - development finance institution
- ESG - environmental and social governance
- GDP - gross domestic product
- GEM - Global Entrepreneurship Monitor
- GIIN - Global Impact Investing Network
- ICT - information and communication technology
- IDB - Inter-American Development Bank
- IMF - International Monetary Fund
- IMP - Impact Management Project
- IRIS+ - impact reporting and investment standards
- IRR - internal rate of return
- KPI - key performance indicator
- LAC - Latin America and the Caribbean
- LAVCA - Latin American Venture Capital Association
- MFI - microfinance institution
- MSME - micro, small and medium enterprise
- NGO - non-governmental organization (or - nonprofit organization)
- OECD - Organization for Economic Co-operation and Development
- RABCA - Regional Advisory Board for Central America
- REDCAMIF - Central American and Caribbean Microfinance Network
- SDG - Sustainable Development Goals
- SPI - Social Progress Index
- UN - United Nations

Table of Contents

Executive Summary	04
List of Acronyms	06
Introduction: Application for founding a RABCA	08
1 The role of emerging markets in the global impact investment movement	11
1.1 Socio-economic distance between impact investors and emerging markets	12
1.2 The Latin American market for impact investment is on the rise	12
1.3 Opportunities for high impact return on investment in Central America	16
1.4 Central America as an innovation lab for the global impact investment movement	19
2 Status quo of impact investment in Central America	20
2.1 Supply of impact capital	21
2.2 Demand for impact capital	32
2.3 Intermediation of impact capital	43
2.4 Government and regulatory actors and institutions	49
2.5 Market builders and professional services	55
3 Challenges and opportunities for impact investment in Central America	56
3.1 Supply of impact capital	57
3.2 Demand for impact capital	60
3.3 Intermediation of impact capital	61
3.4 Government and regulatory actors and institutions	62
3.5 Market builders and professional services	64
4 Recommendations for the strategic focus of the RABCA	66
4.1 Strategic intent: Unlock capital, reduce inequality, and create ecosystems	67
4.2 Priority 1: Lobbying activities for government involvement	69
4.3 Priority 2: Training of high-level decision makers	72
4.4 Priority 3: Support for large-scale role model initiatives	73
Conclusion	76
Endnotes	78



Introduction: Application for founding a RABCA



We wrote this report to satisfy one of the main prerequisites for six Central American countries (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama) to apply for GSG membership as a Regional Advisory Board for Central America (RABCA).

The report is the result of a joint effort between the RABCA task force members, organizations, and individuals committed to the Central American impact investment agenda, highlighting contributions from VIVA IDEA, ALTERNA, INCAE Business School, ACDI/VOCA, SEED by EY, the Aspen Network of Development Entrepreneurs (ANDE), Hivos, Pomona, and Heifer International.

We, the contributors, are thankful for the ample advice and input received along the way.

Objective and scope of this report

This report aims to describe the impact investment ecosystem in Central America, including key players, relevant regulatory aspects, and challenges and opportunities. It is intended to form the basis for a joint agenda (to be developed in a later stage of the project) for future RABCA working groups via the derivation of certain recommendations and focus areas from the analyses conducted.

Various efforts have been made to achieve a reasonable scope for this report given the timeframe and resources available from the first in-person meeting of the RABCA taskforce on May 14, 2019 until the application deadline for GSG membership on October 24, 2019.

In case GSG approves the formation of the RABCA, the group has continued to gather primary information, largely focused on investors (supply of capital) and intermediation actors. A subsequent research project would focus on investment targets (demand for capital), government actors, market builders, and other players. The group would also continue to identify, study, and distribute success stories to the ecosystem as part of the research plan to be developed for the RABCA working groups.

Regional challenges have made these additional research efforts by the RABCA team necessary. While Latin America as a whole is becoming increasingly important in the international sphere, very little information is available specifically related to Central America.

Central America is a small and fragmented market, representing one of the main challenges this region faces with respect to accelerating the growth of impact investment. Nevertheless, despite its small size and the effects of political turmoil, regulatory hurdles, and problematic macroeconomic indicators, Central America offers a rich breeding ground for nascent enterprises that seek to address the many social and environmental challenges it faces.

Private investment capital available in the region and partnerships between both like-minded allies and the public and private sectors offer significant opportunities. This report sheds light on the development of the impact investment market in Central America, associated challenges and opportunities, and a possible roadmap for the RABCA that indicates how the impact investment ecosystem in the region can potentially be strengthened.

Methodology

As very little information on impact investment in Central America exists, we decided to create a research design that would gather primary data. As our goal was to generate ideas about the Central American impact investment market, we chose a qualitative research design based on a secondary analysis of narrative interviews, focus groups, and structured interviews.

Data collection

We gathered our data in three phases. In the **first phase** we analyzed practitioner reports and the (still emerging) literature on impact investment available via international research communities. This phase included the work of Carlos Martinez, a PhD who executed narrative-biographical interviews with 33 venture capitalists from Central America.⁶ Martinez's data provided information on the development of the for-profit investment market in Central America.

In the **second phase**, we conducted a focus group with 15 members from the nascent RABCA task force, which principally centered around the challenges and opportunities faced in each pillar⁷ of the impact investment ecosystem. In this phase, we explored first insights related to different Central American countries for a first mapping of actors and relevant topics.

In a **third phase**, with the help of INCAE Business School, ANDE, ACDI/VOCA, and several interviewees, we identified a list of potential impact investors in the six countries of the region to be interviewed.

We selected these interviewees according to three main criteria. First, that the interviewee is an investor and/or works in investing. Second, that at least part of their investments are carried out in Central America.⁸ Third, (if possible) that the interviewee has a certain familiarity with the concept of impact investment. This resulted in a list of 53 Central American investors and ecosystem builders, from which 42 interviews were confirmed and carried out.

We built a group of four interviewers and conducted the interviews from June 20 to July 19, 2019, either in person or via Skype if not possible otherwise. We used a structured interview guide that covered the following topics: general company information (e.g., country focus, financial instruments used, and sectoral focus); the investment process and results (e.g., deal sourcing, exit strategy, and return expectations); the concept of impact investment (e.g., definitions, impact measurement, and future intentions to invest in impact); collaborations; challenges and opportunities related to impact investment in Central America; the regulatory environment and public policy; assets under management; deal sizes; and the (potential) market size for impact investment in the region.

⁷ This refers to GSG's five pillars describing the Global Impact Investment Ecosystem: 1) supply of impact capital, 2) demand for impact capital, 3) intermediation of impact capital, 4) government and regulatory actors and institutions, and 5) market builders and professional services (<https://gsgii.org>).

⁸ For the purpose of this report, we considered the six Spanish-speaking countries of mainland Central America: Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama.

Data analysis

The 33 secondary interviews with venture capitalists were analyzed using MAXQDA software and an analysis coding scheme. Based on these interviews, we identified the general challenges faced by investors in Central America.

The results from the focus group with the RABCA taskforce were analyzed according to challenges, opportunities, and recommendations for impact investment in Central America.

During the third phase of data collection, we coded the 42 interviews with potential impact investors from Central America (not using a coding software due to time pressure) based on the following topics: the definition of impact investment; actions to promote impact investment in the region; recommendations to improve the regulatory environment of impact investment in Central America; and challenges and opportunities for impact investors in the region.

Finally, we structured the analysis according to the five GSG pillars of the global impact investment ecosystem, namely: 1) supply of impact capital; 2) demand for impact capital; 3) intermediation of impact capital; 4) government and regulatory actors and institutions; and 5) market builders and professional services. We grouped our data—including the information from the reports, focus group transcripts, results of the secondary interviews, and results of the primary interviews—according to the five pillars. We first focused on information that explains the status quo of the impact investment market in Central America, and later focused on data describing opportunities and challenges. Based on this grouping, we created the first version of the report.

We then analyzed the information and began to interpret it according to opportunities, challenges, and possible strategic priorities for the RABCA. We created a group of four researchers, who reviewed the results in an open discussion to gather creative, yet data-grounded, observations. We then formulated our conclusions and compared them with the perceptions expressed by the interviewees and focus group members with respect to opportunities and challenges. The result was a revised version of our initial interpretation, which we used to write the subsequent version of our report. In the final phase, we sent the report to the RABCA team and experts in the field to collect their feedback on the respective observations and conclusions. The objective was to validate the data and related interpretations. Finally, we revised the report based on this feedback and consolidated the above feedback and revisions into the present report.

1.

The role of emerging markets in the global impact investment movement

Traditionally, capital providers have sought to maximize either impact or return. When investing in a business, private equity companies have historically been solely focused on analyzing and predicting return multiples over the investment period, with little or no consideration of the company's impact on social or environmental parameters. On the polar opposite side are philanthropists—people and organizations interested in allocating their capital toward opportunities that maximize social impact. Consequently, with respect to return, investors either had to choose between two extremes or combine them by splitting the capital. Impact investment has filled this void, subsequently providing an opportunity for return-focused investors to add an impact parameter into their investment decisions, and for impact-focused philanthropists to generate financial returns in addition to impact ones.

Impact investment has attracted a wide array of investor types, both institutional and individual. These include high-net-worth individuals, family offices, development finance institutions, foundations, pension funds, insurance companies and other liability-constrained investors, universities using their endowment funds for impact investment, sovereign wealth funds and diversified financial institutions as well as banks that often dedicate impact investment funds, and others.

The rising global discussion on impact investment largely originates in countries characterized by highly developed, regulated and liquid investment markets. Central America, like most developing countries, lacks the markets and ecosystems needed for financial, profit-oriented investments; thus, the impact investment ecosystem is also largely lacking. In the following section we explain this observation in more detail.

1.1

Socio-economic distance between impact investors and emerging markets

A large share of the impact investment that takes place in Latin America originates in firms headquartered outside of the region. GIIN's 2019 Annual Impact Investor Survey, which included 257 respondents, reports that the large majority (78%) were headquartered in developed markets, 45% of which were in the United States or Canada and 27% of which were in Western, Northern, or Southern Europe. Only 18% of the respondents surveyed were based in emerging markets, with LAC-based firms representing just 3% of the sample (i.e., just eight out of 257).⁹ An ANDE study from 2016 found that a total of 28 Latin America based impact investors had USD 1.2 billion under management, compared to 31 firms headquartered elsewhere in the world managing USD 7.2 billion in impact investments being deployed at least partially in Latin America.¹⁰

Impact investors make their decisions based on the information they receive from entrepreneurs and evaluate the economic and social/environmental risk based on their contextual knowledge, the location of the enterprise, and risk evaluation concepts. As most impact investors are based in developed countries, investing in the emerging markets of Latin American means operating at a significant cultural and socio-economic disparity from the enterprises they invest in. This disparity causes information asymmetries regarding economic risks and impact opportunities, which can lead to failures in investment decisions.¹¹

The challenge of information asymmetries not only affects impact investments in Latin America; it affects other emerging markets as well. Impact investments focus on solving society's greatest challenges by directing capital toward scalable solutions in sectors such as financial services, agriculture, energy, education, and information and communication technologies. Most of these challenges are in line with the United Nations' (UN) Sustainable Development Goals (SDG). While impact investment does not play an official role in the UN's approach, it presents a promising strategy with proven success to address them. Nevertheless, most of the challenges tackled by impact investors are in emerging markets.

GIIN's 2019 Annual Impact Investor Survey looked at 266 impact investors globally and found that, geographically, 47% of AUM are dedicated to both developed and emerging markets—excluding outliers changes this to 58% and 37%, respectively.^{12,13} Roughly 66% of respondents were looking for risk-adjusted, market-rate returns, while the remainder put a more minor focus on financial returns, with 19% seeking market-rate returns and 15% being content with capital preservation.

1.2

The Latin American market for impact investment is on the rise

On one hand, Latin America is marked by weak institutions and a long history of political and economic hardship. On the other hand, it has abundant resources, an increasingly educated workforce, and the ability to compete on an international scale. This combination has made the region a breeding ground for outstanding social entrepreneurs that aim to tackle its greatest challenges. Undisputedly, such development gradually attracts the attention of investors aiming to direct their capital toward opportunities that positively

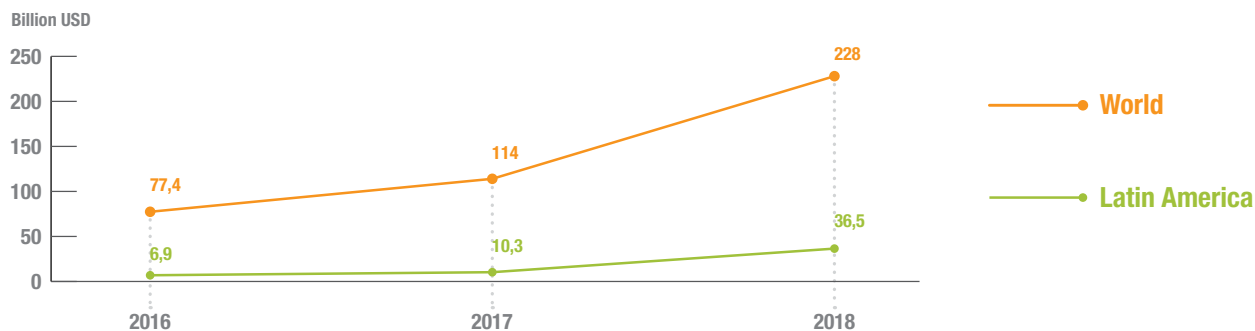
¹³ GIIN's 2019 Annual Impact Investor Survey excludes three large outliers from many of its statistics, thus giving the impression that total AUM shrank from 2018 to 2019. However, this is not the case, as the sum of total AUM of all respondents grew from USD 228.1 billion to USD 238.8 billion.

shape their environment. And, while social entrepreneurs were present in the region long before the term “impact investor” emerged, impact investors are only gradually beginning to enter the market space. As explained above, due to the limited presence of impact investors headquartered in the region, the industry is primarily shaped by investors from other, mostly developed, countries. However, as we will explain below, Latin America is increasingly seeing developments that have opened considerable opportunities for the future, despite the challenges that remain.

The Size of the Latin American impact investment market

GIIN’s 2019 Annual Impact Investor Survey provides insight into the Latin American market. With 14% of AUM being allocated to the Latin America and Caribbean (LAC) region by the end of 2018 and 34% of all respondents declaring some level of investment in the region, the LAC region will undoubtedly play a major role in the future of impact investment.¹⁴ Additionally, among the regions analyzed in GIIN’s report, LAC was third in attracting capital globally, trumped only by the U.S. and Canada in first and Sub-Saharan Africa region in second.¹⁵

While the LAC market for impact investment has only recently started to develop (relatively speaking), it achieved a 26% CAGR¹⁶ between 2013 and 2015,¹⁷ with AUM going from USD 6.97 billion by the end of 2016¹⁸ to USD 36.5 billion in 2018, representing 16% of impact investment globally.



Source: Impact Investment assets under management according to data from the GIIN 2016 & 2018 Annual Impact Investor Surveys

Other sources, such as the Aspen Network of Development Entrepreneurs’ (ANDE) 2018 survey of 67 impact investors in Latin America, report a smaller estimated market size. Based on ANDE’s sample, impact investment AUM in the region is estimated at around USD 4.7 billion over two years.²⁰ It is apparent that the estimation varies significantly, however, depending the number of respondents the organization is able to secure.

¹⁶ Compounded annual growth rate, or CAGR, is a metric that assumes a stable growth rate over a certain time period and therefore makes it easier to compare investments or projects.

Impact investment in Latin America - A growth story

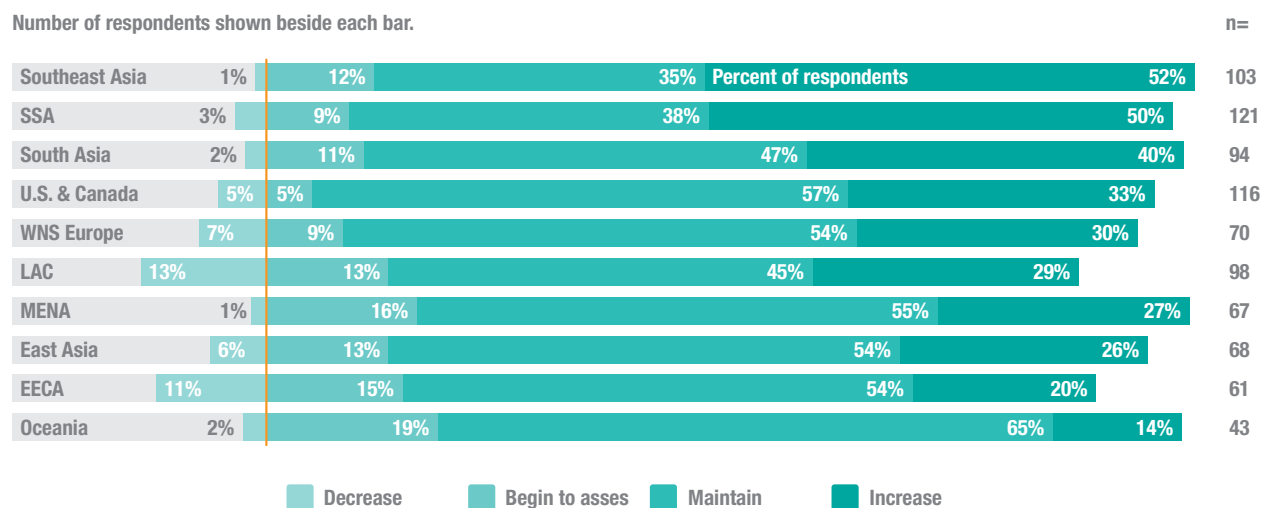
Excluding new entrants, longitudinal studies conducted solely with repeat respondents in GIIN's annual survey (n=80) show that from 2014 to 2018 impact investor assets in Latin America grew by 21% CAGR above the world's average of 17%.²¹

Geography	2014	2018	CAGR
MENA	702	2,972	43%
South Asia	2,838	6,663	24%
LAC	5,443	11,854	21%
ESE Asia	3,069	6,264	20%
U.S. & Canada	5,487	10,653	18%
SSA	8,118	13,514	14%
EECA	5,366	8,040	11%
WNS Europe	4,368	6,281	10%
Oceania	123	133	2%
Other	1,609	2,128	7%
Total	37,124	68,502	17%

Source: Impact Investors' Compound Annual Growth Rate according to Data of GIIN's 2019 Annual Impact Investor Survey

Regardless of the origin of the funds, allocations in Latin America are expected to grow in the coming years. Among the 98 impact investors who responded to GIIN's question about investments in Latin America, 29% expect to increase allocations to Latin America, with an additional 49% aiming to maintain their current investment size.²²

Number of respondents shown beside each bar.



Source: Planned allocation changes in 2019 by geography according to data from the GIIN 2019 Annual Impact Investor Survey

Industries and sectors most financed by impact investment

According to ANDE, in the period from 2016 to 2017, most impact investment in Latin America took place in microfinance, both in terms of number of deals and total amount invested. With USD 785 million invested in microfinance, investments have remained stable, while agriculture and ICT have been able to attract considerable capital (USD 306 million and USD 146 million, respectively). With respect to average deal sizes, energy took the number one spot, characterized by an average investment size of USD 9.4 million, followed by pollution prevention and waste management with USD 3 million and ICT with USD 2.5 million.

GIIN's 2019 survey of 259 impact investors shows that energy has received the largest allocation, with 15% (US 19.65 billion) of the total AUM (USD 131 billion), followed by microfinance (13%) and non-microfinance financial services (9%). Interestingly, while food and agriculture has attracted 10% of the total AUM, it is widely present in investor portfolios, having attracted investments from 58% of all respondents, followed by energy (47%) and healthcare (42%). Food and agriculture is a particularly interesting sector within impact investment, with 50% of all respondents looking to increase their investment in this sector, followed by 48% in energy and 43% in housing.²³

Preferred Financial Instruments

According to GIIN, by 2019 26% of AUM globally have been invested through private debt, versus 22% through private equity and 17% through public equity.²⁴

Small businesses in the region are averse to selling equity and are, rather, concerned with protecting the upside and maintaining control of their businesses. Coupled with the lack of capital markets and broad alternatives for exits, it is expected that private equity is rare.²⁵ However, according to ANDE, 79% of Latin American impact investors report having used equity and 63% debt.

1.3

Opportunities for high impact return on investment in Central America

A review of macroeconomic and social indicators in the region shows many unresolved social and environmental challenges. However, we also perceive an increasing amount of social enterprises that offer innovative solutions to such problems but are in need of capital to bring them to the market and scale their reach. This constitutes the main motivation for fostering the ecosystem and building the market for impact investments in the region.

Central America is constituted by seven countries with varying degrees of economic and social development. The countries covered in this report are Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama, excluding Belize. Key figures such as population, GDP per capita, GDP growth, and GINI index can be observed in the table below.

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Population (2017)	4.9mn	6.4mn	16.9mn	9.3mn	6.2mn	4.1mn
Area in km2	51,060	20,720	107,160	111,890	120,340	74,340
GDP in current USD (2017)	48.12bn	22.09bn	52.84bn	20.48bn	12.54bn	47.23bn
GDP in current international \$ (PPP) (2017)	83.94bn	51.17bn	138.14bn	46.30bn	36.40bn	100.50bn
GDP per capita in current USD (2017)	11,677.3	3,889.3	4,471.0	2,480.1	2,221.8	15,196.4
Real GDP growth (2017)	3.3%	2.3%	2.8%	4.8%	4.9%	5.3%
GINI Index	48.3 (2017)	38.0 (2017)	48.3 (2014)	50.5 (2017)	46.2 (2014)	49.9 (2017)

Source: Key economic indicators according to Data of the World Bank

After a prolonged period of political instability and armed conflict that endured from the '80s to mid-90s, Central American nations have experienced considerable social and economic advances, including the reduction of poverty, more widespread access to education, and decreasing rates of deforestation, among others. The region further benefited from increasing trade, with the Central American Free Trade Agreement (CAFTA) contributing to an increase of 60% in exports to the United States, the region's most significant trading partner, between 2005 and 2013.²⁶

Differences in social progress

Many of these challenges are shared to one degree or another by all Central American nations. However, looking at the region in a more detailed manner reveals considerable differences. An alternative measure of development is provided by the Social Progress Index (SPI), which measures the wellbeing of a society per social and environmental outcomes rather than economic indexes. The 2019 SPI report highlights some of the disparities in the region, showing Costa Rica and Panama well ahead of its neighbors in terms of factors such as basic human needs, access to basic knowledge, personal rights, freedom of choice, and access to advanced education (see table below).

Scores out of 100	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Rank (1- 149)	34	88	101	98	103	47
Social Progress Index	80.65	64.65	59.67	60.31	58.97	73.96
Basic Human Needs	88.48	77.27	70.68	71.92	72.63	84.52
Foundations of Wellbeing	83.66	68.13	66.83	63.66	66.97	78.92
Opportunity	69.80	48.54	41.50	45.36	37.32	58.44

Source: Social Progress Index according to Data of the Social Progress Index 2019

Poverty

Despite progress in the last decades, great challenges remain. Poverty rates in Central America are among the highest in Latin America, with Nicaragua, Honduras, and Guatemala taking the undesirable lead. When considering the percentage of the population living below the poverty line, countries like Guatemala and Honduras show that nearly two-thirds of their population live in poverty (see table below).

	Poverty headcount ratio at national poverty lines (% of population)	Trend
Costa Rica	20.0% (2017)	Stable
El Salvador	29.2% (2017)	Decreasing
Guatemala	59.3% (2014)	Increasing
Honduras	61.9% (2018)	Decreasing
Nicaragua	24.9% (2016)	Decreasing
Panama	22.1% (2016)	Decreasing

Source: Poverty headcount ratio at national poverty lines (% of population) according to World Bank Open Data

Political (in)stability

Violence and crime have particularly affected the Northern Triangle (El Salvador, Guatemala and Honduras). According to the U.S. Institute of Peace, these countries consistently rank among the top 10 worldwide for homicide, corruption, drug trafficking, and gang violence.²⁷ The Council on Foreign Relations reports that the majority of refugees from this region flee to the U.S., while neighboring countries, such as Belize, Nicaragua, Costa Rica, and Panama, have seen sharp increases in refugees from the Northern Triangle since 2008.^{28,29} Organized crime presents a heavy burden on the region, leading to staggering extortion fees of USD 390 million, USD 200 million and USD 61 million in El Salvador, Honduras and Guatemala, respectively.³⁰ Weak institutions, combined with some of the lowest tax revenues as a percentage of total GDP among Latin American countries, has made tackling this problem even harder.³¹

Climate change and natural hazards risks

With the escalating consequences of climate change, many countries are facing unprecedented natural events such as flooding, tsunamis and droughts. The risks of these going from being one-time occurrences with manageable damages to frequent events with disastrous consequences depends not only on the events themselves but also the living conditions of the people in affected areas, their society’s level of development, and their capacity to respond. The World Risk Index provides a global overview according to four categories:³²

1. **Exposure:** Population exposed to earthquakes, cyclones, floods, droughts, and rising sea levels.
2. **Susceptibility:** Public infrastructure (incl. housing conditions), nutrition, poverty, and dependencies, as well as economic capacity and income level.
3. **Coping Capacity:** Government and other authorities, medical services, and economic coverage.
4. **Adaptive Capacity:** Education and research, gender equity, environmental status/ecosystem protection (incl. adaptation strategies), and investments.

According to the 2018 World Risk Index Report, Central America is a global disaster risk “hotspot,” along with Oceania, Southeast Asia, and West and Central Africa.³³ Having analyzed 172 countries in total, the report puts Central American countries in the bottom third of all countries analyzed, with Costa Rica, El Salvador, Guatemala, and Nicaragua occupying four spots in the bottom 10%.

	Position in World Risk Index	World Risk Index	Exposure	Vulnerability	Susceptibility	Lack of coping capacities	Lack of adaptive capacities
Costa Rica	11	16.56%	44.27%	37.41%	20.42%	62.19%	29.61%
El Salvador	14	15.95%	33.46%	47.65%	25.63%	75.86%	41.46%
Guatemala	7	20.60%	38.50%	53.50%	32.98%	81.35%	46.17%
Honduras	39	10.19%	19.20%	53.07%	32.66%	81.30%	45.26%
Nicaragua	17	13.99%	26.27%	53.25%	31.45%	80.21%	48.11%
Panama	66	7.28%	17.26%	42.21%	25.24%	66.03%	35.36%

Source: Components of country risk to natural hazards according to Data of the World Risk Index

It is clear that Central America is characterized by high economic risk, resulting in the region being unattractive to traditional investors—unless they are offered a high financial return to compensate these risks. However, the high potential for impact generation in the region given its multiple social and environmental challenges could, to some extent, offset the higher economic risks and incentivize investors to provide capital associated with impact.

1.4

Central America as an innovation lab for the global impact investment movement

Information concerning the Latin American market for impact investments, such as the aforementioned data, suggests a promising possibility for the region to become a focal point of the global impact movement in the coming years. Yet, we must remember that aggregated data and insights at the Latin American level are often dominated by the most advanced countries in the field, such as Mexico, Colombia, Brazil, and Chile. Unlike these relatively advanced examples, in Central American countries, impact investors enter into underdeveloped capital markets that have deficient entrepreneurial financing and entrepreneurship ecosystems. The impact investment ecosystem in Central America is also largely missing or nascent with respect to reach and impact. Hence, the RABCA will dedicate part of its efforts to developing the impact investment ecosystem in the region.

For social entrepreneurs and investors, the Central American region seems like a small potential market that faces very specific social, environmental, and political challenges. At the same time, solving these challenges by investing in enterprises that provide innovative solutions represents multiple opportunities for progress. Despite its size, the region could become an innovation lab and a viable testing ground for scalable, impact-generating projects.

Central America is a region in which significant private investment capital from family offices or other individual, small-scale investors is available, as opposed to capital from private institutions or public funds, which tends to be the case in more developed markets. Since the region lacks a developed capital market, impact capital can potentially be mobilized by managing a regional network of family-size investment offices. It is necessary to promote impact investment among these investors, involve them in the ecosystem development, and form collaborative networks for co-investments and best practice sharing. Many developing countries have similar capital structures with large amounts of potential impact capital concentrated in the hands of wealthy families. These countries have great potential for replicating solutions and measures to engage these groups.

The RABCA is unique in its regional character, including six participating countries. Any efforts toward the development of the impact investment ecosystem will serve as an exemplary or baseline model for developing regions in other parts of the world facing similar challenges (e.g., the absence of a traditional investment ecosystem).

2.

Status quo of impact investment in Central America

Below we present results of the analysis of the status quo of impact investment in Central America according to the five GSG pillars: 1) supply of impact capital; 2) demand for impact capital; 3) intermediation of impact capital; 4) government and regulatory actors and institutions; and 5) market builders and professional services.

From the data presented we deduce four main observations:

First, Central America faces various social and environmental challenges, such as extreme inequality (Central America is one of the most unequal regions in the world), poverty, the effects of climate change, corruption, the inefficiency of public institutions, and informal markets. In our interviews we observed that impact investors perceive opportunities to create high social and environmental impact in the region.

Second, based on our interviews we deduced that investors have a basic understanding of impact, a desire to generate impact, and a willingness to contribute to the development of the region. Moreover, profit-oriented investors do not usually invest in the innovations of Central American companies, as the financial risk would be too high (thus preferring to invest in businesses validated by the market). If investors also have an interest in impact, however, they outbalance the economic risk with the high probability of social and environmental return on investment.

Third, in the Central American markets economic capital is available but is mainly in the hands of wealthy families and individual investors. Governments and international development services tend focus more on the development of entrepreneurial ecosystems and financial inclusion than on impact investment specifically.

Fourth, outstanding innovations that foster the Central American impact investment ecosystem are on the rise. Examples are the FLII (a conference covering impact investment in Central America), role models from social enterprises that have received impact investments (e.g., Kingo Energy and Solubrite), relatively active ecosystems (i.e., those in Guatemala and Costa Rica), and innovative public-private partnerships that foster national impact investment ecosystems (i.e., the PIEA program) in Costa Rica.

In the next section we introduce the data that support these observations.

2.1

Supply of impact capital

*Discourse on impact investment in Central America*³⁴

Given the nascent nature of the impact investment ecosystem in Central America, we wanted to understand how current and potential investors define the concept of impact investment, and whether there are certain “surprises,” or unexpected results, considering the established definitions that originated in developed markets such as Europe and the U.S. Over half of investors (52%) described impact investment as investments that have a social and/or environmental impact. The rest (51%) combined social and environmental impact with the additional requirement of a financial return. These results are unsurprising and are largely coherent with existing definitions established by international bodies such as GIIN.³⁵ The absence of concern regarding financial return can be partly attributed to the deficiency of investment markets, particularly secondary markets in the region.

Central America needs concrete measures to generate a functioning market for traditional investments, specifically impact investments. Without enabling a functioning market for traditional investments, it will be difficult for impact investment to reach scale. On the contrary, in more advanced markets in which the ecosystem is established and regulatory incentives are visible, the focus might shift to motivational and inspirational measures to promote impact investment among traditional investors.

Of all interview partners, 15% mentioned CSR and philanthropy, implying a perspective that sustainable or socially- and environmentally-oriented activities are usually not in the core of a company’s business and cannot be met with financial return requisites. That this perspective seems prevalent among investors suggests that the RABCA should promote a paradigm shift. However, we also observed a latent opportunity (which will be described below, in the “challenges and opportunities” section) of an emerging market mentality towards impact generation among investors. There exists widespread knowledge about sustainability and CSR, which is a first step towards this shift.

A portion (26%) of the interview partners mentioned confusion around the accepted definition of impact investment. This suggests the need for education and the promotion of the concept in Central America, an important task in the future RABCA working agenda.

Some interview partners (21%) argued that impact investment helps in the creation of jobs, while others (16%) mentioned that impact investment generates progress and development in certain areas of the country and results in positive spillover effects for adjacent businesses.

³⁴ The following results are based on the 42 interviews we executed with investors from Central America..

³⁵ The Global Impact Investing Network (GIIN) centers its definition of impact investing around four basic characteristics (<https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>):

Intentionality: For investments to be considered impact investments, it needs to be evident that the investor intends for their investment to have a positive environmental or social impact.

Financial return: Impact investments are expected to generate a financial return. According to GIIN, these returns can be as low as below market and as high as risk-adjusted market rates.

Range of asset classes: Impact investments can be made across asset classes, as with debt and equity instruments or mezzanine and convertible debt instruments. The asset classes that impact investments cover are broad.

Impact measurement: Impact measurement and reporting is essential to impact investment, as it provides transparency and accountability and, ultimately, benefits the development of impact investment as a form of investment and the desire to create positive impact through finance. Among impact investors there are widely-used impact measurement tools, such as the Impact Reporting and Investment Standards (IRIS+), B Impact Assessment, or proprietary tools that take into account investor-specific objectives or a potential sector focus.

In developed economies, the creation of employment is usually seen as a product of traditional market forces. Central American markets are deficient and typically do not provide the necessary incentives for traditional companies to invest in the creation of long-term, stable employment. This void can potentially be filled by impact investors and, thus, their investments can be interpreted as having a social impact. Investors seem to interpret “impact” as the positive growth and progress of their countries.

While many of the international metrics do not yet seem to have penetrated the market in Central America, we observed an existing measurement mentality among investors, implying the need to quantify, measure, and report on the impact generated.

We conclude that the current variety of perspectives and definitions related to impact investment in Central America are characteristic, given the nascent nature of the ecosystem in the region. However, once actors start to engage in standard-setting activities and the incorporation of new guidelines and rules into law, it becomes necessary to define the concept much more rigorously and adapt it to the characteristics of the local markets.

Generally, we see a necessity for guidance and the identification and dissemination of best-practices and success cases for those interested in impact investment.

Our interviews also showed that an impact mentality and the intent to generate impact is prevalent among investors in Central America, while the idea of generating a financial return alongside social or environmental impact is not yet that present in investors’ minds. This could be attributed to the deficient secondary capital markets in the region, which suggests the necessity to strengthen formal capital market institutions to generate a paradigm shift among individuals with impact intentions.

While current discussions on impact investment largely originate in the developed world, Central America faces its own unique challenges. This may require a more open definition of the term “impact investment” to include more traditional income-generating activities that, in low-efficiency markets, can contribute significantly to the intentional social development of the region (e.g., infrastructural improvements or job creation).

Intention for impact investments

In addition to inquiring about how our interviewees would define “impact investment,” we also asked them how familiar they were in general with the term and whether they self-identified as impact investors.

Most investors stated that they were relatively familiar with the concept, while just eight identified themselves as experts. Only one interviewee had never heard of the term.

Familiarization	# of answers	%
Not familiar with the term	1	2.4%
A bit familiar with the term	15	35.7%
Relatively familiar with the term	18	42.9%
Expert in the topic	8	19.0%

Source: Compiled by the authors from empirical interviews

Although just 26 interviewees stated that they are relatively familiar with or an expert in the topic, 29 of the 42 interviewees identified themselves as impact investors. This is not surprising considering the abovementioned findings regarding the definition of impact investment, which still seems confusing to many investors and has not been sufficiently contextualized for the realities of Central America. While investors may not know the precise technicalities of international definitions established by key organizations in the field, they consider themselves to be generating positive impact via their investments—whether this be through social or environmental benefits for their employees, customers, or other beneficiaries, the creation of stable jobs for their workforce, or a general contribution to the region’s development.

Self-Identification	# of answers	%
Yes	29	69%
No	12	29%
No response	1	2%

Source: Compiled by the authors from empirical interviews

Of all interviewees, 75% said that they had made impact investments in the past. Nearly half the interviewees said that they intended to increase the capital they assigned to impact investments in the future, with just two interviewees stating that they were not interested in the topic. This shows that the impact investment ecosystem in Central America has significant potential for growth in future years due to growing interest—including that of the traditional investment community.

Have you made an impact investment in the past?	# of answers	%
Yes	31	74%
No	7	17%
No response	4	10%

Source: Compiled by the authors from empirical interviews

Are you going to make an impact investment in the future?	# of answers	%
Not interested	2	5%
Starting to consider it	8	19%
Have capital invested, and want to maintain	6	14%
Have capital invested, and want to increase	20	48%
Have capital invested, and want to reduce	0	0%
No response	6	14%

Source: Compiled by the authors from empirical interviews

Our analysis shows that there is currently a basic understanding of the phenomenon of impact investment in the region. We also observed that investors are curious about the topic and interested in learning more, and that there is intent to make impact investments in the future. However, a discussion on impact investment that encompasses the specific contextual challenges and opportunities present in Central America is still lacking. This would be an important first step toward creating a common understanding of the phenomenon, guiding the development of the impact investment ecosystem in the region.

Examples of key actors in the Central American impact investment market

Since Central America is a developing region, it is not surprising to find multiple development finance institutions engaged in activities related to impact and providing funding for regional initiatives. Despite the nascent nature of the ecosystem in Central America, there is already a small group of specialized funds and other financial institutions engaged in impact investment as at least as one branch of their business. The formation of the Latin American Fund of Funds, whose mission to strengthen the intermediary market for impact investment in the region, will be especially important.

What is especially particular to Central America, is the density of wealthy family offices and high-net-worth individuals who typically operate in relatively closed circles, but often destinate a certain amount of their profits to humanitarian causes. These groups manage a significant amount of capital that could potentially be destined to impact-generating projects in the future. Incentivizing impact investment among these actors requires a communication strategy and a platform through which to articulate and coordinate their efforts toward common impact goals.

Below is an overview of some of the key players in Central America's impact investment market, focusing on the supply side.

a) Family offices and individual investors

Family offices and individual investors play a particularly important role in Central America. With all Central American economies except for Nicaragua having experienced a steadily-growing GDP since 2010, family offices and individual investors are taking an increasingly active role in investing in the region, with particular interests in impact investment.³⁶ NGOs and private foundations are increasingly diversifying their investment methodologies by not only donating to purely philanthropic projects, but investing in projects that promise, at minimum, capital preservation.³⁷ Lastly, with beneficiaries putting pressure on pension funds and insurance companies to allocate assets to more sustainable investment opportunities, these types of investors are increasingly turning to impact investment as an attractive alternative to more traditional asset classes and/or investment methodologies.³⁸

b) Development finance institutions

Inter-American Development Bank Lab (IDB)

Headquarters	Washington D.C., USA
Founded	1959
Website	https://www.iadb.org/en
Information on what they do with regard to Impact Investing	The IDB Group is split into IDB, focused on working with governments, IDB Invest, focused on the private sector and IDB Lab, formerly known as FOMIN/MIF, focused on innovation and inclusion. In 2016, IDB Invest launched the Development Effectiveness Framework or DELTA Tool, which is used to measure the impact of projects in all stages. ³⁹ The IDB innovation laboratory supports start-ups with knowledge, financing and network. Rebranded from FOMIN/MIF in 2018, it has invested USD 2bn to finance more than 2,300 projects since 1993. ⁴⁰

Central American Bank for Economic Integration (BCIE)

Headquarters	Tegucigalpa, Honduras
Founded	1960
Website	https://www.bcie.org/
Information on what they do with regard to Impact Investing	BCIE's 2015-2019 strategy has focused on social development, competitiveness, regional integration, and environmental sustainability in the areas of human development and social infrastructure, productive infrastructure, energy, rural development and the environment, financial intermediation, and development finance and competitiveness services. ⁴¹ The bank uses different short-, medium- and long-term instruments; e.g., loans and bonds. In 2017, the BCIE approved loans for nearly USD 2 billion. Of this, Central America received USD 1,596.5 million—90% of which was in the form of public loans. ⁴²

International Finance Corporation (IFC)

Headquarters	Washington D.C., USA
Founded	1956
Website	https://www.ifc.org/
Information on what they do with regard to Impact Investing	With the objectives of fostering inclusive growth that increases access to finance and basic services, promoting regional integration, and boosting competitiveness by addressing infrastructure bottlenecks and improving the investment climate, the IFC has been a significant investor in Central America. Within the wider LAC region, the IFC focuses mainly on inclusive growth, competitiveness, and innovation by promoting public-private partnerships, regional and global integration, and climate change mitigation. ⁴³

USAID

Headquarters	Washington D.C., USA
Founded	1961
Website	https://www.usaid.gov/
Information on what they do with regard to Impact Investing	USAID follows a comprehensive strategy for Central America that includes key foreign assistance objectives that aspire to regional or global impact on issues such as: violence prevention, human rights protection, building effective and transparent government institutions, strengthening economies, etc. In 2018, USAID invested more than USD 275 million in projects in Central America alone. ⁴⁴

German Society for International Cooperation (GIZ)

Headquarters	Bonn, Germany
Founded	2011
Website	https://www.giz.de/
Information on what they do with regard to Impact Investing	The GIZ has been active in Central America for several decades, with regional offices in all Central American countries except Panama and Belize, with some having existed since the 1960s. With respect to Panama, while the GIZ does not have an office in the country, it does have projects that encompass Panama; e.g., developing alternatives for economic sustainability in the Mesoamerican Biological Corridor between Mexico, Nicaragua, and Panama. In Central America, the GIZ focuses mostly on environment and climate change, governance and democracy, social development and sustainable infrastructure projects. ⁴⁵

CAF

Headquarters	Caracas, Venezuela
Founded	1968
Website	https://www.giz.de/
Information on what they do with regard to Impact Investing	CAF was created in 1968 and is currently owned by 19 countries (of which only Spain and Portugal are outside the LAC region) and 13 private banks in the region. CAF is a key DFI in the region. ⁴⁶ With respect to Central America, CAF is active in Costa Rica and Panama, where its most recent projects include a USD 10 million line of credit for Banco Improsa to support microfinance funding and, ultimately, SMEs in Costa Rica, and USD 300 million for a program to strengthen aerial and urban development policies in Panama. ^{47, 48}

c) Fund managers

Emerald Peak Private Equity

Headquarters	Managua, Nicaragua
---------------------	--------------------

Founded	2017
----------------	------

Website	https://www.emeraldpeak-pe.com/
----------------	---

Information on what they do with regard to Impact Investing	Emerald Peak’s purpose is to alleviate poverty and inequality in Central America. With a strong local presence, the firm is particularly driven by UN Sustainable Development Goals 1 (“No Poverty”), 5 (“Gender Equality”) and 10 (“Reduced Inequalities”). The company adheres to ESG monitoring and reporting standards and uses IRIS metrics to measure social, environmental, and financial performance. ⁴⁹
--	---

Global Partnerships

Headquarters	Seattle, USA
---------------------	--------------

Founded	1994
----------------	------

Website	https://globalpartnerships.org/
----------------	---

Information on what they do with regard to Impact Investing	With a focus on LAC and Sub-Saharan Africa, Global Partnerships has deployed more than USD 350 million in 21 countries since its inception over 25 years ago. ⁵⁰ Global Partnerships has primarily invested in the areas of energy and livelihoods, with a focus on solar lighting, women-centered finance with education, and women-centered finance with health. ⁵¹
--	---

EcoEnterprises Fund

Headquarters	Washington DC, USA
---------------------	--------------------

Founded	1998
----------------	------

Website	http://www.ecoenterprisesfund.com/
----------------	---

Information on what they do with regard to Impact Investing	To date, the company has financed nearly 40 companies in 11 countries in Latin America, Europe and the U.S. ⁵² The company uses mezzanine, quasi-equity, and long-term debt instruments to drive growth in sustainable agriculture, agroforestry, sustainable aquaculture, ecotourism, certified forestry, and wild-harvested products. ⁵³
--	--

Latin America Impact Fund of Funds (LAIFF)

Headquarters	tba
Founded	tba
Website	tba
Information on what they do with regard to Impact Investing	In 2018 the LAIFF was announced to be launched by the GSG to supply debt and equity capital to social impact funds in 20 Latin American countries. With the goal of raising USD 1 billion from individual and institutional investors, the model will be based on that of the India Impact Fund of Funds (IIF). Ultimately, the LAIFF focuses on improving the intermediary market for impact investment. ⁵⁴

Oikocredit

Headquarters	Amersfoort, Netherlands
Founded	1975
Website	https://www.oikocredit.coop/
Information on what they do with regard to Impact Investing	Oikocredit is a cooperative that offers loans and investment capital to microfinance institutions. It is one of the world's largest investors in cooperatives and SMEs in developing countries. ⁵⁵ The company mainly focuses on financial inclusion, agriculture, and renewable energy, with a total development financing portfolio of EUR 981.7 million in 2017. ⁵⁶ Oikocredit's network has expanded to 50,000 individual and 6,000 institutional investors, including the cooperative society's 567 member organizations. ⁵⁷

Triple Jump

Headquarters	Amsterdam, Netherlands
Founded	2006 (spin-off from Oxfam Novib)
Website	https://triplejump.eu/
Information on what they do with regard to Impact Investing	With EUR 762 million in assets under management, Triple Jump currently manages five investment funds, with investments in debt, equity, and funds in 157 portfolio companies. ⁵⁸ The company is present in Asia, Europe, Latin America, and Africa, with 15% of its portfolio in Central America. ⁵⁹ Triple Jump invests in microfinance, agriculture, housing, and SMEs and uses a proprietary tool to assess the social performance of its investments. ⁶⁰

d) Diversified financial institutions / banks

Grupo Promerica

Headquarters	Managua, Nicaragua
Founded	1991
Website	https://www.grupopromerica.com/
Information on what they do with regard to Impact Investing	Through the continuity of current initiatives and the implementation of new actions, Grupo Promerica is consistently strengthening its sustainable banking model in each of the nine countries where it operates. Produbanco Ecuador, Banco Promerica Costa Rica, and Banpro Nicaragua are the founding signatories of the UN Principles for Responsible Banking, promising to strengthen their strategic commitment to the SDGs and the Paris Agreement on Climate Change. Grupo Promerica is considered a leader in sustainable financing in both Ecuador and Costa Rica, and is developing innovative products to incentivize traditional sectors such as construction by changing practices in favor of certifications related to sustainability criteria.

BAC Credomatic

Headquarters	San José, Costa Rica
Founded	1952
Website	https://www.baccredomatic.com/
Information on what they do with regard to Impact Investing	BAC actively supports MSMEs through actions such as financial and technical support for green technologies or lines of credit specifically designed for small-scale farmers to fill the time gap from cultivation to sale of harvest. Additionally, the bank offers a service hotline and various workshops to educate its MSMEs in financial concepts.

UBS

Headquarters	Basel, Switzerland
Founded	1998
Website	https://www.ubs.com
Information on what they do with regard to Impact Investing	UBS's asset management arm offers customized multi-asset strategies and serves a multitude of clients. UBS offers both sustainable and impact investment, actively includes ESG metrics in its investment and reporting processes, and measures the impact of its investments.

Industrial Bank Guatemala (IBG)

Headquarters	Guatemala City, Guatemala
Founded	1968
Website	https://www.corporacionbi.com/gt/bancoindustrial
Information on what they do with regard to Impact Investing	With a USD 350 million line of credit for 2018, the IBG pledged to allocate USD 100 million to support the investment projects of private companies in an effort to invigorate the economy and promote economic growth. The bank provides financial and technical support to Central American entrepreneurs and, thus, acts as an important intermediary in the region.

Bank LAFISE BANCENTRO

Headquarters	Managua, Nicaragua
Founded	1991
Website	https://www.lafise.com/blb/
Information on what they do with regard to Impact Investing	Banco LAFISE BANCENTRO has structured financing of up to USD 115 million to expand access to loans for small and medium enterprises and increase housing loans. The bank further aims to improve access to both financing and housing—two important needs for the country. Additionally, it seeks to support companies that are adopting measures to mitigate climate change, with the objective of helping companies increase their use of cleaner energy sources and access credits that incentivize investments in energy efficiency projects.

Banco Financiera Comercial Hondureña, S.A. FICOHSA

Headquarters	Tegucigalpa, Honduras
Founded	1994
Website	https://www.ficohsa.com/hn/
Information on what they do with regard to Impact Investing	FICOHSA actively supports entrepreneurs in their endeavors to purchase fixed assets, commercial premises, and machinery and/or to remodel/expand their existing facilities.

Banco Agrícola (El Salvador)

Headquarters	San Salvador, El Salvador
Founded	1955
Website	https://www.bancoagricola.com/
Information on what they do with regard to Impact Investing	The Bancolombia Foundation, Banco Agrícola and Banistmo, through a joint “Impactamos” program, promote a culture of entrepreneurship and innovation among their stakeholders, supporting the sustainability and growth of enterprises and companies with innovative, replicable and sustainable models in Colombia, El Salvador and Panama.

2.2

Demand for impact capital

The Central American impact investment market

The following section elaborates on certain selected results from our empirical study that are useful for characterizing the Central American impact investment ecosystem and are relevant in light of the scope and focus of this report.⁶¹

In total we interviewed 42 investors, originating (in order of quantity) from the following countries/region:

- Costa Rica: 9
- Panama: 9
- Nicaragua: 8
- El Salvador: 6
- Guatemala: 5
- Honduras: 3
- Central America / Regional: 2

Nineteen of the 42 interviewees described their role as largely dedicated to investment (45%),⁶² while five interviewees (12%) described themselves as being dedicated to intermediation and seven (17%) indicated that they cover both investment and intermediation roles.

The interviews mainly focused on the first pillar, “supply of capital.” Accordingly, we classified the interviewees into the following types of organizations:

Type of Organization	# of answers	%
Bank / Financial Institution	6	14%
Investment Fund	5	12%
Family Office	9	21%
Private Investor	17	40%
Group of Angel Investors	1	2%
Acellerator	3	7%
Incubator	3	7%
Financial Development Institution (FDI)	3	7%
Microfinance Institution	0	0%
Government Institution	1	2%
Other	12	29%

Source: Compiled by the authors from empirical interviews

⁶¹ This section only includes findings from the expert interviews (with potential impact investors) that we conducted in six Central American countries. The findings from the RABCA taskforce focus group meeting principally relate to challenges and recommendations and, therefore, are included in sections 3 and 4 of this report, respectively.

⁶² In the present paragraph, such percentages indicate the % of interviewees from the total sample of 42 who responded a certain way.

As mentioned on the previous page, the Central American investment market is generally characterized by many of private investors and family offices with investable capital. Thus, it seems necessary to create a strategy to reach and organize them towards regional impact objectives.

In terms of their investment or business focus, the interviewees mentioned the following countries and/or regions:

Investment location focus	# of answers	%
Guatemala	23	55%
El Salvador	20	48%
Honduras	23	55%
Nicaragua	22	52%
Costa Rica	26	62%
Panama	26	62%
Caribbean	8	19%
Other Latin American countries	14	33%
Other regions of the world	6	14%

Source: Compiled by the authors from empirical interviews

The following sectors were mentioned by the interviewees as preferred investment targets, ordered according to the frequency mentioned:

Sectors	# of answers	%
Agriculture & Food	20	48%
Commercial Goods	17	40%
Education	14	33%
Energy	14	33%
Housing	14	33%
Infrastructure	13	31%
Manufacturing	12	29%
Technology and Communication	12	29%
Financial services (excl. microfinance)	11	26%
Health	11	26%
Turism	11	26%
Environmental Conservation	9	21%
Microfinance / Financial Inclusion	9	21%
Others	9	21%
Water, Sanitation and Hygiene	8	19%
Arts and Culture	8	19%
Forestation	7	17%
Transportation	5	12%

Source: Compiled by the authors from empirical interviews

The previous data suggests that the agriculture and food sector, which is the most important sector for most Central American countries, should receive special attention in the RABCA's working agenda, since it offers significant potential for impact-generating projects.

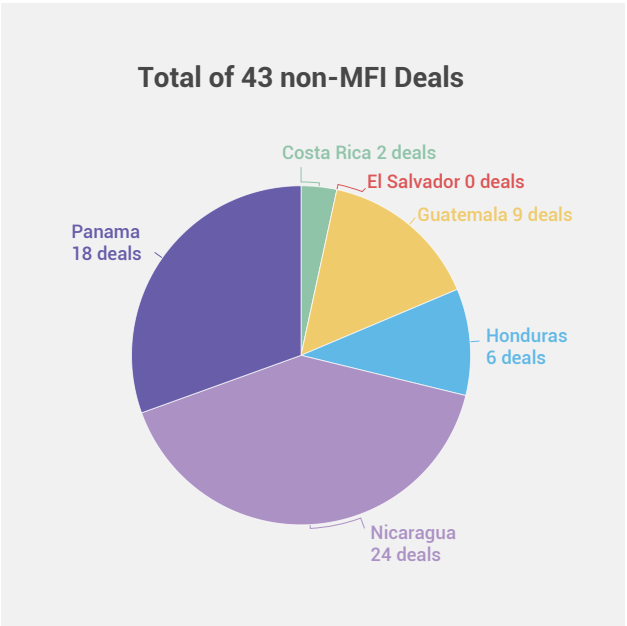
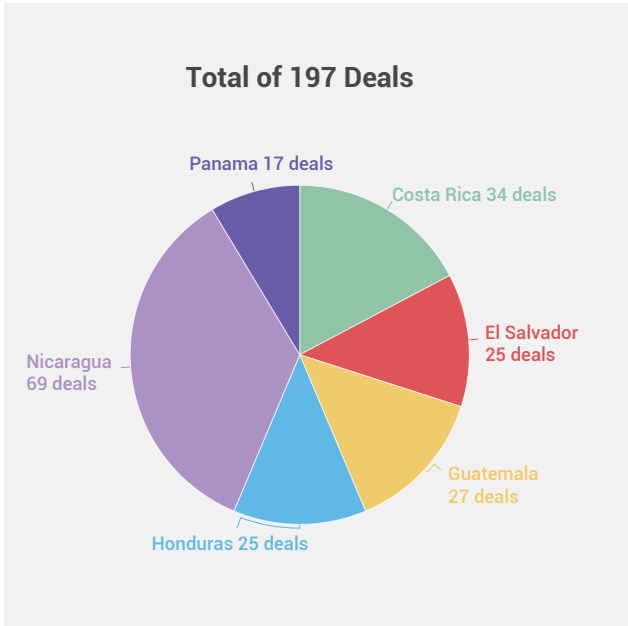
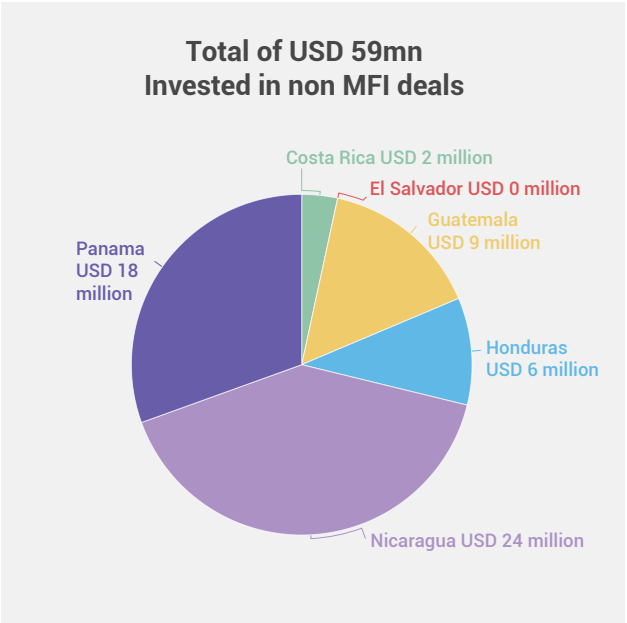
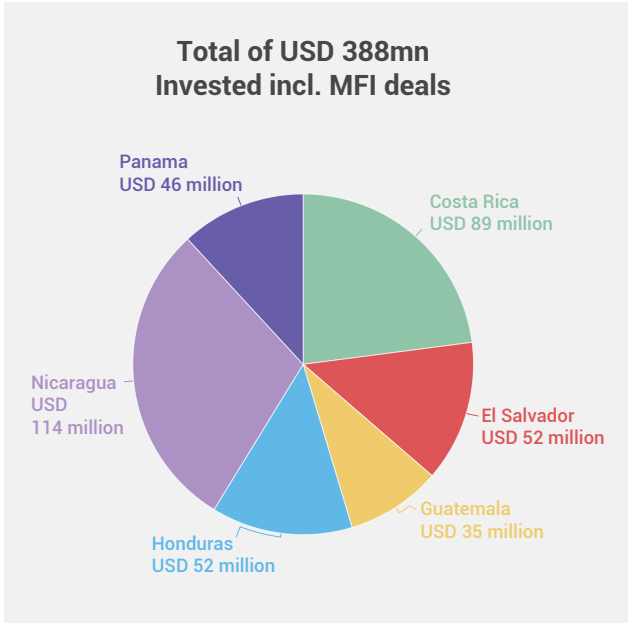
Regarding the development phase of targets, investors indicated that they mainly invest in companies that are in growth or expansion stages.

Phase	# of answers	%
Early-phase (seed stage)	12	29%
Start-up stage	7	17%
Venture stage (early stage)	12	29%
Growth / expansion stage	17	40%
Mature companies (exit stage)	13	31%

Source: *Compiled by the authors from empirical interviews*

Our findings show that it is necessary to educate investors in risk management strategies and the special circumstances and challenges faced by impact generating startups, as well as the potential for co-investments in order to incentivize and encourage investors to invest in earlier-phase projects and help them to scale their impact.

Number and size of deals



Source: Compiled based on the report “The Impact Investment Landscape in Latin America,” by ANDE & LAVCA, Oct 2018 (page 21, Table 5: Number of Deals and Total Invested in 2016-2017)

According to the only market report available on impact investment specific to Central America, there were roughly 200 deals invested in impact-generating projects, 43 of which belong to investments that are not made in microfinance institutions.

In our interviews, we asked investors about the number of active deals they currently manage as well as the range of monetary investments. Most investors manage around 0 to 10 deals and have usually more than USD 5 million invested:

Number of active deals	# of answers	%
0 to 5	11	26%
6 to 10	11	26%
11 to 50	8	19%
51 to 100	0	0%
More than 100	3	7%
No response	9	22%

Source: Compiled by the authors from empirical interviews

Range of Investment	# of answers	%
US\$10,000 - US\$50,000	3	7%
US\$50,001 - US\$250,000	4	10%
US\$250,001 - US\$500,000	3	7%
US\$500,001 - US\$1M	2	5%
US\$1M - US\$2M	9	21%
US\$2M - US\$5M	3	7%
More than US\$5M	13	31%

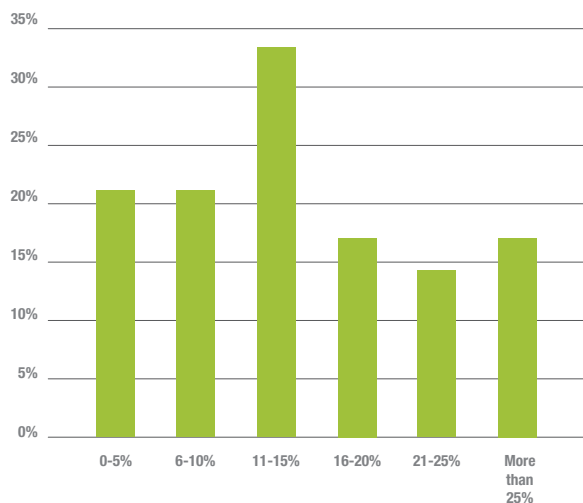
Source: Compiled by the authors from empirical interviews

Given that 22 of our interviewees have an average of five active deals, it is likely that the total number of impact investment deals in Central America is actually higher than the figures reported by ANDE.

One must consider the limited sample of our empirical study, as well as the fact that it includes investors who are not likely to be defined as impact investors per the currently accepted definition. However, this latter point relates to the difficulty of framing impact investment in Central America, as previously described, and might imply that other applicable criteria are needed to define an investors in the region as traditional, sustainable, or impact.

Return expectations and risk-return profile

As a point of comparison, it is important to first note the typical returns on investment in Central America for traditional, non-impact-oriented investing. A traditional private equity firm in Central America is aiming for an ROI of roughly 20-30%, depending on the industry and level of risk. Larger-infrastructure projects, such as energy, aim for at least 12% (Corrales Salas 2013). With debt instruments, the rate of return is considerably lower. Average interest rates from Banco Nacional in Costa Rica range from 5% for short-term loans (up to six months) in USD to just over 9% for long term loans (over three years) in USD. Rates increase to about 8% and 13% when pegged to local currency. Actual values will vary by industry. For small and medium enterprises, various types of loans are the most common source of financing, using such instruments as working capital loans, investment loans, and factoring.⁶³



Source: Net annual return expectations according to ANDE 2016

In our interviews, we asked the potential impact investors from Central America about their average return expectation (without distinguishing between different financial instruments). The majority of the 42 interviewees (55%) expected medium returns of between 10% and 15%, which would be on the higher end of the ranges found by GIIN. However, it's worth mentioning that the question was formulated considering investors' expectations and using the total sample of investors, the individuals of which are not necessarily focused exclusively on impact investment.

Return expectations	# of answers	%
Repayment of investment	2	5%
Minimal (0.1 - 5%)	1	2%
Low (5%-10%)	4	10%
Medium (10%-15%)	23	55%
High (> 15%)	10	24%
No response given	2	5%

Source: Compiled by the authors from empirical interviews

In addition to concrete return expectations, we also inquired about the basic relation between preferences for financial and impact returns and inquired further about risk aversion. The results for these questions show that investors stress the importance of both financial return and impact generation, while being somewhat risk averse in their decision making, largely due to the complicated macroeconomic situation of the countries in the region, the ever changing and complex regulatory environment, and the fact that many investors belong to small circles of family offices or individual investors who are most often focused on capital preservation.⁶⁴ The detailed results are presented in the following tables:

Importance of financial return	# of answers	%
1	1	2.4%
2	2	4.8%
3	4	9.5%
4	13	31.0%
5	22	52.4%
Weighted Average	4.3	

Source: Compiled by the authors from empirical interviews

Importance of impact generation	# of answers	%
1	0	0%
2	2	4.8%
3	5	11.9%
4	17	40.5%
5	18	42.9%
Weighted Average	4.2	

Source: Compiled by the authors from empirical interviews

Degree of risk aversion	# of answers	%
1 = risk seeking	1	2.4%
2	2	4.8%
3	15	35.7%
4	17	40.5%
5 = risk aversion	7	16.7%
Weighted Average	3.6	

Source: Compiled by the authors from empirical interviews

⁶⁴ Conclusions based on the interpretation of the comments collected in the interviews around the level of risk aversion.

Apart from return expectations and risk/return profile, we also learned about investors' preferred financial instruments and exit strategies given Central America's peculiarities.

Our results show that investors largely use classical equity and debt instruments, while mezzanine instruments are still uncommon in the Central American market.

Investors use a variety of exit strategies, with the sale to another investor (mainly a peer or person of confidence) most frequently mentioned. Many investors highlighted the difficulty of this final step of the investment cycle, frequently mentioning that they maintain their investments in the long-term due to the absence of options to exit them via a secondary market or the fact that they do not have a particular exit strategy in mind. The possibility of exiting their investments is a major issue for investors in Central America, a topic that we will address below in the discussion of challenges and opportunities.

Financial Instruments	# of answers	%
Equity	32	76%
Mezzanine	9	21%
Debt	26	62%
Donations / Grants	8	19%
Other	3	7%

Source: Compiled by the authors from empirical interviews

Exit Strategy	# of answers	%
(Strategic) sale to another investor	18	42.9%
Entrepreneur pays their debt	9	21.4%
IPO (Initial Public Offering)	2	4.8%
Government purchases outstanding debt	0	0.0%
Others	19	45.2%
• No specific strategy	5	
• Long-term maintenance of investment	4	
• Entrepreneur repurchases their shares	2	
• Privatization	2	
• Collection of guarantees	1	
• Recover capital via dividend payments	1	
• Repayment of debt without profit	1	
• Strategic sale	1	
• Sale of shares to employees	1	

Source: Compiled by the authors from empirical interviews

The low penetration of mezzanine instruments and the difficulty to exit investments calls for innovations in financial instruments that can adjust to the realities of investors and investment targets in the region. Such instruments should enable investors to reap a reasonable return while also allowing startups to scale their businesses at a reasonable rate. Education about the realities faced by investors and investees is an essential element in the process.

Impact measurement

When asked about the methodologies that investors use to measure their social and environmental impact, most indicated that they use their own in-house methodology or don't use impact measurement at all. This shows that the culture of quantifying and accounting for impact, as well as reporting, is not yet widespread in Central America. The UN SDG and B Corp Evaluation System are the most commonly used methods in our sample, and seem a good starting point to promote impact measurement in Central America.

Impact Measurement	# of answers	%
In-house methodology	14	33%
None	13	31%
SDG	6	14%
B Corp Evaluation System	6	14%
IRIS(+)	5	12%
GIIRS	4	10%
SROI	0	0%
Others	9	21%
• Global GRI Reporting	3	
• Edge Certification (Green Building Council)	1	
• General Statistics	1	
• Impact Studies	1	
• Triple Bottom Line	1	
• ISO26000	1	
• Indicarse (CSR standard)	1	
• Social Progress Index (SPI)	1	
• Various, depending on the project	1	

Source: Compiled by the authors from empirical interviews

We saw that several companies use in-house impact measurement methodologies. Such existing methodologies could be analyzed when developing an impact investment framework with measurement standards tailored to the specific context of Central America. Such an analysis could also help advance a contextual definition and guidelines for impact investment in the region. It is also clear that there is a visible educational gap related to traditional impact measurement standards, which is something to be considered in the RABCA's future working agenda.

Size of the Central American market for impact investment

While there very little data exists on the size of the impact investment market specific to Central America, the Latin American Venture Capital Association (LAVCA) and ANDE reported that, between 2014 and 2015, USD 255 million was invested in the region by only nine investors in just 27 deals. More than 95% of these funds, however, correspond to micro finance, with the remaining USD 12 million split between 14 deals, 10 of which are of less than USD 250 thousand.⁶⁵ Unfortunately, there no publicly-available data on the volume of impact investments has been generated since then.

Due to the limited information available in Central America, during our interviews we asked the investors to estimate the size of the impact investment market in Central America. We left the question relatively open with respect to whether the respondents referred to the potential of the market or to capital already invested and dedicated. The response was mixed:

- When considering the potential for impact investment in the region, estimates were typically over USD 1 billion. This most often included mentions of the clean energy and microfinance sectors.
- A range of USD 250 million – USD 500 million was the second most prevalent range mentioned in our sample. Many interviewees said that they actually thought the amount of capital currently dedicated to impact investments in the region is less than this.

This latter range would be in line with ANDE/LAVCA's estimations, keeping in mind that our sample of investors is limited.

Success stories in the impact investment ecosystem

a) FLII CA&C

Throughout four events in total, FLII CA&C has escalated an increasingly diverse and far-reaching trajectory, demonstrating that more and better investments, businesses, and connections generate positive impact in the region, registering events with cumulative data of more than 35 countries represented, more than 1,700 attendees connected, more than 180 investors from funds around the world, hundreds of innovative businesses creating networks with each other, and more than 600 participants in their latest edition. Participants include companies, organizations, corporations, public sector actors, investment funds, and financial institutions.

b) PIEA Costa Rica

PIEA (Programa para la Innovación y Emprendimiento Asociativo) is a public-private partnership between the Costa Rican Development Bank, Cooperative Movement, VIVA Idea, and INCAE Business School. The USD 8 million project will last four years and aims to create and strengthen an impact investment ecosystem in Costa Rica. The project is a pilot for fostering impact investment ecosystems on a national scale and—when successful—intends to support other countries in replicating the concept.

c) Kingo Energy

Kingo Energy is a social venture aiming to provide solar energy to rural communities in Guatemala, where people traditionally have had to rely on candles and kerosene.

The project began in 2014 with a pilot that succeeded in illuminating 200 homes. During their early stages it received financial support from FOMIN, including USD 262,920 as a part of a larger USD 581,120 project to validate the business model.

Since its inception, the company has expanded to include 57,401 solar energy installations, growing at a rate of 800 new light units every month. So far, 287,005 nights have been illuminated and 4,103 communities reached.

Replacing candles and kerosene with electricity not only creates a secure environment by providing a non-flammable light source, but also ensures a healthier environment by eliminating the harmful effects of kerosene and smoke. Further, as electronic light shines brighter than the traditional means, the hours spent in artificial light can be used more effectively. For example, study time increases by 250%, creating better opportunities for school children.

Kingo established a model in which the household funds spent on candles and kerosene are replaced by clean energy. Thus, the model ensures both a better way of life for its customers and a steady source of income its business. Kingo provides a clear example of how an initial investment can become an innovation story about the creation of business models that serve the base of the pyramid, the combination of this with clean technologies, and the integration of software and hardware to operate in a profitable and sustainable manner.

d) Solubrite

Solubrite, founded in 2013, is another project in the area of clean energy. It is a “last mile” solar energy distributor whose mission is to provide clean, affordable energy to rural families. Solubrite is creating a similar impact as Kingo, helping households save money by no longer having to purchase candles or kerosene, and being able to divert the gains in productivity toward evening study or work.

Agora supports this business through the Agora Accelerator, an eight-month program that includes customized consulting and access to a global network. This support, combined with additional funding, has led Solubrite to provide over 10,000 Central American families with affordable solar energy. With every additional loan of USD 30,000, another 305 innovative pay-as-you-go solar products can be distributed in rural Panama.⁶⁶

Throughout our data collection process, we observed the necessity to identify, study, and communicate more success stories related to impact investments in the region in order to incentivize more investors—particularly individual investors and family offices—to invest in impact-generating projects that both further the UN SDG and allow investors to reap a financial return.

2.3

Intermediation of impact capital

Starting a business

One of the most noteworthy hurdles for entrepreneurship (social or otherwise) in Central America is the difficulty of starting a business. The World Bank Group’s 2019 Doing Business report shows that no Latin American country ranked among the top 50 countries worldwide in the “ease of doing business” ranking, with Costa Rica being the first Central American country in spot 67.⁶⁷ Additionally, the Latin America and Caribbean region had the lowest positive change of all regions excepting high-income OECD economies, which is evidently due to their already favorable business climate. Some of the most notable factors are pointed out in the table below:

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Rank (1- 190)	67	85	98	121	132	79
Starting a Business	142	147	89	154	144	48
<i>Number of Procedures</i>	10	9	6	11	7	5
<i>Time in Days</i>	23	16.5	15	13	14	6
<i>Cost (% of income per capita)</i>	9.5	45.1	18.1	40.7	63.6	5.4
<i>Minimum capital (% of income per capita)</i>	0.0	2.7	0.6	0.0	0.0	0.0

Source: Based on *Doing Business 2019 report by the World Bank Group*⁶⁸

When it comes to starting a business, four out of six Central American nations rank among the bottom 25% of all economies analyzed. While one can set up operations in Panama after having completed five procedural steps, it takes more than double that in Honduras. In Costa Rica, it takes nearly four times as many days for the same result—officially owning a business. Panama is the clear leader when it comes to ease of starting a business, with the cost of setting up a business at 5.4% of income per capita, compared to nearly 12 times that in Nicaragua (based on national income per capita).

Access to funding for entrepreneurs

Not only does starting a business prove more challenging in Central America than in more developed market economies, access to funding is also complicated for entrepreneurs. Due to the low development of equity markets, demonstrated by the data presented below, startups in the region face huge gaps in financing. This suggests that there is a need to mobilize available capital in the region from alternative sources (e.g., family offices) and connect it with social entrepreneurs in need of financing.

According to the Global Entrepreneurship Monitor (GEM) access to entrepreneurial finance in Latin America is already relatively weak, scoring 3.4 on a scale of one to nine, where nine is highly sufficient), compared with the global average of 4.2.⁶⁹ This score is considerably lower for the Central American economies for which data is available,⁷⁰ namely:

- Guatemala: 1.7 (2018)
- Panama: 1.88 (2018)
- El Salvador: 1.75 (2016)
- Costa Rica: 1.90 (2014)

These perceptions from GEM are supported by the World Bank, which estimates Central America's finance gap among micro, small and medium enterprises (MSMEs) to be USD 48 billion, USD 21 billion of which pertains to Panama.⁷¹ The breakdown per country can be seen in the table below. While in Costa Rica about half of the potential demand is being met, in the rest of the region the finance gap represents more than three quarters of the estimated MSME demand.

Country	Number of Micro	Number of SMEs	Number of MSMEs	Potential Demand in bn	Finance gap in bn	Finance Gap in %	GDP in bn [2015]	Finance Gap / GDP
Costa Rica	28,689	12,379	41,068	\$ 9.8	\$ 4.8	48.5%	\$ 51.11	9.3%
Guatemala	175,566	8,902	184,468	\$ 16.5	\$ 15.9	95.9%	\$ 63.79	24.9%
Honduras	96,175	31,155	127,330	\$ 4.1	\$ 3.0	72.4%	\$ 20.15	14.8%
Nicaragua	153,379	20,363	173,742	\$ 3.4	\$ 3.1	92.8%	\$ 12.69	24.5%
Panama	21,877	13,006	34,883	\$ 27.3	\$21.3	77.8%	\$ 52.13	40.8%

Source: Number of micro, small and medium enterprises (MSMEs), financial demand and gap in relation to GDP according to Data from World Bank⁷²

Among entrepreneurs, social businesses face similar challenges, although their missions often makes them more attractive to donors and, therefore, slightly more likely to find early-stage funding in the form of grants or awards. Some competitions in the region, such as VIVA Schmidheiny awards, have been specifically targeting social entrepreneurs in the region and support projects that aim to deliver social or environmental impact by providing cash awards of up to USD 15,000.

The Central American financial market

The International Monetary Fund (IMF) analyzes financial development through its Financial Development Index, which constitutes financial institutions and financial markets, looking at the access, depth and efficiency of each. It shows that, on average, Central America falls in line with the rest of the LAC region, with a Financial Development Index of 0.25 (1 being excellent).⁷³ The data exhibits a positive trend in all areas, among all countries in the region. And, while the region performs relatively well with regard to financial institutions (scoring an average of 0.43), the relatively low total performance becomes evident when looking at the Financial Market Index, which stands at 0.06 on average.

⁷³ Calculated based on most recent data of 2016 for six countries.

These results are due to weak equity markets, resulting from the low number of firms listed in domestic equity markets, and the low trading activity that comes with it. It comes as no surprise that Panama, a well-known offshore financial center, performs best in the Financial Markets Index, while Nicaragua has a virtually non-existent one due to its size. Focusing on a strong macroeconomic environment, adequate legal and constitutional frameworks that support investors, information disclosure, and policies fostering financial markets would help Central American countries with underdeveloped or inefficient stock markets.⁷⁴ However, the region has also seen increasing interest from foreign banks, who in recent years have increased their share as a percentage of total banks.⁷⁵

Due to the low development of regional capital markets and their lack of openness and accessibility, there is need for a strong intermediation system with efficient matchmaking measures. We can observe an increased importance of intermediation mechanisms in Central America as compared to developed markets, in which financial markets facilitate relatively organic matchmaking processes.

We also stress the need to lobby for adequate legal and constitutional frameworks that support investors, ensure information disclosure, and promote policies that foster financial markets, which could include the development of public impact funds for investment in the region.

Development finance institutions (DFIs)

In order to improve matchmaking between investors and targets, we perceive the opportunity for collaboration with the dense network of development organizations that are active in the region.

Within Central America, national, regional, and multilateral development finance institutions have played a significant role in advancing the individual countries, filling the gap between financing needs and supply coming from commercial banks. While the IMF and World Bank have historically made large contributions to the region's development, individual countries have recognized the need to develop national development banks such as the National Development Bank of El Salvador (BANDESAL), the National Bank for Agricultural Development (BANADESA) in Honduras, and the Agricultural Development Bank (BDA) in Panama. Additionally, the Central American Bank for Economic Integration (BCIE), founded in 1960, is a multilateral development bank focused on both private and public sector projects and specialized in raising and consequently allocating externally raised funds.⁷⁶

The projects that DFIs take on are larger in scale, as they generally focus on nation- or region-wide issues, where solving them would mean advancing societies as a whole rather than individual by individual. What this means, however, is that they rely on more specialized organizations, which often use funding from DFIs to take a bottom-up approach. Consequently, microfinance institutions have often worked as an extension to DFIs, but also taken a completely separate role in tackling financial inclusion where commercial banks have failed or been unable to provide the necessary capital to people who have difficulty accessing it.

The role of microfinance institutions in Central America

Microfinance institutions (MFIs) have played a considerable role in enabling financial inclusion in Central America. As opposed to African or Asian models, Latin American MFIs operate more as private businesses, offering credit primarily to enterprises without access to financial services. With a decades-long history, microfinance provides a more stable investment field than other impact investment sectors and, thus, tends to attract larger sums, particularly with regard to average investment sums.

	2014-2015 ⁷⁷			2016-2017 ⁷⁸		
	Total Invested (\$ mn)	Number of Deals	Average Deal Size (\$ mn)	Total invested (\$ mn)	Number of Deals	Average Deal Size (\$ mn)
Costa Rica	206.2	3	68.7	87	30	2.9
El Salvador	8.4	3	2.8	52	25	2.1
Guatemala	1.0	2	0.5	24	15	1.6
Honduras	-	-	-	46	17	2.7
Nicaragua	22.2	4	5.6	90	53	1.7
Panama	-	-	-	28	14	2.0

Source: based on LAVCA report 2014-15 & 2016-17

Latin American MFIs display the greatest gross loan portfolio of any region globally, with larger average balances per borrower, but fewer active borrowers than African or Asian MFIs.⁷⁹

Nevertheless, a report by the Central American and Caribbean Microfinance Network (REDCAMIF) shows that the Central American microfinance market is currently struggling with oversupply and over-indebtedness, driven by laxity on the part of the providers and a lack of education on the customer side.⁸⁰ Additionally, transaction costs remain high for clients, particularly with regard to low operational efficiency—and, therefore, costs, suboptimal financing schemes by MFIs, and lack of adoption of technology to reduce costs. From a regulatory perspective, markets are more adapted to the banking industry, without having sufficiently adapted to the needs of the region and the concept of microfinance. However, country-specific circumstances need to be taken into account when legislating this sector, as this is vital for it to flourish.

Examples of Impact Investment Intermediaries in Central America

The following provides an overview of some important players in Central America's impact investment market focused on intermediaries.

Aspen Network of Development Entrepreneurs (ANDE)

Headquarters	Washington D.C., USA
Founded	2009
Website	https://www.aspeninstitute.org/
Information on what they do with regard to Impact Investing	As the public policy initiative and programming efforts of the Aspen Institute, ANDE offers financing and business services to small and growing businesses that are too large for microfinance and too small for traditional finance. The organization has operations in Latin America, Asia, and Africa. ⁸¹

Fundación Avina

Headquarters	Panama City, Panama
Founded	1994
Website	http://www.avina.net/avina/
Information on what they do with regard to Impact Investing	Founded by Stephan Schmidheiny, Avina focuses on sustainable development in Latin America by fostering alliances between social and business leaders. Avina is considered "one of the leading promoters of Inclusive Markets." ⁸² Avina has operations in 19 Latin American countries, with a local presence in 13 of these. In 2017 alone, Avina invested over USD 8 million. ⁸³

Dalberg

Headquarters	New York, USA
Founded	2001
Website	https://www.dalberg.com/
Information on what they do with regard to Impact Investing	An international strategy and policy advisory firm, Dalberg works with a multitude of players in developing countries with the aim of raising living standards. The company offers advisory, capital, data/research, and design services. Furthermore, Dalberg is experienced in advising on impact investment matters, with a large network of funders and investors to catalyze the impact investment market. ⁸⁴

Impact Hub

Headquarters	Vienna, Austria
Founded	2005
Website	https://impacthub.net/
Information on what they do with regard to Impact Investing	With a global presence, the Impact Hub aims to support social impact projects and enterprises by supporting startups throughout the entire process, providing workspaces and a large community network, as well as programs and training events for members. With over 6,400 companies founded in Impact Hub's network and offices in all Central American countries except Panama (2012-2016), the organization has already had a large global impact. ⁸⁵

TechnoServe

Headquarters	Washington D.C., USA
Founded	1968
Website	https://www.technoserve.org/
Information on what they do with regard to Impact Investing	With operations in Latin America, Africa, and Asia, TechnoServe focuses on private enterprises as the catalyst for poverty alleviation. In 2018 alone, TechnoServe provided USD 10 million in equity and debt to farmers and small business owners, with USD 188 million in financial benefits created for its clients, and more than 450 thousand direct beneficiaries. ⁸⁶ In 2018, the average income gains or return on investment (ROI) for TechnoServe clients for every USD 1 of project cost was USD 3.30. ⁸⁷

Yo Emprendedor

Headquarters	San José, Costa Rica
Founded	2008
Website	https://yoemprendedor.net/
Information on what they do with regard to Impact Investing	Yo Emprendedor is a non-profit organization that helps entrepreneurs in Costa Rica and Central America benefit economic and social development. It does this by creating an entrepreneurial network that offers training and support, access to financial resources, and visibility in the market in order to scale. Yo Emprendedor is known for its annual competition for early-stage entrepreneurs and innovators, which has benefited more than 1,400 entrepreneurs to date. ⁸⁸

2.4

Government and regulatory actors and institutions

Being part of a nascent field, Central American countries currently lack impact-investing-specific regulations. Certain relevant regulations are available, but we observe a missing focus on impact investment in the sense of creating concrete incentives for impact investors and adequate legal forms for social enterprises.

We assert the need to integrate government actors into the RABCA to advance the regulatory foundations necessary for impact investment to thrive and grow in the region. Regional initiatives coordinated between the countries comprising the RABCA could advance market integration and the ability to reach scale, thereby making the region attractive for international impact investors.

Generally speaking, the special characteristics of the region—such as the prevalence of microfinance organizations and small and medium enterprises—need to be taken into account for policymaking and agenda-setting.

In the following paragraphs, the regulatory and policy environment relevant for actors within the impact investment ecosystem is approximated via national regulations, which are analyzed and divided per country into sub-categories relevant for the sector, including: entrepreneurship, small and medium enterprises, social enterprises, microfinance, renewable energy, development banking, and international cooperation.

a) Costa Rica

Entrepreneurship, small and medium enterprises, and social enterprises

In 2016, the Global Institute of Entrepreneurship and Development ranked Costa Rica as the most flourishing and entrepreneurial country in Latin America.⁸⁹ Thanks to help from the Ministry of Economy, Commerce and Industry, together with the national technical training institute and other partners, Costa Rica has created the PYME (SME) support center, which helps entrepreneurs from the startup through to the growth and development phase.⁹⁰

Furthermore, during the Solís Rivera administration, the Ministry of Economy, Commerce and Industry implemented a four-year strategy (2014-2018) to foster an entrepreneurial environment in the country.⁹¹ This initiative followed the administration of Chinchilla Miranda, which was similarly committed to developing the country's entrepreneurial environment.⁹² However, the most recent administration was the first to acknowledge social entrepreneurship as one of the driving forces within entrepreneurship in Costa Rica. Costa Rica does not yet have specific regulations applicable to social enterprises (with the exception of the traditional approach of non-profit associations or foundations).⁹³

Microfinance and development banking

Microfinance institutions are subject to the banking regulation if they carry out any activity related to financial intermediation, which in turn is regulated by the General Superintendence of Financial Entities (SUGEF). In the last decade, new regulations for development banking were enacted, aimed at providing 'development loans' with lower cost and collateral requirements.⁹⁴ To date, Costa Rica does not follow a national strategy to foster financial inclusion. However, initiatives such as a cash transfer programme through the Sistema Único de Pago de Recursos Sociales (SUPRES) have been introduced.⁹⁵

Renewable energy

Costa Rica is one of the world pioneers in renewable energies, being able to provide energy based exclusively on renewables almost year-round. Most of the development in the field is managed by the Costa Rican Institute of Electricity (ICE). However, in the last decade, efforts have been made to promote private generation, self-consumption and distribution of energy. Existing regulations define individual and collective capacity limits for generators depending on technical features of the grid.⁹⁶

International cooperation

As a middle income country, Costa Rica has experienced reductions in direct flows from international organisations or multilateral institutions, such as the Inter-American Development Bank, the Central American Bank for Economic Integration and the World Bank. Interestingly, Costa Rica has been able to develop bilateral relationships with individual countries, such as China, Japan and South Korea in Asia, the United States, as well as Germany, the Netherlands and Spain in Europe. The majority of inflows from the aforementioned countries has predominantly been allocated to energy and environment, public works and transportation, economic and financial development, and health and social development.⁹⁷

b) El Salvador

Entrepreneurship, small and medium enterprises, and social enterprises

The El Salvadoran government has actively focused on improving the entrepreneurial environment in the country, channeled from 2014-2019 through the National Entrepreneurship Policy. Under the National Commission for Micro, Small and Medium Enterprises (CONAPYME), El Salvador has focused on developing policies and initiatives to ease the playing field, as well as enable better access to national and international markets.⁹⁸ Additionally, El Salvador passed the Law of Promotion, Protection and Development of Micro and Small Enterprises in 2017, designed to promote the creation, protection, development, and strengthening of micro and small enterprises and help strengthen the competitiveness of existing ones.⁹⁹

Social Enterprises

The country's Business Foundation for Social Action (FUNDEMAS), a nonprofit organization founded in 2000, is dedicated to promoting the adoption of values, policies, and practices related to Corporate Social Responsibility (CSR) in the business sector, with the goal of achieving more sustainable economic and social development. Initially designed for large companies, it soon expanded to SMEs, shifting its focus from large capital companies to all types and, thus, creating an organization that focuses on all organizations.¹⁰⁰

Microfinance

Despite the absence of laws addressing microfinance development, El Salvador has a diversified and competitive market, with private banks, savings and credit cooperatives, regulated and unregulated financial institutions, and NGOs offering financial services to micro and small enterprises. These more than 100 financial institutions are dedicated to offering small loans to Salvadorans without access to traditional banking.

The industry is organized through the Association of Microfinance Organizations of El Salvador (ASOMI), an organization with 14 affiliated members and part of the Central American and Caribbean Microfinance

Network (REDCAMIF).¹⁰¹ Salvadoran MFIs are mainly regulated through the Law to Promote Financial Inclusion and the General Law Regulating Cooperative Organizations.¹⁰²

Renewable energy

Renewable energy sources play an important and growing role in El Salvador's energy sector. The National Energy Council (CNE) is committed to the sustainable development of renewable energy technologies and the use of nationally-sourced clean energy. The Renewable Energy Directorate is the technical body that is responsible for all aspects of the National Energy Policy related to renewable energies, including the formulation of policy proposals, as well as the analysis and development of instruments and promotion phases, consultation, coordination and monitoring.¹⁰³

Development banking

The introduction of the Financial System for Development Promotion Law simultaneously led to the creation of the Development Bank of El Salvador, which forms the Economic Development Fund, and Salvadoran Guarantee Fund. The law further focuses on the creation of financial instruments that foster competitiveness.¹⁰⁴

International cooperation

Through the Ministry of External Relations, the country seeks to foster three major areas: first, the generation of national and institutional capacities; second, the consolidation, modernization, and strengthening of public policies for multilevel development; and third, the promotion of regional integration spaces in Latin America and the Caribbean.¹⁰⁵

c) Guatemala

Entrepreneurship

The Entrepreneurship Support Program (PAE) is only one of the initiatives based on the National Entrepreneurship Policy (NEP), focused on strengthening high-impact ventures. Started in 2017/2018, the policy focuses on five priority sectors, namely creative and cultural industries, tourism, information and communication technologies, light manufacturing, forestry and furniture.¹⁰⁶

Small and medium enterprises

Guatemala developed an economic policy focused on the period 2016-21 that is designed to improve the productivity and competitiveness of Guatemalan micro, small and medium enterprises in order to level the playing field with regard to competing with larger corporations.¹⁰⁷ Additionally, Guatemala's Regional Center for the Promotion of Micro, Small and Medium Enterprises, or CENPROMYPE, reevaluates the business environment for MSMEs on a continuous basis and channels its efforts and actions accordingly.¹⁰⁸

Social enterprises

While Guatemala has not implemented a specific policy with regard to social businesses, the country exhibits a strong support network for them. One of the most present organizations in this space is Alterna, an NGO that is committed to the development of the next generation of social entrepreneurs in Guatemala and beyond.¹⁰⁹

Microfinance

Guatemala's microfinance space is organized by the Network of Microfinance Institutions of Guatemala or REDIMIF, an organization that was legally constituted in 2001 with the goal of being the representative entity of Guatemalan institutions specializing in microfinance.¹¹⁰ Additionally, in 2016 the Bank of Guatemala's Monetary Board implemented 11 regulations to generate a legal framework for microfinance.¹¹¹

Renewable energy

Guatemalan law provides fiscal incentives for renewable energy technologies, including ten-year exemptions for: 1) import duty and value added tax (VAT) on imported renewable energy equipment, and 2) income tax and a commercial tax on renewable energy projects.¹¹² This goes hand-in-hand with the country's 2013-2027 Energy Policy, which supports the country's goal to meet 80% of its energy needs through renewable energy sources by the end of the project.¹¹³

Development banking and international cooperation

Guatemala's Rural Development Bank (BANRURAL) focuses on Guatemala's rural and microenterprise sector. Founded in 1997 as a development bank with special emphasis on micro, small and medium enterprises, the bank does not receive any type of financing from traditional banks. Furthermore, with roughly 1.7 million customers, its main objective is to promote the economic and social development of the rural areas of the country.¹¹⁴

d) Honduras

Entrepreneurship

Honduras recognizes entrepreneurship as a vital element for the country's economic and social development. The Undersecretary of Micro, Small and Medium Enterprises (MIPYME-SSE) focuses on the design and implementation of a national strategy for the promotion of entrepreneurship. Honduras' Entrepreneurship Development Strategy focuses on all aspects of the entrepreneurial journey, including training, development, and social inclusion processes.¹¹⁵

Small and medium enterprises

Honduras' micro, small and medium enterprises (MSMEs) have been increasing access to financial services throughout the country, supported by various microfinance institutions, which represent a significant percentage of the total supply of financial services. More than half of the consolidated portfolio and almost all of the loans in force have been given to MSMEs.¹¹⁶

Social enterprises

One of the country's leaders with respect to social enterprises is FUNDARHSE, a nonprofit organization that focuses on the promotion of CSR and the continuous commitment of companies to contribute to sustainable economic development, improving the quality of life for their employees and their families, as well as for the local community and society in general. The organization has promoted responsible business practices for the last 15 years.¹¹⁷

Microfinance

The Microfinance Network of Honduras, or REDMICROH, is a leader in microfinance in the country. A nonprofit civil association, its global strategy is to strengthen leadership and transcendence in the microfinance industry of Honduras and represent its affiliated institutions of the microfinance sector.¹¹⁸

Renewable energy

Honduras has gradually increased its renewable energy production, making it its main source of energy in 2015. The sector is regulated by several laws and governing bodies, including the Electricity Regulatory Commission (CREE), the General Law Regulating Energy, the Law Regulating Hydrocarbons, and the Law to Promote Energy Generation.

Development banking and international cooperation

The Inter-American Development Bank (IDB) plays a major part in the country's development sector. Its 2019-2022 strategy aims to promote higher and more inclusive growth, with particular focus on the accumulation of human capital, the improvement of the country's infrastructure, access to financing, and the country's resilience to climate change.¹¹⁹

e) Nicaragua

Entrepreneurship, small and medium enterprises

CONIMIPYME is an organization responsible for micro, small and medium enterprises and nonprofits in Nicaragua. Being a governmental organization, it is registered with the Ministry of Interior Affairs.¹²⁰ Additionally, the Law for the Promotion, Encouragement and Development of Micro, Small and Medium Enterprises, provides the legislative framework for institutionalizing changes to create a competitive environment for MSMEs.¹²¹ Nicaragua has also actively contributed to improving the business environment by way of introducing a matching grants program and institutionalizing capacity building.¹²²

Social enterprises

Nicaragua lacks specific regulations applicable to social enterprises. Solely a tax reform from 2014 exempts management funds allocated for tackling poverty and development activities through financing social programs.¹²³

Microfinance

Microfinance plays a huge role in Nicaragua, being the main driver for financial inclusion in the country. In 2011, Nicaragua passed the Law of Promotion and Regulation of Microfinance, aimed at stimulating the economic development of low-income sectors in the country.¹²⁴ It further aims to support microcredit users by promoting the supply side, as well as establishing measurements and publications for microfinance institutions. The law further aims to promote transparency in cost structures and charges to users, as well as strengthen regulatory and supervisory bodies. As a complement to this law, the National Commission for Microfinance (CONAMI) aims to strengthen the regulatory framework of the microfinance industry and promote the microfinance industry, among other actions.¹²⁵

Renewable energy

The 2005 introduction of the Law for the Promotion of Electricity Generation with Renewable Sources aimed to promote greater synergy between the public and private sectors and, consequently, facilitate the development of renewable energies.¹²⁶ By removing administrative obstacles and introducing international financing for renewable projects, companies have subsequently been able to enjoy fiscal incentives for activities such as construction and the importation of machinery, equipment and materials, as well as tax exemptions for rent and municipal taxes. The existence of a national authority specifically designated to support such projects further enables consistent progress.¹²⁷

Development banking and international cooperation

Long-term financing is available as international banks introduced new products to the local market. Generally, loans are provided by U.S. banks, as well as the IDB, World Bank, and others, and are characterized by lower interest rates and the need to provide significant collateral assets in order to borrow locally. The Commercial Service further maintains Commercial Liaison Offices in multilateral development banks, such as the IDB or World Bank, in order to promote foreign investment or business entry.¹²⁸

f) Panama

Entrepreneurship, small and medium enterprises, and social enterprises

In 2012, Panama's Ministry of Micro, Small and Medium Enterprises (AMPYME) initiated the Entrepreneurship Center, tasked with developing a plan to develop the country's entrepreneurial environment.¹²⁹ AMPYME offers training and guidance throughout the entrepreneurial journey. It also initiated PROFIPYME, a financing program for micro and small enterprises in which the state provides a guarantee for 60-80% of the loan so that the organization can fulfill the collateral requirements. This is enabled through a partnership with numerous banks in the country.¹³⁰ These initiatives drastically reduce the entry barriers for entrepreneurs and, consequently, social entrepreneurship. However, the country currently has no specific regulations in place regarding social enterprises.

Microfinance

In Panama, microfinance is handled through different types of companies, such as microfinance banks, financial companies, savings and loan cooperatives, and NGOs. Thus, microfinance itself is subject to different regulations, depending on who supplies it. However, the government has recently passed laws to ease access to credit or provide a regulatory framework for microfinance institutions. Given the considerable size of microfinance in Panama, companies with micro loan portfolios have created the Panamanian Microfinance Network REDPAMIF.¹³¹

Renewable energy

According to the International Energy Agency, Panama has implemented numerous legislations to support and regulate the renewable energy space, such as the 2004 Renewable Energy Incentives Law, and a 2013 law focused on incentives for the construction, operation and maintenance of solar photovoltaic (PV) plants.¹³² Panama's 2015-2050 National Energy Plan outlines the long-term goal of meeting 15% of its energy needs through renewables by 2030, and 50% by 2050.¹³³

Development banking

Panama's National Plan of Cooperation, "Panama Cooperates 2030," outlines the country's strategies, objectives, and instruments of international cooperation as instituted by the Ministry of Foreign Relations.¹³⁴ The UN Sustainable Development Goals are central to this plan, showing Panama's interest in contributing to a more sustainable future.

2.5

Market builders and professional services

Generally speaking, we perceive that "market builders and professional services," the fifth GSG pillar, must be strengthened via the promotion and coordination efforts of the RABCA, especially related to learning from countries whose impact investment ecosystem is more advanced.

3.

Challenges and opportunities for impact investment in Central America

This chapter is dedicated to the challenges of and the opportunities for a thriving impact investment ecosystem in Central America. The following insights were obtained throughout our empirical investigation.

During our data collection process it became apparent that some challenges were formulated in a negative way, suggesting that to address them one must first counteract a certain problem or perception—such as the missing incentives by traditional markets to engage in impact investment, or the limitations in concrete actions and regulations on the part of the government. Other challenges, however, were expressed as a necessity, such as the need to make institutions more appealing or efficient, to provide education and collaboration, and to involve family offices in the region in advancing impact investment.

Despite this notable duality, we organized the challenges and opportunities similarly to the information on the status quo; that is, according to the principal topic they address and the five GSG pillars. This allowed us to integrate the findings from various sources, such as the interviews with 42 investors from the region and the insights from the RABCA task force focus group meeting.

The main observations we deduced from the list of challenges and opportunities are as follows:

First, Central America has a window of opportunity to foster entrepreneurial ecosystems starting from impact investment rather than traditional, profit-oriented investments.

Second, to foster the impact investment ecosystem, the government must play a key role in developing standards, laws, and transparent entrepreneurial pipelines, as well as in coordinating actors who can distribute available impact investment funds. Governments also need to support entrepreneurial education and set incentives for intermediaries to strengthen the impact investment ecosystem.

Third, the actors from the impact investment ecosystem, such as hubs, investors, and universities are already active in the spheres of education, events, and public awareness raising, but most request more government support; they are unable to invest time and money into lobbying activities or public-private partnerships with government institutions.

Fourth, it is necessary to educate impact investment experts that manage the specific challenges and opportunities of the region and to create initiatives to address the key actors that can make a difference in the Central American markets. These actors include wealthy families and their family offices, government institutions, and investors.

Below, we further explain these essential observations based on the lists of challenges and opportunities and according to the five GSG pillars.

3.1 Supply of impact capital

During our investigation it became clear that for the impact investment movement in the region to gain momentum, it is key to create awareness and knowledge among traditional investors, as well as to create a strategy for involving family offices and individual investors. Empowering and articulating these groups will also instill opportunities for collaboration among them, which will in turn help national or regional projects reach scale.

Our empirical study revealed that investors desire the involvement of the government in two ways: 1) as a regulatory entity providing the necessary guidelines and incentives for impact investment, and (2) as a public source of funds to “walk the talk,” acting as an exemplar investor to inspire others to follow and, thus, advance impact investment in the region.

High macroeconomic risks in Central America could be mitigated by the development of adequate financial instruments for impact investments, education in risk management for impact investors, transparency and information about the performance of existing investments, the curation and dissemination of best practices and success stories, the creation of exit opportunities for investors, and knowledge creation related to practical KPIs for impact measurement.

Given the above tasks, the integration of country agendas and regional collaboration among supply of capital actors is key to gaining momentum.

Below, we will detail the challenges and opportunities related to the first GSG pillar, “supply of impact capital.”

Challenges

Awareness and trust in impact investment

In our interviews we frequently registered comments related to the absence of motivation or trust on the part of traditional investors to venture into the impact space. It was mentioned that there is sometimes individual interest to invest in impact but don’t act on this interest because motivation and trust are missing at the organizational level. The need for a clear strategy for how to promote these types of investments and demonstrate positive results related to both impact and financial return is apparent. The ecosystem

could, for example, make use of an increased culture of corporate social responsibility among businesses. Referring to this culture might help incentivize investors—with respect to both motivation and trust—to invest in the region instead of taking their money abroad.

Family offices

An article in Family Office Magazine states that over the last two decades, family offices have in Latin America have become increasingly entrepreneurial, while simultaneously separating financial management from business assets. Additionally, globalization has led Latin American family offices to switch from their historic home bias to investing abroad, with some completely relocating their headquarters to outside the region. Additionally, family offices are increasingly considering impact investment as a way of increasing their commitment to society.¹³⁵

Central American family offices have acted similarly to those of LAC overall, in that they tend to channel their capital to outside the region; for example, to Europe instead of countries within the Central American region. This is particularly problematic, as family offices play an important role as investors in the Central American region. However, due to institutional weaknesses and political and economic instability, family offices are often reluctant to invest in the region.¹³⁶

Another problem that was mentioned during the interviews relates to a lack of trust, which implies that family offices are reluctant to practicing transparency and sharing best-practices and learnings from past endeavors with peers in the region, which in turn would help the impact movement gain momentum. Furthermore, family offices are reluctant to sell their investments and instead hold them in the long-term, which can be attributed to the complicated exit situation and the absence of opportunities to generate a reasonable financial return.

Fund size and capital origination

Private funds in Central America tend to be relatively small. Historically, these funds have often tried to operate under a venture capital model, despite fund managers often lacking experience and a reasonable track record in the region. Fundraising—and, consequently, capital availability—proves particularly hard for this reason.¹³⁷

Interviewees in our empirical study highlighted the lack of funding provided by Central American governments, whether in general or specific sectors; e.g., forestation. They also stated that foreign investment for impact purposes is necessary to complement local capital, which can be used to create investment funds that would boost the local entrepreneurship system.

Financial instruments

Financial instruments in Central America are currently focused on the traditional investing space and, therefore, do not consider impact in the construction of financial products. These are suboptimal for impact investment, and do not help achieve the intended goals. Undisputedly, a rural enterprise in its early stages has different needs than a large public company in Mexico City, and would be better served with more specialized financial products. Additionally, sufficient research and data on various financial products and their accompanying performance remains outstanding. Lastly, given the absence of instruments specifically designed for impact investment, impact measurement continuously fails to be part of the equation.¹³⁸

High risk

Interviewees also highlighted the complexity of high investment risk in the region due to low stability in macroeconomic terms, as well as legal and security-related difficulties. This means that investments carry excessive risks, especially in the impact space. The investors also mentioned the need to adjust and create adequate regulations, financial instruments, and general incentives to account for such risks.

Impact measurement

By definition, impact investment not only requires intentionality and the desire to achieve minimal financial returns, but also impact measurement. While some impact investors take advantage of already existing impact measurement tools, such as B Impact Assessment or IRIS+, others develop proprietary tools. However, impact measurement is not a common practice in Central America.

Illiquid secondary market

In order for Central America to gain attractiveness as a competitive market for impact investment opportunities, exiting investments needs to be easier. An illiquid secondary market provides a major obstacle to the growth and attractiveness of the market. The region lacks a successful track record of the region, which additionally hampers its potential growth.¹³⁹ We frequently encountered the absence of exit opportunities during our interviews, and it seems that this is partly responsible for investors' reluctance to invest into earlier-phase startups and choose equity or quasi-equity instruments.

Opportunities

Available investment capital

Investors expressed that there are a significant number of high net-worth individuals or family offices in the region that manage investment capital that could potentially be redirected towards impact-generating projects. There seems to be a latent opportunity for collaboration between existing and nascent networks of local family offices in Central America.

New mentality

It was also mentioned that even trajectory traditional investors in the region are seeking to achieve a new level of satisfaction from their work by investing into impact. In general, a pro-sustainability mentality seems very strong in the region given an increased penetration of CSR directives and standards into all aspects of traditional corporations.

Collaboration and co-investment

We received comments regarding the opportunity to make use of the physical and cultural proximity between Central American markets and to generate collaborations and co-investments with peers. This would not only allow for larger sums to be available for impact investments but would also diversify and hedge risks during the investment process. Also mentioned was the added value of public-private partnerships to advance impact generating businesses.

3.2

Demand for impact capital

Regarding investment targets in Central America, it is necessary to better prepare social enterprises to receive investments, as well as to study the specific circumstances and struggles they face in the region and better understand how to adequately channel funds towards them.

Also, for the second GSG pillar, “demand for impact capital,” regional integration and collaboration is an important prerequisite for entrepreneurs to operate across the region and, consequently, reach sufficient scale to be attractive to international impact investors.

A particular opportunity to seize is the creation and promotion of financing schemes for earlier-phase social innovations that have a huge potential to solve social and environmental challenges in the region.

As an example, we perceived a potential for networks of angel investors in Central America that the RABCA could coordinate and promote.

Below, we describe in detail the challenges and opportunities related to the demand pillar.

Challenges

Entrepreneurial ecosystem

The number of (social) entrepreneurs is increasing in the region; thus, so is the demand for impact investment. While legislation is specifically targeted towards entrepreneurship in some countries, such as Costa Rica and Panama, it has much potential for improvement in others. Reducing and eliminating entry barriers and obstacles along the way for existent and aspiring entrepreneurs would undoubtedly result in more individuals choosing this path, thus solving one side of the problem with respect to creating a strong market for impact investment.¹⁴⁰ Additionally, there is currently a gap between what (social) entrepreneurs need and what capital suppliers are offering.¹⁴¹

Interviewees also mentioned that the development of adequate institutions to make the connections between capital providers and entrepreneurs is essential. A lot of businesses still rely on word-of-mouth or personal connections, which inhibits the number of deals closed from any significant increase.

Investment targets

Central America currently lacks high-quality investment opportunities with reasonable track records; e.g., companies that can catch the eye of impact investors that might be interested in the region. Simultaneously, it is difficult for existing, attractive companies to gain enough visibility to stand out amongst the many alternatives in countries that have a strong reputation for successful young enterprises.¹⁴²

Additionally, companies need continuous innovation and scaling to be attractive investment targets. Understandably, due to the smaller size of the market, Central American companies are not likely to reach a size similar to counterparts in Africa or India; however, without reasonable potential to scale, impact investors may look toward other regions.

During our empirical interviews, investors stressed the fact that many investment targets in the region are in early stages of development. This implies the need for potential investors to adapt their risk management strategies and return expectations, and makes it even more necessary to rely on a functioning ecosystem of intermediation.

Opportunities

Social and environmental challenges

Interviewees stated that there are a lot of social and environmental problems and challenges that are not yet adequately attended by public institutions or the NGO sector. These problems provide interesting innovation opportunities for social entrepreneurs, thus imply multiple opportunities for impact investors. The investors believe that in Central America impact can be achieved by investing smaller amounts of money than what is typically necessary in developed economies. They are convinced that favorable results can be achieved by involving the private sector in initiatives that tackle social and environmental challenges.

Existing investment opportunities

Interviewees mentioned that there many existing ventures—for example startups in the agriculture industry or in generalized small and medium enterprises—that are in need of funding. They stressed the opportunity to develop and deploy innovative financing mechanisms to conquer market niches that are not adequately attended at present. Opportunities in the areas of sustainable tourism and clean energy were also mentioned.

3.3

Intermediation of impact capital

Apparent throughout our empirical study, was the need to constitute and develop a high functioning ecosystem of intermediation that can prove capable of connecting interested impact investors with investment targets. This would help fill the gap of deficient capital markets that are currently unable to achieve this connection.

Bringing the traditionally disregarded sectors or rural localities of Central America into the playing field is a key task for the intermediation ecosystem, as these communities are neglected by many formal institutions.

Promoting impact investment among traditional investors such as wealthy family offices as a means for portfolio diversification represents an interesting opportunity.

Below, we describe challenges and opportunities related to the third GSG pillar, “intermediation of impact capital.”

Challenges

Missing preparation of pipeline

Apart from the perceived low quantity of investment-ready targets, our interviewees also mentioned the missing preparation of these targets by adequate acceleration and/or incubation programs. Additionally, they stated that a significant amount of impact capital is concentrated in the same sectors—or even within the same enterprises—while there is a lot of potential in other areas, such as the application of technological innovation to boost the growth of agricultural businesses. Acceleration and incubation capacities and infrastructure are especially deficient in the more rural and remote parts of the region, where there are high degrees of both necessity and potential.

Opportunities

Promoting investment opportunities to unlock capital

Additional impact capital could be unlocked via the promotion of investment opportunities, particularly success stories related to the impact investment space. Key methodologies include national forums and regional events that target the ecosystem in order to disseminate relevant information. Another interesting opportunity mentioned in the interviews was that financial advisors and portfolio managers could potentially point out impact investment as a more ethical alternative alternative to investing and/or as a means of portfolio diversification.

3.4

Government and regulatory actors and institutions

Compared to more developed countries, the Central American impact investment market does not currently perceive a lot of government support and there are no regulatory incentives for making impact investments. Consequently, small-scale actors are not motivated to make such investments or, if making them, have little faith in the potential to scale of their activities without this support system.

It is clear that the RABCA must engage in lobbying activities with the government in order to demonstrate the potential results of existing impact investments and attain the involvement of state officials that can help foster the ecosystem.

The RABCA could also engage in research and conceptualization related to promising models for public-private partnerships in the impact investment space.

Below, we detail the challenges and opportunities related to the fourth GSG pillar, “government and regulatory actors and institutions.”

Challenges

Transparency and corruption

Central America is stricken with institutional inefficiency and transparency, often combined with high levels of corruption. This poses additional risks for investors, who consequently often divert to safer regions and countries, where investment opportunities seem equally good and risks lower. This poses a serious obstacle to the development of the impact investment industry and not tackling it will undoubtedly hamper the industry’s growth rate.

Government support for the market

With one of the most developed markets for impact investment, the United Kingdom understood early that it had to create a legal framework that would not only remove obstacles to allow impact investment, but rather pioneer policies that allow it to flourish. One of its most important initiatives to date has been the Social Investment Tax Relief program, introduced in 2014, which encourages investments in organizations with a social purpose by providing a 30% tax break on the investment value.¹⁴³ Central American governments

have yet been unable to develop policies and initiatives that are specifically designed to support the impact investment space in their respective countries.

Our interviewees affirmed that there are no tax benefits or other regulations that incentivize and encourage impact investing in Central America. The absence or complexity of regulations oblige impact investors to operate in grey zones and make decisions under high degrees of uncertainty. The lack of government support was also mentioned, specifically in the sense that governments do not develop their own activities in the area; that is, they don't "walk the talk." Investors complained that governments focus on issues of political ideology rather than foster a culture of finding collaborative solutions to social and environmental challenges.

Weak institutions, strong bureaucratic hurdles

Apart from not actively supporting or providing incentives for impact investment, the region's fiscal complexity and bureaucratic hurdles make it difficult for impact projects to emerge and for impact providers of capital to invest in them. Constantly changing rules and regulations complicate the ability to plan ahead and incorporate potential hurdles into risk management strategies and decision-making processes. Interviewees stated that institutions in Central America are largely unable to provide appropriate incentives. Rather, they are still primarily focused on preventing undesired behaviors, and even here demonstrate inefficiencies.

Opportunities

Legal infrastructure

Investors also see opportunities in this area, as Central American already has a basic legal framework and basic standards in place. These could potentially be adjusted and further developed to favor and incentivize impact investment in the region (for example, via tax benefits). Governments could invest in the creation and circulation of financing instruments with favorable interest rates to promote these types of investments. Expert advice from more developed parts of the globe, which could be adjusted to the specific needs of the region, should also be considered.

3.5

Market builders and professional services

A lot of high-net-worth potential investors in Central America seem to be disconnected from their home (financial) markets and don't even consider investing in the region, which results in a capital drain into more developed markets such as the United States and Europe.

The RABCA needs to invest in education and standardized, regionally applicable guidelines that will help investors do successful business across Central America.

Additionally, the RABCA should aim to demonstrate the added value of collaboration instead of competition between investors or entrepreneurs and showcase the positive results of co-investments in the region.

Below, we briefly describe the challenges and opportunities related to the fifth GSG pillar, "market builders and professional services."

Challenges

General obstacles

Understandably, not all sectors in Central America receive the same attention with regard to impact investment and therefore consequently funding. Therefore, it could be suboptimal for the region to follow a general strategy, trying to attract impact investors solely through the desire to attract more of them.¹⁴⁴

Interviewees mentioned that many international investors but also some local high-net-worth individual investors experience a missing connection with the context and realities of the people in Central America.

NGO Mentality

Interviewees mentioned that there is still a strong and prevalent culture of assistencialism and donation in Central America, implying that problems are solved and impact is created by providing financial aid. Still, many people are of the opinion that social impact and financial return do not go hand in hand.

Common Understanding

Practitioners and scholars have so far failed to unanimously agree on what impact investment is, what it entails and what is excluded from it. While this might initially seem like a rather small issue, it can have far-reaching consequences. To illustrate, policy design and subsequent implementation with regard to government funding and/or tax exemptions could have a large impact on organizations in the space and ultimately hamper or support the growth of the industry. This is further complicated by the need for Central American governments to work together and design policies that can serve the region as a whole, taking national differences into account.¹⁴⁵

Education

Apart from a common understanding and definition of impact investment, there is also a problem of deficient or missing education related to the more operative aspects of the impact investment process, including investment readiness for entrepreneurs and risk management strategies for impact investors. Interviewees also mentioned the lack of professionalization of the impact investment ecosystem and the lack of experts in the region.

Missing standardization and integration

Apart from a common understanding, definition and education related to impact investment, another important aspect mentioned in the interviews was standardization, for example related to return expectations by investors or the general process of impact due diligence. This aspect is especially important in a region that is small and in which integration could yield high potential benefits, including for example the sourcing of higher amounts of impact capital from interested foreign investors. A fragmented market also makes risk management much more difficult.

Transparency and collaboration

Apart from the importance of transparency in the regulatory sense, it is also critical to share information about the process and results of impact investments with other actors to instill collaboration between them. Interviewees implied the possibility for the creation of powerful alliances based on a culture of information sharing and openness. The aforementioned aspect of standardization would also incentivize more collaboration among actors.

Opportunities

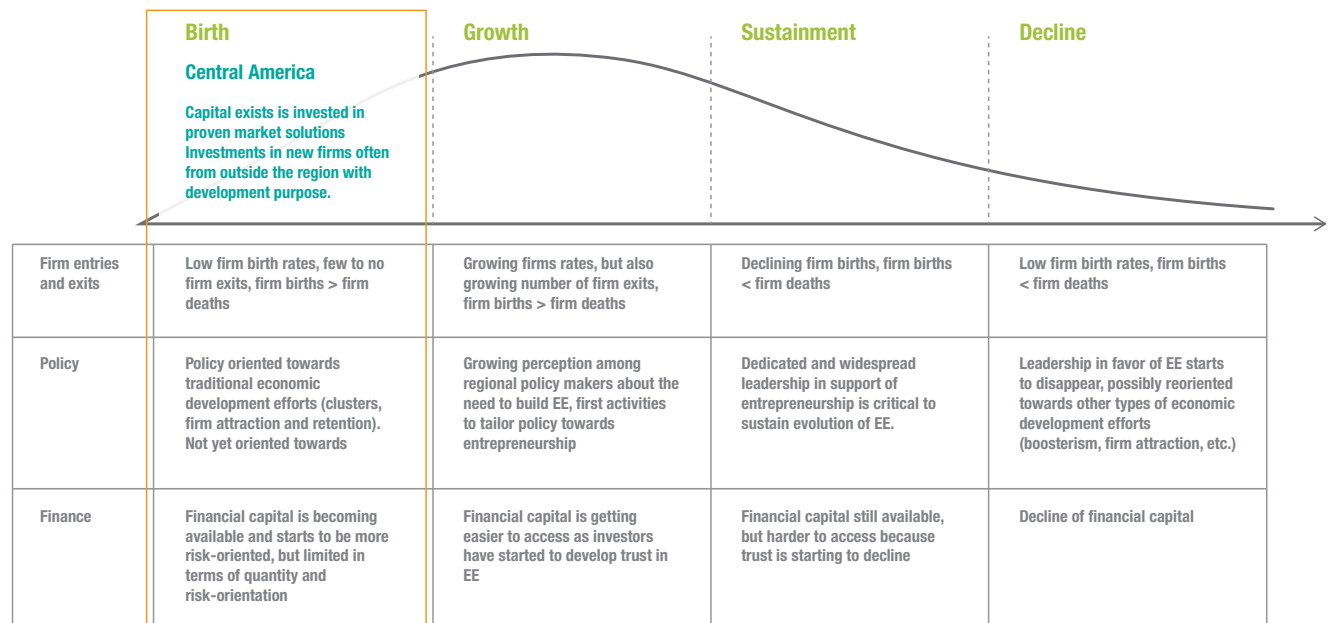
Ecosystem Development

During the interviews we found that the promotion of acceleration, incubation and angel investment networks have the potential to grow the impact investment space locally. Interviewees mentioned that the regular channeling of resources through smaller and localized platforms could ensure the flow of impact investment in the region. The opportunity of professionalizing organizations dedicated to deal sourcing and consulting of impact investors throughout the investment process was also stated.

4.

Recommendations for the strategic focus of the RABCA

Compared with the entrepreneurial ecosystems in developing countries, Central America is still in the “birth phase.” This applies to for-profit entrepreneurial ecosystems and, based on the data on impact investment presented above, we can conclude that impact investment is still in a pre-birth phase, which could be called a “sensibilization” phase.



Source: *Evolution of an entrepreneurial ecosystem in developing countries (Mack and Mayer, 2016)*

Based on the analyses and findings presented in the previous chapters, we have identified a threefold strategic intent—i.e., a philosophical guideline for strategy making—to guide the RABCA team in upcoming discussions on building its strategy.

4.1

Strategic intent: Unlock capital, reduce inequality, and create ecosystems

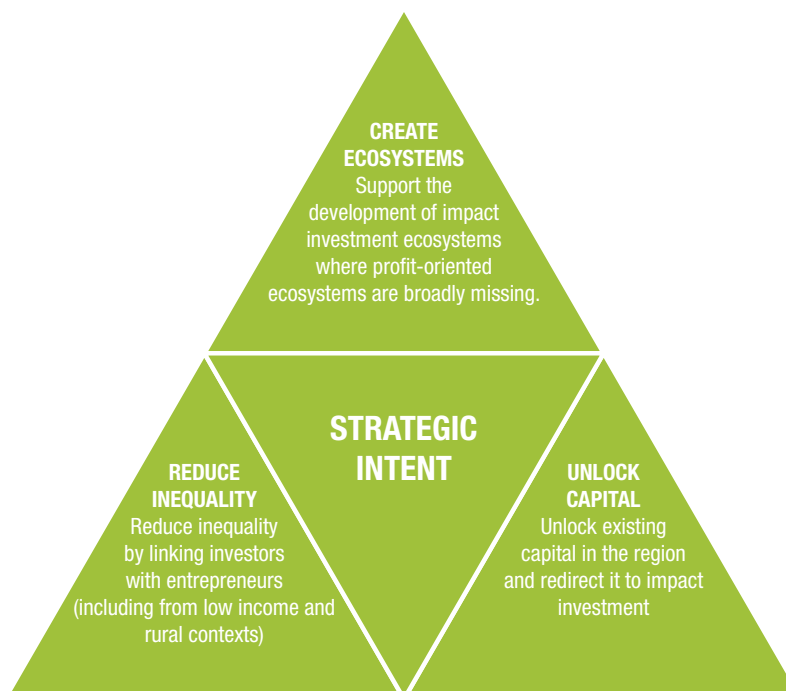
Three characteristics of the Central American market are essential to fostering an impact investment ecosystem:

First, it is often thought that the main challenge of impact investment is acquiring money. However, capital is already available in the region—in the hands of governments, development funds, NGOs, and wealthy families. However, there is a need to unlock this capital by 1) raising awareness among capital owners so that they will consider impact investment as a potential instrument and 2) building adequate distribution channels for this impact capital.

Second, Central America is one of the most income unequal regions in the world, challenged by a large number of informal markets. Therefore, linking investors with ventures means creating a relationship between potential investors and entrepreneurs from low-income, rural regions who often have low self-confidence and low trust in governments or government-associated funding. This challenge includes all types of inclusive development work. Ignoring this challenge would mean restricting support to the few entrepreneurs who already have access to funds based on their social status.

Third, as Central America is in a “birth” phase with respect to the for-profit entrepreneurial ecosystem, fostering impact investment means starting from scratch, just like western countries did in the 1980s, when they were just starting to build the venture capital industry. This comes with challenges; however, there are also opportunities to create innovations, since structures and laws that might encourage innovations are not yet in place.

These three elements of strategic intent are summarized in the following figure:



Source: Strategic intent of the RABCA

Based on the data presented above, we have identified three strategic priorities to guide the RABCA team in discussing its working agenda (see table below):

1. Lobbying activities for government involvement
Goal: Involve the government as an ecosystem enabler and active impact investor
2. Training of high-level decision makers
Goal: Encourage collaboration and co-investments between like-minded peers
3. Support for large-scale role model initiatives
Goal: Develop and replicate pilot projects involving actors from all GSG pillars and address the entire impact investment ecosystem

Proposed strategic focus	Goal	Exploiting opportunities	Responding challenges	Activities
Lobbying activities for government involvement	Government involvement as ecosystem enabler and active impact investor	<ul style="list-style-type: none"> • Potential to raise funds from alternative sources (e.g. INGOs/Banks) to increasing the capital pool available for impact investments in the region • An increasing number of (social) entrepreneurs • Increasing demand for impact investing 	<ul style="list-style-type: none"> • Weak investing-specific regulations in Central America • No adequate incentives for impact investors • No legal forms for social entrepreneurs • Weak government involvement in the region's ecosystem • Weak exit opportunities • Weak institutions and bureaucracy • Missing standardization 	<p>RABCA supports and contributes to lobbying activities with government institutions to strengthen standards, laws and active government involvement (as impact investor) into the ecosystem</p> <p><i>Example of current project:</i> <i>Strategy development/ implementation of "Sistema Banco para el Desarrollo" (Development Bank System) in Costa Rica.</i></p>
Sensitization and training of high-level decision makers	Encourage collaboration and co-investments between like-minded peers	<ul style="list-style-type: none"> • High-net-worth individuals or family offices with access to capital, market power and political influence • Mentality for sustainability in the region seems strong 	<ul style="list-style-type: none"> • Missing awareness and trust in the impact investment movement • High investment risk in the region (informality/ insecurity) • Weak know-how on impact measurements • Missing education programs 	<p>RABCA supports existing and develops new training programs and replicates these in collaboration with Business Schools/universities of the region.</p> <p><i>Example of planned project:</i> <i>A program for high-level decision-makers high-net-worth families</i> <i>A program for high-level decision-makers in public institutions</i></p>
Support of high-scale role model initiatives	Development and replication of high-scaling projects involving actors from all (GSG) pillars and addressing the whole ecosystem of impact investment	<ul style="list-style-type: none"> • The physical and cultural closeness between Central American markets and generate collaborations and co-investments with peers • High social and environmental problems = opportunity for social enterprises • Relatively dynamic countries (Guatemala and Costa Rica) 	<ul style="list-style-type: none"> • Missing preparation of the pipeline • Financial instruments in Central America are focused on the traditional investing space and therefore do not consider the impact on the construction of financial products 	<p>RABCA supports large scale role model initiatives and successful enterprises and investors (knowledge broker between global best practices and local context and players)</p> <p><i>Example of current projects:</i> <i>FLII CA&C, a replication of the Mexican FLII in Central America</i> <i>PIEA Costa Rica, a public-private partnership to foster impact investment and social enterprise ecosystem in Costa Rica</i></p>

Source: Possible focus for RABCA's working agenda

The following paragraphs describe the strategic intent and the three RABCA strategies in more detail and relate them to the findings from our above empirical and secondary analyses. This chapter also contains the recommendations we received from participants of the RABCA focus group meeting and from investors throughout our interviews. We ordered them, as far as possible, according to the three strategies.

4.2

Priority 1: Lobbying activities for government involvement

The absence of impact investment-specific regulations in Central America implies a lack of both adequate incentives for impact investors and legal forms through which social entrepreneurs can foster the region's ecosystem. This, in turn, leads players to look toward government involvement as a regulator and a source of public funding. It is clear that the RABCA needs to support and contribute to lobbying activities with the government to demonstrate the potential results of existing impact investments and attain the involvement of state officials.

Thus, the goal of this first strategic priority is to transform the governments of the RABCA member countries into proactive players in the impact investment ecosystem. During our empirical study it became apparent that the call to the region's governments is twofold. On one hand, the regulatory entities and institutions should create laws and regulations that provide incentives for impact investors and facilitate the selection of investees, the investment process, risk management, and the exit of investment. On the other hand, government institutions should provide public funds and themselves invest in impact-generating projects to "walk the talk," in turn inspiring other national and international institutions by creating confidence and ensuring that the national markets for impact investments reach scale.

Encourage government support for the market

In a region that is not yet known for attractive impact investment opportunities, government support could serve as a key contributor and enabler of a more favorable environment. Government involvement would send a strong signal to all actors in the impact investment space, and would generate confidence in the future of the market. It would also increase transparency, collaboration, and engagement between the different actors. Governments ultimately need to provide a fundamental support system for organizations that support entrepreneurs (e.g., via incubators). By bringing regulators closer together, Central American governments could collaboratively approach policy design and implementation roadmaps.¹⁴⁶

To illustrate, Argentina's National Directorate for Social Innovation provides funding to companies seeking to achieve social or environmental impact. Additionally, the country runs PROESUS, a national program for entrepreneurs in sustainable development, with 3,500 entrepreneurs registered. Additionally, the government implemented tax incentives specifically designed for renewable energy investments.¹⁴⁷ Another example is Brazil, which in 2017 became one of the first countries globally to implement a national strategy for impact investment and impact-driven businesses. The national strategy includes 26 organizations that are committed to different objectives to increase engagement over a 10-year time frame.¹⁴⁸ Under the direct supervision of the Ministry of Industry, Foreign Trade and Services, a dedicated policy team has proven integral in making the Brazilian impact investment market what it is today.¹⁴⁹

Activating funds for impact investment from alternative sources

Regarding capital availability, there is potential to raise funds from alternative sources, where activating these could contribute to increasing the capital pool available for impact investments in the region. Development Finance Institutions have significant funds and often tackle the same or similar issues as impact investors do, though their activities in impact investment in the region have thus far been limited.¹⁵⁰ Additionally, some governments have taken an active role in allocating capital to impact investment. To illustrate, South Africa partnered up with private sector and non-governmental organizations, which collectively raised funding for job creation. Another example is Argentina, which developed the VC Fund of Funds, Fondece, in 2017, aimed at deploying USD 172 million in VC funds and incubators over four years, paying particular attention to adherence to ESG criteria.¹⁵¹ Supporting the activation of these alternative sources of funding constitutes an interesting task for the RABCA's working agenda.

Encourage the practice of transparency for government funding

While tackling corruption and lack of transparency on a large scale is both necessary and desirable if the region is to flourish in the future, governments will undoubtedly need time to resolve this issue as a whole. However, governments should pass legislation that requires funds that receive government impact investment capital to outlay their analysis of social, environmental, and corporate governance. To illustrate, the VC Fund of Funds in Argentina has a clause in its terms and conditions that requires any funds receiving investment to provide such an analysis, thus increasing transparency and measurability of impact.¹⁵²

Emphasize commitment in the most relevant sectors of the region

Central America is known for its competitive advantage in both the production space and in agroindustries such as coffee and dairy farming. Central America could take advantage of this by emphasizing these sectors as those with the highest potential in the international impact investment landscape.¹⁵³

Recommendations obtained from our empirical interviews: Improvements in the regulatory environment for impact investments in Central America

During our empirical project we asked our 42 interviewees about the evaluation of the regulatory environment currently applicable to impact investment in Central America. More than 50% of respondents evaluated it as “deficient,” only one respondent evaluated it as “adequate,” and none described it as “good.” After this initial evaluation they were asked the question: “What suggestions do you have to improve the regulatory environment in order to make impact investment easier or more accessible?” Responses to this question provide valuable input by which to structure and direct the RABCA's future lobbying activities within this first strategic priority.

These recommendations directly address deficiencies of the state apparatus, such as corruption and bureaucracy, but also focus on the strengthening of institutions and the generation of knowledge and collaboration between actors. It is also interesting to note that the call to the state is two-fold. On one hand, government is seen as more passive regulators and facilitators in strengthening the ecosystem for investment activities to unfold. On the other hand, it is seen as a proactive investor that channels public funds into impact generating projects. A proactive attitude and actions by governments can position them as role models, inspiring other potential ecosystem actors to follow suit.

Another point to note is that none of the recommendations we heard can be regarded as quick-wins. Since the basic structures for impact investment are not readily available, the current phase of development in the region must be seen as an incipient process of institutionalization in nascent ecosystems of impact investment.

The following section contains a summary of the most common answers we received:

Active resolution of the inefficiencies that characterizes the legal environment

- De-regulate and de-bureaucratize to facilitate the process for investors to invest in impact and make planning easier
- Avoid the constant changes in rules and regulations to facilitate the planning process for impact investors
- Create public policies to achieve transparency and combat corruption in order to instill confidence in potential impact investors

Create rules and incentives for impact investment

- Create a regulatory framework that incentivizes, facilitates, and promotes impact investment
- Create a national policy for impact investments, including guidelines and goals
- Design and promote adequate financial instruments that adjust themselves to the characteristics of investors and entrepreneurs in the region
- Provide fiscal benefits for impact investors

Regionalize regulation and promote standardization

- Promote the creation or availability of a functioning Central American capital market to make liquid investments
- Standardize and align regulations to help impact generating projects reach scale
- Regionalize legal initiatives to achieve higher acceptance

Liberate public funds for impact investment

- Create national or regional funds and promote the dedication of public funds to impact investments
- Strengthen institutions dedicated to promoting impact investment and ensuring the correct application of the regulatory framework

Create incentives for generating impact projects

- Simplify and streamline regulations for starting new businesses and keep them operational in the initial life cycle phases
- Create and promote a certification to identify impact-generating startups in the region
- Develop standards for impact measurement

Education and collaboration

- Facilitate information and education related to impact investment
- Learn from practices and policies applied in more developed contexts by consulting renowned experts in the field
- Educate corporate leaders in the private sector
- Generate public-private partnerships to develop the impact investment ecosystem in the region

4.3

Priority 2: Training of high-level decision makers

To define regional guidelines and set standards, it is first necessary to define the concept of impact investment in Central America and adapt it to the characteristics of local markets. Additionally, it is essential to identify and study success cases in the region to inspire potential members of the nascent ecosystem. Decision-makers in the region must be educated on the concepts, guidelines, impact measurement KPIs, realities of impact entrepreneurs, financial instruments, risk management strategies, and best-practices related to impact investment in Central America. This is especially true for groups that are highly relevant in the market, such as wealthy family offices, individual investors, and actors in the entrepreneurship intermediation system. To involve them in the impact investment space, a strategy for communication and a platform to articulate and coordinate their efforts towards common impact goals must be created.

Hence, the goal of this second priority is to create a large pool of potential impact investors and other ecosystem actors that are educated and trained in the specifics of impact investment in Central America. They should be incentivized to collaborate with like-minded peers in co-investments, by sharing learnings and best-practices from their endeavors, or by establishing relevant contacts from their networks. This is especially important in Central America since a lot of potential capital is in the hands of wealthy families and individuals who need to consider impact investment as a viable alternative to their more traditional activities.

Incentivize family offices to invest into impact in the region

Family offices must be incentivized to keep their capital in the region, as opposed to channeling it into other, usually developed, countries. Their disproportionately large importance of this for Central America, as opposed to other regions, means that finding a way to keep this capital inside the region is wildly desirable for its future. Additionally, as these investors had traditionally stayed in the region, having only begun looking to move abroad in the last two decades, they need to play an active role in developing the region concerning impact investment. This includes taking a seat at the table and contributing to the policies and initiatives that advance the industry. Supporting educational and articulation work to encourage family offices to invest in the region and collaborate through existing or newly-established networks for such groups is likely to be a top priority of the RABCA.

Standardize impact measurement

With respect to impact measurement, Central America could take a similar approach to Argentina, who took part in the Impact Management project (IMP)¹⁵⁴ to standardize impact measurement on a governmental level. Family offices are already increasingly adopting the IMP for impact evaluation and impact management.¹⁵⁵

Research related to adequate financial instruments

In order for impact investment to offer an attractive alternative for investors, appropriate investment vehicles across the risk-return spectrum must be developed. This would allow investments to achieve the required impact and return goals. Social impact bonds have received ample attention, as they present pay-for-performance contracts, which shift the risk from governments to other actors, such as private companies or NGOs, that are incentivized to meet or exceed the predefined targets, as not doing so would lead to non-payment. Additionally, the industry has yet to identify and, consequently, offer appropriate types of financing to (social) entrepreneurs and/or investees. With respect to research, quasi-equity seems to provide an attractive investment vehicle, as it promises faster exits and greater liquidity. However, increased research

¹⁵⁴ The IMP is a forum focused on building a global consensus on how to measure, report, compare and improve impact performance with over 2,000 organizations taking part. To find out more go to <https://impactmanagementproject.com/>

and data-driven financial product development is needed.¹⁵⁶ Impact measurement must be integral in the development of new financial instruments specifically designed to foster impact investment. While some countries, such as Argentina and Brazil, have taken steps to develop an impact measurement methodology that could be adopted by organizations in industry nation-wide, other markets, such as the UK, have left this to individual players. Given the breadth of international efforts for international impact measurement standardization, Central America could benefit from adopting existing progress in its own markets.¹⁵⁷

Research and dissemination of success stories

Case studies of successful investments and exits would help shed light on the financial potential of impact investment in Central America and are, therefore, fundamental to the development of the Central American impact investment market.¹⁵⁸ Additionally, as outlined above, quasi-equity financial instruments could further contribute to faster exits and more liquid markets.¹⁵⁹ Another key aspect in the dissemination of success stories and best practices is the creation of a coordinated communication strategy that engages the media so that the outreach can include “unusual-suspect” stakeholders.

Develop a common, contextual understanding of impact investment

Developing a commonly agreed upon definition for impact investment has far-reaching implications. Thus, it is imperative that—at least within the region of Central America—legislators, public actors, and practitioners have a mutual understanding of what can be regarded as impact investment, especially considering the unique challenges the region faces. To exemplify, a common definition can lead, for example, to:

- Easier communication and transmission of the concept of impact investment
- Clarity on the inclusion and exclusion of different organizations in the design of policies and initiatives
- Clarity on the criteria an investor and/or their investment must meet to count as an impact investment
- Clarity on the side of (social) entrepreneurs and organizations with a social mission with respect to whether they can attract impact investment capital

4.4

Priority 3: Support for large-scale role model initiatives

Apart from education, articulation, and government lobbying, there is a necessity to replicate and support role model initiatives from other markets and to learn from international experts and countries that are more advanced in the field of impact investment. This is especially important with respect to strengthening the regional intermediation and matchmaking system, an aspect that was frequently mentioned during our empirical study. The integration of country agendas and regional collaboration among the actors of all pillars is key to reaching momentum.

The goal of this third priority is to scale currently ongoing national projects related to strengthening existing impact investment ecosystems on a regional level and create model projects for public-private collaborations that have the potential to generate large-scale impact and address some of society’s most pressing challenges.

Strengthen the entrepreneurial ecosystem by following successful (country) initiatives

Creating and strengthening the entrepreneurial ecosystem requires tackling it from many angles, including education, financial support, a track record of incentivizing success cases, and entrepreneurship hubs.¹⁶⁰ Nicaragua and Guatemala are exemplary cases for strategies that successfully foster an entrepreneurial environment. Nicaragua's government-run CONIMIPYME is responsible for improving the environment for both MSMEs and nonprofits and is backed by a corresponding law that ensures sustainable government support and a commitment to continuously improving the situation for entrepreneurs. Similarly, Guatemala's Ministry of Economy launched Guatemala Emprende, a national entrepreneurship policy coordinated with the country's Chamber of Industry, which provides aspiring entrepreneurs with support in all facets of their entrepreneurial journey.¹⁶¹

Understandably, due to its market size, Central America is unlikely to reach the scale of India or certain African regions—neither in AUM nor number of deals. However, creating and following a regional vision is key to advancing all countries and creating an impact investment environment that is attractive overall, rather than requiring investors to look at individual countries, which they may consider too small to be attractive investment options. Additionally, networks and clusters on a national and regional level could play a vital role in accelerating scale. The benefits of such initiatives are widely proven, as they allow enterprises of all sizes to connect, create knowledge networks and spillovers, and consequently drive innovation and company success rates. Nevertheless, the development of initiatives and policies customized to the institutional, economic, political, and cultural environment will prove vital.¹⁶²

To close the gap between supply and demand of impact capital, the region would benefit from working more collaboratively; i.e., gathering lessons and publishing them regionally to advance all countries simultaneously. To illustrate, within a few short years, Latin American startup accelerators were able to put Latin American entrepreneurs into the spotlight, thus narrowing the gap between supply and demand. Blueprinting or expanding this success model across the region could increase the speed of advancement.¹⁶³

Improve the readiness of investment targets

Strengthening the deal flow is imperative for the region. Central America's complex political history often overshadows its potential to show that a significant number of investable startups could set the region on a strong trajectory. Clusters and networks could work together to create a portfolio of high-caliber investment opportunities and, subsequently, drive attention to Central America. Additionally, more mature companies in the region have historically acted largely outside of the impact space. These companies could nevertheless contribute to a more attractive investing field by focusing on the additional creation of more impact-oriented subsidiaries. More generally, the structural issues behind the lack of social enterprises in the region must be analyzed, and a way to strengthen motivational factors for potential social entrepreneurs must be developed and championed.

Next, Central America could take a more proactive and aggressive approach towards improving the deal flow and investment pipeline by following Chile's model. In 2010, Chile founded Start-Up Chile (SUP), a public startup accelerator by the Chilean government with the vision of changing the country's approach to entrepreneurship. Since then, SUP has become one of the world's top startup accelerators. It has successfully worked with 1,600 companies from 85 countries, roughly 75% of which are located abroad. This model has been replicated in several Latin American countries, namely Argentina (IncuBAte), Brazil (Start-Up Brazil), Colombia (Ruta N), Mexico (Startup Mexico), and others.¹⁶⁴

Ultimately, however, scaling potential remains a major factor in the attractiveness analysis of potential investment opportunities, implying that creating a more beneficial scaling environment for (social) enterprises is vital (more information in the box on the next page). This is also relevant to the creation and articulation of a more consolidated ecosystem that truly helps entrepreneurs through all aspects of their journey, including access to appropriate training, mentorship, and links to diverse funding options (thus impact capital).

¹⁶¹ Taken from section 2.4.

Recommendations obtained from our empirical interviews: Actions to promote impact investments in Central America

Similar to the recommendations regarding the regulatory framework for impact investment in Central America, we asked our 42 interviewees about actions they take to promote impact investment in the region or to strengthen the ecosystem and instill collaboration among actors.

An interesting aspect was that only one interviewee mentioned the necessity for lobbying regulators to create an impact investment-friendly framework, though this was an aspect frequently mentioned in the portion of the interview dedicated to challenges and opportunities. Clearly, the RABCA body needs to prioritize the involvement of government representatives and lawmakers to strengthen the impact investment ecosystem in Central America.

The following section contains a collection of answers the investors provided.

Collaboration and co-investment:

- Collaborating and co-investing with strategic partners can help to reduce risks and reach scale in impact investments in the region
- Promoting change by sharing a voice with partners from the private sector

Core business activity:

- Contributing to the promotion of impact investment in the region by carrying out the core business activities, such as awarding micro loans, accelerating startups or having an investment thesis related to generating impact

Transparency and training:

- Sharing learnings and best practices with other organizations active in the field
- Presenting their own projects and ongoing activities to potential peers (policy of open books)
- Creating collections of success and failure stories in the region
- Reporting of results

Direct promotion of impact investment:

- Actively attending forums or congresses promoting the topic in the region
- Promoting impact investment with peers as a new form of doing business and investing
- Promoting co-investments with international investors
- Some specific mentions of being ambassadors for the B certification in Central America

Lobbying:

- Lobbying activities and the maintenance of a close relationship with regulators

CSR activities:

- Promoting the topic in the region through own CSR or philanthropic activities
- Instilling culture of CSR in employees

Source: Recommendations obtained from our empirical interviews. Actions to promote impact investments in Central America.

Conclusion

Impact investment has become a global movement and is increasingly popular among investors, especially in developed markets. In Central America, however, it still is in a comparably incipient phase. While many Central American investors, as well as outside investors focused on the region, are aware of the basic concept of impact investment, many struggle to identify targets. Other areas of struggle include planning and execution, risk management, and the liquidation of such investments.

To reach a 2020 tipping point for impact investment in the region, various challenges must be addressed. Confusion about what does and what does not constitute impact investment and/or an impact investor still exists in the region. Likewise, a strong culture of philanthropy and the general separation of profit- and impact-generating activities still holds. Defining Central American guidelines, standards and best practices for impact investment is crucial—not only in terms of channeling capital but creating initiatives and policies that support impact investment, which at present are largely missing in the region. In general, there is a low perceived support for the impact investment ecosystem on the part of government actors, as well as prevalent problems of corruption and a lack of both transparency and law-enforcement mechanisms. Fund sizes and single investor commitments tend to be small in Central America due to exit complexity, causing many investors to prefer more mature companies. This is also related to the fact that there are few available financial instruments that adhere to the special characteristics of early-stage social entrepreneurs and investors who desire adequate risk management. Impact measurement is still not commonplace in Central America. The entrepreneurial ecosystem has not yet reached its potential to generate a flow of high-quality investment opportunities with adequate formation and potential to scale. The third GSG pillar, “intermediation of impact capital,” needs particular strengthening in the region.

Various opportunities signal that Central America has the potential to become an interesting and active player in the impact investment space. Despite being a relatively small potential market for entrepreneurs and investors, it has a growing mass of social entrepreneurs who are developing innovative solutions to the regions’ particular social, environmental, and political challenges. Many developing regions in the world face similar market characteristics; thus, Central America could become an innovation testing ground for scalable, impact generating projects despite—or, perhaps, especially because of—its size. The fact that impact capital is available in the region, albeit largely scattered in the hands of wealthy individual investors and family offices, represents an opportunity. By promoting impact investment among traditional investors and family offices and using incipient legal infrastructure to generate regulations that favor impact investment, such investment capital can be unlocked. There is a strong mentality for sustainability in the region, and traditional investors are beginning to search for a new level of satisfaction from their work, which can be gained by investing into impact. Likewise, given the similarities between Central American countries, there is a huge potential for collaboration and co-investment in the region, making use of opportunities to pool investment capital and to hedge risks.

It is imperative that all players in the Central America impact investment space assume an active role in developing the ecosystem to maximize the region’s potential for these types of investments. Based on the findings of our analyses, we have identified three strategic priorities for the RABCA to focus on in upcoming years, in which GSG pillars three and four—which are especially weak in the region—receive special attention. Thus, the RABCA’s strategic priorities will be:

1. Support lobbying activities for government involvement in order to strengthen the regulatory environment and incentives for impact investment
2. Train high-level decision makers such as existing and potential impact investors and disseminate educational materials and best-practices related to impact investment

3. Support large-scale role model initiatives to foster regional collaboration and integration that addresses the entire impact investment ecosystem

The RABCA is unique in its regional character, including six participating Central American countries. We are optimistic that measures towards developing the impact investment ecosystem in the region can serve as examples and baseline models for other developing regions that face similar challenges, such as the absence of a traditional investment ecosystem.

In conclusion, it is evident that Central America has a high potential to become a fixed point on the impact investment radar—not only for investors within the region but for investors around the globe. In order to reach this stage, however, a structured approach to tackling the region's most pressing issues is needed. This report is by no means exhaustive and, rather, should serve as a starting point for future discussions about impact investment in Central America.

Endnotes

1. <https://gsgii.org>
2. <https://hbr.org/2014/05/what-an-entrepreneurial-ecosystem-actually-is>
3. <https://www.inversiondeimpacto-ca.org>
4. <https://www.kingoenergy.com/>
5. Family offices are private firms that provide wealth management services to UHNW (ultra-high net worth) investors such as affluent families (Ref. <https://www.investopedia.com/terms/f/family-offices.asp>). In Latin America, family offices are usually owned and operated by affluent families who invest and manage their own capital.
6. Carlos Martínez. (2019). “Entrepreneurial Decisions in Strong Institutional Voids.” University of St. Gallen, St. Gallen.
7. This refers to GSG’s five pillars describing the Global Impact Investment Ecosystem: 1) supply of impact capital, 2) demand for impact capital, 3) intermediation of impact capital, 4) government and regulatory actors and institutions, and 5) market builders and professional services (<https://gsgii.org>).
8. For the purpose of this report, we considered the six Spanish-speaking countries of mainland Central America: Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama.
9. GIIN. (2019). *Annual Impact Investor Survey*.
10. ANDE. (2016). *The Impact Investment Landscape in Latin America*.
11. Aschari-Lincoln, Jessica. (2018). “Determining Characteristics of Social Organizations for their Financing.” Dissertation, University of St.Gallen, St.Gallen.
12. <https://thegiin.org/research/publication/impinv-survey-2019>
13. GIIN’s 2019 Annual Impact Investor Survey excludes three large outliers from many of its statistics, thus giving the impression that total AUM shrank from 2018 to 2019. However, this is not the case, as the sum of total AUM of all respondents grew from USD 228.1 billion to USD 238.8 billion.
14. <https://thegiin.org/research/publication/impinv-survey-2019>
15. <https://thegiin.org/research/publication/impinv-survey-2019>
16. Compounded annual growth rate, or CAGR, is a metric that assumes a stable growth rate over a certain time period and therefore makes it easier to compare investments or projects.
17. GIIN. (2016). *Impact Investing Trends Evidence of a Growing Industry*.
18. https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf
19. GIIN. (2018). *Annual Impact Investor Survey*.
20. ANDE. (2018). *The Impact Investment Landscape in Latin America: Trends 2016 & 2017*.
21. GIIN. (2019). *Annual Impact Investor Survey*.
22. GIIN. (2019). *Annual Impact Investor Survey*.
23. GIIN. (2019). *Annual Impact Investor Survey*.
24. GIIN. (2019). *Annual Impact Investor Survey*.
25. Salas, A., Castro, L. J., & Nielsen, W. (2017). *Impact investing in Central America: An analysis of the growth, diversity and potential of a young investment strategy in an emerging market*. Routledge.
26. USAID. (2015). *Central America and Mexico (CAM) Regional Development Cooperation Strategy 2015-2019*.
27. <https://www.usip.org/events/what-drives-violence-central-americas-northern-triangle>
28. <https://www.nationaljournal.com/s/56056>
29. <https://www.cfr.org/backgrounder/central-americas-violent-northern-triangle>

30. <https://www.laprensa.hn/honduras/854572-410/imperios-de-la-extorsi%C3%B3n-est%C3%A1n-en-honduras-y-el-salvador>
31. <https://www.cfr.org/backgrounder/central-americas-violent-northern-triangle>
32. https://weltrisikobericht.de/wp-content/uploads/2019/03/190318_WRR_2018_EN_RZonline_1.pdf
33. https://weltrisikobericht.de/wp-content/uploads/2019/03/190318_WRR_2018_EN_RZonline_1.pdf
34. The following results are based on the 42 interviews we executed with investors from Central America.
35. The Global Impact Investing Network (GIIN) centers its definition of impact investing around four basic characteristics (<https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>):
 - Intentionality: For investments to be considered impact investments, it needs to be evident that the investor intends for their investment to have a positive environmental or social impact.
 - Financial return: Impact investments are expected to generate a financial return. According to GIIN, these returns can be as low as below market and as high as risk-adjusted market rates.
 - Range of asset classes: Impact investments can be made across asset classes, as with debt and equity instruments or mezzanine and convertible debt instruments. The asset classes that impact investments cover are broad.
 - Impact measurement: Impact measurement and reporting is essential to impact investment, as it provides transparency and accountability and, ultimately, benefits the development of impact investment as a form of investment and the desire to create positive impact through finance. Among impact investors there are widely-used impact measurement tools, such as the Impact Reporting and Investment Standards (IRIS+), B Impact Assessment, or proprietary tools that take into account investor-specific objectives or a potential sector focus.
36. <https://www.latinfinance.com/magazine/2018/may-june-2018/investors-make-an-impact-in-central-america>
37. <https://home.kpmg/xx/en/home/insights/2018/09/ngos-and-impact-investing.html>
38. <https://www.ft.com/content/ecfc64c0-ae66-3458-b9d7-bbcc7895ab96>.
39. <https://www.idbinvest.org/en/how-we-work/development-effectiveness>.
40. <https://bidlab.org/en/about>
41. https://www.bcie.org/fileadmin/bcie/english/files/publications/strategy/cabei_2015-2019_institutional_strategy_english.pdf.
42. https://www.bcie.org/fileadmin/bcie/english/files/publications/annual_reports/CABEL_Annual_Report_2017.pdf
43. https://www.ifc.org/wps/wcm/connect/region_ext_content/ifc_external_corporate_site/latin+america+and+the+caribbean/priorities
44. <https://fas.org/sgp/crs/row/R45547.pdf>
45. Information summarized from country sections at https://www.giz.de/de/weltweit/nord_und_mittelamerika.html.
46. <https://www.caf.com/en/about-caf/who-we-are/>
47. <https://www.caf.com/en/projects/?c=panam%C3%A1&s=&a=&fd=&td=>
48. <https://www.caf.com/media/2031762/annual-report-caf-2017-other-countries.pdf>
49. <https://www.emeraldpeak-pe.com/impact-investing-innovation>
50. <https://globalpartnerships.org/about-us/>
51. <https://globalpartnerships.org/our-impact/>
52. <https://www.ecoenterprisesfund.com/index.php/about/history>
53. <https://www.ecoenterprisesfund.com/index.php/about/investment-strategy>
54. <https://www.microcapital.org/microcapital-brief-gsg-studying-feasibility-of-1b-latin-america-impact-fund-of-funds-liff/>
55. <https://www.oikocredit.coop/about-us>
56. *Oikocredit Social and Environmental Performance Report. (2017).*
57. <https://www.oikocredit.coop/about-us/facts-figures/facts-figures>
58. <https://triplejump.eu/about-us/>
59. <https://triplejump.eu/highlights/>

60. <https://triplejump.eu/about-us/social-performance-2013/>
61. This section only includes findings from the expert interviews (with potential impact investors) that we conducted in six Central American countries. The findings from the RABCA taskforce focus group meeting principally relate to challenges and recommendations and, therefore, are included in sections 3 and 4 of this report, respectively.
62. In the present paragraph, such percentages indicate the % of interviewees from the total sample of 42 who responded a certain way.
63. Salas, A., Castro, L. J., & Nielsen, W. (2017). *Impact investing in Central America: An analysis of the growth, diversity and potential of a young investment strategy in an emerging market*. Routledge.
64. Conclusions based on the interpretation of the comments collected in the interviews around the level of risk aversion.
65. ANDE. (2016). *The Impact Investment Landscape in Latin America*.
66. Kiva. (26 October 2018).
67. http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf
68. http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf
69. Global Entrepreneurship Monitor. (2015/2016). *Latin America and Caribbean Regional Report*.
70. From GEM website. <https://www.gemconsortium.org/data/key-nes>
71. World Bank Group. (2018). *Doing Business 2018 Latin America and Caribbean*.
72. <https://finances.worldbank.org/Other/MSME-Finance-Gap/ijmu-5v4p/data>
73. Calculated based on most recent data of 2016 for six countries.
74. IMF. *Advancing Financial Development in Latin America and the Caribbean*. Working Paper.
75. World Bank. *Financial Development in Latin America and the Caribbean: The Road Ahead*.
76. <http://www.bcie.org/en/about-us/general-information/>
77. https://lavca.org/wp-content/uploads/2018/03/ASPEN_summary_english_DIGITAL.pdf
78. https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/research_library/latam_reports/latam_impinv_eng_2018_digita.pdf
79. https://www.findevgateway.org/sites/default/files/publication_files/mix_2003_latin_america_caribbean_benchmarking_report_en_0.pdf
80. http://www.redcamif.org/jdownloads/Otros%20Documentos/estudio_sectorial_de_microfinanzas_desafios_estrategicos_hacia_el_futuro.pdf
81. <https://www.aspeninstitute.org/about/>
82. Business Inquirer magazine. "New business model to create bigger market?"
83. <https://www.avina.net/wp-content/uploads/2019/07/Annual-Report-2018-ENG.pdf>
84. <https://www.dalberg.com/what-we-do>
85. <https://impacthub.net/>
86. <https://www.technoserve.org/our-work/impact>
87. <https://www.technoserve.org/annualreport/2018/impact.html>
88. <https://yoemprendedor.net/quienes-somos/>
89. <https://thegedi.org/global-entrepreneurship-and-development-index/>
90. <http://www.pyme.go.cr/informacion.php?id=2>
91. http://www.pyme.go.cr/media/archivo/normativas/politica_fomento_alemprendimiento.pdf
92. <http://www.pyme.go.cr/media/archivo/normativas/Politica%20PubFomentoPYMEEmpre.pdf>
93. <https://www.undp.org/es/latin-america/publications/las-empresas-con-propósito-y-la-regulación-del-cuarto-sector-en-iberoamérica-costarica>
94. https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2018/pdf/BTI_2018_Costa_Rica.pdf

95. https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2018/11/EIU_Microscope_2018_PROOF_10.pdf
96. <https://www.tni.org/es/node/13522>
97. https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2018/pdf/BTI_2018_Costa_Rica.pdf
98. <https://www.conamype.gob.sv/wp-content/uploads/2014/08/Pol%C3%81tica-de-Emprendimiento.pdf>
99. <https://www.conamype.gob.sv/download/ley-de-fomento-proteccion-y-desarrollo-para-la-micro-y-pequena-empresa/>
100. <https://fundemas.org/quienes-somos/que-es-fundemas>
101. <https://www.findegateway.org/es/library/el-salvador-un-mercado-peque%C3%B1o-pero-extenso-en-microfinanzas>
102. <http://progresomicrofinanzas.org/en/steps-towards-financial-inclusion-in-el-salvador/>
103. https://www.cne.gob.sv/?page_id=459
104. <http://www.bandesal.gob.sv/institucion/quienes-somos/>
105. <http://cooperacion.rree.gob.sv/>
106. <https://www.emprendamosguate.com/presentacion/conoce-pae/>
107. <http://asopyme.org/sitiox1/wp-content/uploads/2016/05/Pol%C3%ADtica-Nacional-MIPYME.pdf>
108. <https://www.sica.int/cenpromype/breve.aspx>
109. <http://alternaimpact.org/es/about-us/>
110. <http://redimif.org/es/quienes-somos/>
111. <http://progresomicrofinanzas.org/en/microfinance-institutions-act/>
112. <http://www.mem.gob.gt/wp-content/uploads/2012/05/2.3-Ley-y-Reglamento-de-Incentivos-de-Energia-Renovables.pdf>
113. <http://www.mem.gob.gt/wp-content/uploads/2018/07/Energ%C3%ADas-Renovables-en-Guatemala.pdf>
114. <https://mcac.oikocredit.coop/es/informaci%C3%B3n-de-proyectos/11137/banrural-banco-de-desarrollo-rural-sa>
115. <http://mipyme.hn/assets/pdf/efehp.pdf>
116. <https://sites.google.com/site/desarrollodelaspymesenhonduras/home>
117. <http://fundahrse.org/fundahrse/que-hacemos/>
118. <http://www.redmicroh.org/quienes-somos/>
119. <https://www.iadb.org/es/paises/honduras/perspectiva-general>
120. <http://conimipyme.com/index.php/es/quienes-somos/que-es-conimipyme>
121. <https://garciabodan.com/en/the-challenge-of-entrepreneurship-in-nicaragua/>
122. <http://projects-beta.worldbank.org/en/results/2016/02/03/comprehensive-approach-boosts-nicaraguas-micro-small-and-medium-enterprises>
123. http://pronicaragua.gob.ni/media/publications/doing-business-in-nicaragua-2018_NdXCc8k.pdf (page 95)
124. <http://legislacion.asamblea.gob.ni/Normaweb.nsf/4c9d05860ddef1c50625725e0051e506/32ece460ccfd07b506257910005c8211?OpenDocument>
125. <http://www.conami.gob.ni/index.php/acerca>
126. <https://www.mific.gob.ni/Portals/0/Portal%20Empresarial/LEYES/Ley%20No%20532.pdf>
127. http://www.renenergyobservatory.org/uploads/media/Nicaragua_Producto_1_y_2_Esp_02.pdf (pages 10-11)
128. <https://www.export-u.com/CCGs/Nicaragua%20CCG%202017.pdf> (page 47)
129. https://unctad.org/meetings/en/SessionalDocuments/ciid20_en.pdf page 15
130. <https://www.monografias.com/trabajos108/crecimiento-economia-informal-y-pymes-panama/crecimiento-economia-informal-y-pymes-panama.shtml>
131. <http://progresomicrofinanzas.org/en/the-state-of-microfinance-in-panama/>

132. <https://www.iea.org/policiesandmeasures/renewableenergy/?country=panama&country=panama>
133. <http://www.energia.gob.pa/tmp/file/440/Plan%20Energetico%20Nacional%202015-2050.pdf>
134. <https://mire.gob.pa/images/PDF/RREE%20Maqueta-21X21CM-RESUMEN%20EJECUTIVO-INGLES.pdf>
135. https://docs.wixstatic.com/ugd/cf7a10_cd73b1b926db4481933a0af861c86349.pdf
136. Focus group.
137. Focus group.
138. Focus group.
139. Focus group.
140. Focus group.
141. ACDI/VOCA
142. Focus group.
143. https://thegiin.org/assets/GIIN_Roadmap%20for%20the%20Future%20of%20Impact%20Investing.pdf (page 35)
144. Focus group.
145. Focus group.
146. Focus group.
147. GSG Policy Paper. Page 64-65.
148. GSG Policy Paper. Page 67.
149. http://www3.weforum.org/docs/Behind_the_Scenes_of_Impact_Investment_Policy-making_report_2018.pdf (page 16).
150. Focus group.
151. GSG Policy Paper.
152. Argentina NAB Report. (Page 36)
153. Focus group.
154. The IMP is a forum focused on building a global consensus on how to measure, report, compare and improve impact performance with over 2,000 organizations taking part. To find out more go to <https://impactmanagementproject.com/>
155. GSG Policy Paper.
156. Focus group.
157. GSG Policy Paper.
158. Focus group.
159. Focus group.
160. Focus group.
161. Taken from section 2.4.
162. Focus group.
163. ACDI/VOCA.
164. <https://www.forbes.com/sites/jonathanmoed/2018/11/19/start-up-chiles-impact-2010-2018-inside-the-revolutionary-startup-accelerator/#74d5b1236dc5>

This report was prepared as part of an application to found a Regional Advisory Board for Central America (RABCA) under the umbrella of the Global Steering Group for Impact Investment (GSG)¹. It is a practical guideline for decision making and is not intended to be a scientifically-grounded text. The purpose of this report is to serve as the basis for strategic decision making to be carried out by the future RABCA team, not to propose a specific strategy.



www.vivaidea.org



www.alterna.pro



www.incae.edu

