

Market Overview

As one of the strongest economies in Latin America, Mexico has attracted particular interest from private markets. Significant attention and resources from the government have recently been focused on growing and strengthening the country's entrepreneurial ecosystems. For instance, when the investment promotion corporation legal form (Spanish acronym: SAPI) was created at the end of 2005, it helped accelerate the private-equity sector in Mexico. Since 2008, Mexico has seen a significant increase in private-equity transactions. Fundraising has dramatically increased: USD 1,162bn was raised in 2015, up from USD 140mn in 2008.¹ **In 2019, Mexico continued to show the world's second-highest volume of impact-related private-equity and venture-capital deals, with USD 1.5bn invested in 137 deals.**²

However, Mexico's impact-investment policy environment remains underdeveloped. The first impact investment in Mexico was made in 2000. A number of impact-focused organizations have emerged since that time. As the ecosystem has matured, private capital too has gained interest in the sector. The National Advisory Board was created in 2015, and today has identified more than 50 organizations and funds that promote the country's impact-investment sector. It is additionally assisting the government in developing policies that promote impact investment.

IMPACT INVESTMENTS HIGHLIGHTS³

Supply of Impact Capital

- ▲ DFIs play a critical role in impact investing in the region, primarily through investments in funds.
- ▲ **Of the firms investing in Mexico, 62% have raised institutional capital, while 31% manage proprietary capital. Others raise a mix of philanthropic and return-seeking capital.**

Intermediation of Impact Capital⁴

- ▲ At the beginning of 2016, impact investors focused only on Mexico managed USD 392mn. Including international firms, this assets-under-management total reached USD 7.1bn. Investors use multiple instruments; debt and equity are the most common, but quasi-equity models are gaining traction.
- ▲ Co-investment strategies are gaining popularity among local investors as a means of mitigating risks and leveraging capital.

Demand for Impact Capital⁵

- ▲ According to investors, the last few years have seen the emergence of more and stronger entrepreneurs. However, investors still struggle to find enterprises with expertise in specific problems, with business plans that can scale and create impact.
- ▲ Sistema B, an entity promoting the B Corporation model, has done tremendous work in identifying and recognizing companies contributing to the solution of major social and environmental challenges. More than 30 companies in Mexico have been certified as B Corps to date.

Government and Regulation⁵

- ▲ The introduction of the SAPI legal structure allows founders of and investors in limited-liability corporations to buy and sell shares freely as a company.
- ▲ A set of 2014 financial reforms introduced new instruments and products to support and finance entrepreneurs through development banks.

Market Builders

- ▲ Mexico has a strong support network for entrepreneurs, with important networks and more than 20 incubator and accelerator programs, ranging from university incubators to large-corporation accelerators. Many are focused on impact enterprises.

Indicators^A

GDP PPP (2011 USD, billions)	2,239.2
Total Population (millions)	129.2
GINI Index	43.4
HDI	0.774
MPI	6.3%
EPI	59.69

KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
IDB	Adobe Capital	Sistema Biobolsa
KfW, DEG	Promotora Social Mexico	Echale a tu casa!
Nacional Monte de Piedad	ALLVP	Granjas Murlota
Fondo de Fondos	Angel Ventures	Iluméxico
NAFINSA	IGNIA	Sala Uno
Arc Impact	Zora	WaterGen

SPOTLIGHT DEALS^B

Company	Total Funding	Investor	Sector
Natgas	USD 15M	Adobe Capital, Northgate Capital	Energy
Kinedu	USD 4.9M	Promotora Social Mexico	Education
Urbvan	USD 2.2M	DILA Capital	Mobility
Clínicas del Azucar (SIINC)	USD 7M	Roots of Impact	Health
Salud Facil	NA	ALLVP, Accion, KOIS, Alloy	Health
Games for Peace	USD 100k (NIS 400K)	UJIA's SI3 Initiative	Education

ABCs of the Mexican Impact Economy^C

An impact economy is a just and equitable economic system in which positive impact is produced in an environment of risk and return. In an impact economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sectors of the society in the mainstream economy, while also giving consideration to the needs of our planet and its environment.

The following table describes actions undertaken by a variety of stakeholders in Mexico for the adoption of strategies intended to **A**void harm, **B**enefit all stakeholders and **C**ontribute to solutions. The Mexican impact economy is supported by private-capital funding from large for-profit companies as well as by the vibrant third sector.

	Avoid Harm	Benefit all stakeholders	
			Contribute to Solutions
IMPACT IN BUSINESS	<ul style="list-style-type: none"> ▲ A national carbon-market simulation took place between 2017 and 2018, with the goal of preparing Mexican businesses for participation in a future emissions-trading system. More than 100 companies, representing two-thirds of Mexico's GHG emissions, participated.⁶ 	<ul style="list-style-type: none"> ▲ The Mexican stock exchange has created a green-finance advisory council with the support of key non-profit and financial organizations. The goal is to support the development of green bonds, and ensure issuers provide more robust ESG information.⁷ 	<ul style="list-style-type: none"> ▲ Mexico's Grupo Bimbo has teamed with Fondo de Fondos and Sonen ▲ Capital on a USD 150mn regional impact fund.⁸
IMPACT IN INVESTMENT	<ul style="list-style-type: none"> ▲ Mexican pension funds may choose to include ESG considerations in their codes of best practice. However, this has yet to be implemented.⁹ ▲ Mexico's largest national bank, Grupo Banorte, is part of the UN Principles of Responsible Investment (PRI). It has committed to integrating ESG criteria into the investment processes of almost USD 50bn in AUM.¹⁰ 	<ul style="list-style-type: none"> ▲ In 2018, Mexico City signed the Green Bond Pledge, a pledge that encourages cities, public authorities and corporations to commit to the use of green-bond finance tools to ensure that new infrastructure meets the challenges of climate change.¹¹ ▲ There are 35 B Corps in Mexico. 	<ul style="list-style-type: none"> ▲ By 2018, an estimated USD 392mn had been invested in impact-related transactions.¹²
IMPACT IN POLICY	<ul style="list-style-type: none"> ▲ Fossil-fuel sales and imports (with the exception of natural gas) have been subject to a USD 3.50 carbon tax since 2014.¹³ ▲ Emitters in the energy, industrial, transport, agricultural, waste, commercial and services sectors are required to report emissions of the six GHGs identified by UNFCCC, as well as of black carbon. ▲ In October 2014, a mandatory reporting system (the National Emissions Register-RENE) was established, covering direct and indirect GHG emissions for facilities with annual emissions above 25,000 tCO₂e. 	<ul style="list-style-type: none"> ▲ In August 2016, Mexico, Québec, and Ontario issued a joint declaration on carbon-market collaboration efforts. In December 2017, Mexico joined with four other countries and seven subnational governments in the Paris Declaration on Carbon Pricing in the Americas, creating a platform for carbon-pricing cooperation.¹⁴ ▲ The Mexican government has identified 15 goods and services as being potentially eligible for the incorporation of sustainability criteria in the public-procurement process. 	<ul style="list-style-type: none"> ▲ The 2012 Social and Solidarity Economy Act created the National Institute of Social Economy, with the broader goal of developing social-economy activity.¹⁵ ▲ The government has released three impact bonds to provide financing to social and environmental projects. The Nacional Financiera (NAFIN) development bank, in collaboration with the Ministry of Finance and the Mexican stock exchange, launched a USD 207.6mn¹ social bond to finance and promote the social sector, while the BANOBRAS development bank has released a green bond and a sustainable bond.
IMPACT ON CONSUMPTION	<ul style="list-style-type: none"> ▲ The quantity of energy consumed in Mexico by household appliances had fallen by more than 50% due to new standards and labels developed for common household products and insulation materials according to the OECD in 2008.¹⁶ 		

¹ Exchange rate used throughout this document: MXN 1 = USD 0.05

SDG Dashboard and Trends

CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges
 ■ Significant challenges
 ■ Challenges remain
 ■ SDG achieved
 ■ Information unavailable

SDG TRENDS



↓ Decreasing
 → Stagnating
 ↗ Moderately improving
 → Maintaining
 ↑ On track
 ●● Information unavailable

Key Initiatives

Capacity building and access to capital

The National Institute for Entrepreneurship (INADEM) still operates within the Ministry of Economy. This body implements and coordinates national policies supporting entrepreneurs and SMEs, promotes innovation and competitiveness, and contributes to economic development and social welfare. INADEM also provides private-equity, venture-capital and impact-investment capital. Notably, the government contributed 30% (USD 2.09mn) of total investment volume to the National Entrepreneurs Fund, which supports entrepreneurs and high-impact companies during their growth stages. However, in 2018, the new administration announced that INADEM would cease to exist, though support of this nature would continue.¹⁷

Fiduciary duty

Private and institutional investors in Mexico are already permitted to incorporate environmental and social factors into their investment decisions. Therefore, further regulation by the government on this aspect is unlikely to have a strong catalytic impact on the industry.

Outcomes commissioning

A first social impact bond (SIB) in Mexico was piloted in the state of Jalisco, with the goal of empowering female heads of households. Despite deep engagement by all parties involved, the SIB was dropped from the political agenda due to a change in government.

However, all other actors, including service providers and investors, have expressed interest in continuing the work with a different local government. Meanwhile, the states of Michoacan, Nuevo Leon and Mexico have begun exploring other SIBs, although none have yet been signed. The election of the new national government in 2018 has created the opportunity to work on a long-term SIB plan.

Capacity building through academic institutions

Social-economy research, teaching and popularization has experienced considerable growth in Mexico over the past few years. Business schools have led this process by creating academic and research programs, contests and other projects addressing the area of social entrepreneurship and innovation. In 2012, the Faculty of Accounting and Administration (FCA) of the National Autonomous University of Mexico (UNAM) created one of the first non-degree courses in social entrepreneurship in Mexico - the Diploma in Creation, Developing and Management of Social Enterprises - which led to the National Agreement for the Creation or Development of Social Entrepreneurship and Innovation Schools or Programs by the National Association of Faculty and Schools of Accounting and Management. A total of 44 business schools and faculties have signed this agreement to date.¹⁸

Road to Impact Economy

PATH TO TIPPING POINT 2020

Agree on a definition of “impact”

Currently, the government uses the word “impact” simply to describe fast-growing companies that provide jobs. This choice of terminology creates confusion, and clouds the goals and intentions of the impact-investment sector in the eyes of the public.

Education and training on the topic for relevant government officials and other actors involved in the ecosystem (financial advisors, investors, lawyers, etc.) could help remove ambiguity around the terminology.

Create a central-government unit to address impact-investment issues

A centralized unit would help the government take a more active role in establishing a common foundation for impact investing.

For example, this unit could be responsible for developing the definitions, regulations and incentives needed for a successful impact-investment ecosystem.

Create a specific legal structure for impact enterprises

The B Corp certification exists in Mexico (Sistema B), with more than 30 enterprises having been certified to date. However, having a formal legal structure could help with the communication issues around the terminology. It could also provide a clear investment universe, allowing specific fiscal policies to target the correct companies, and focusing funds from investors. Similarly, despite the 2012 passage of the Social and Solidarity Economy Act, there is no specific legal structure for social enterprises comparable to the community interest company in the UK. Even more importantly, there is no fiscal policy that specifically benefits social enterprises. The current policy in Mexico provides fiscal advantages to large companies, and rarely to smaller businesses.¹⁹

Standardize impact measurement

Alignment with international standards for measuring and managing impact could create transparency that would

potentially have a positive effect with regard to the flow of capital into the sector.

Expand philanthropic funding for early-stage social enterprises

For many social entrepreneurs in Mexico, one key challenge is the lack of financial support for early-stage businesses. Many new enterprises are forced to seek investment from outside the country. Engaging in increased dialogue with philanthropic investors could bridge this gap. The goal would be to unlock more philanthropic capital in the region, particularly for funds focused on early-stage businesses and riskier sectors or markets. This is particularly relevant for the Mexican impact-investment landscape, as the private sector already plays a very significant funding role.²⁰

TRANSITION TO IMPACT ECONOMY 2030

- ▲ Mexico has a strong and dynamic social entrepreneurship and innovation ecosystem. However, to sustain and increase its impact, greater efforts must be made to secure supportive legal reforms and improve government transparency.
- ▲ Increased investment through structured funding models such as SIBs or DIBs could be leveraged to deliver public services and achieve social objectives.
- ▲ Despite considerable economic-development achievements to date, poverty and inequality remain significant challenges in Mexico. Moreover, environmental concerns such as air-pollution levels in urban settings are increasing. By expanding the focus on inclusiveness, the social economy could provide tangible benefits with regard to addressing such challenges in a sustainable fashion.

Footnotes:

- ^A **Environmental Performance Index** Available in: <https://epi.envirocenter.yale.edu/>; All other **indicators** available in: <http://hdr.undp.org/en/countries>
- ^B Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, ‘Total Funding’ refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.
- ^C The **ABC** of the **Singaporean Impact Economy** table is adapted from the IMP framework.

Sources:

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