



Alive Ventures

Impact Fund for Growing
Social Businesses

Alive Ventures is a fund manager created to bridge the finance gap in the region for early-stage impact businesses. One of its goals is to encourage more local investors to prioritize both return on investment and impact creation. Alive is an ecosystem stakeholder that has succeeded in bridging gaps in access to finance, attracted other stakeholders, and diversified their participation in impact investing.

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Impact Fund for Growing Social Businesses



LOCATION:

Latin America



YEAR OF FOUNDATION:
2016



TYPE OF INVESTOR/ SILO:

Investment fund.



SECTORS:

- Education and access to quality employment.
- Income-generating opportunities.
- Products and services that improve the quality of life.



CONTINUUM OF CAPITAL:

Impact investing.

SDGS:



MAIN PARTNERS:

- Acumen.
- 60 Decibels.
- Value for Women.
- Fundación Bancolombia.
- Dutch Good Growth Fund.
- The MacArthur Foundation.



MOTIVATION OR PROBLEMS TO SOLVE:

Closing the finance gap for early-stage businesses.



NON-FINANCIAL SUPPORT OFFERED:

- Strategic and operational strengthening.
- Impact management and measurement.
- Access to networks.
- Financial sustainability.
- Corporate governance.



FINANCIAL INSTRUMENTS:

Equity and hybrid instruments.

RESOURCES INVESTED OR DONATED:

US\$28 million.



FINAL BENEFICIARIES:

Low-income population.



IMPACT:

10 M people impacted, **48%** of whom are vulnerable and **29%** live in poverty. **108,000** people have access to solar energy in rural areas, and **32,000** have access to formal employment. As measured among portfolio businesses, **45%** of the workforce is comprised of women, and **44%** of them are in leadership positions.

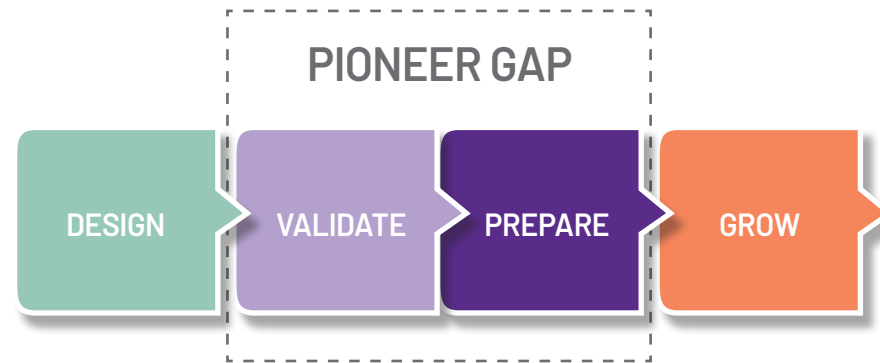


Overview

Acumen is a non-profit organization founded in the United States in 2001, and has contributed to improving the lives of millions of people, investing in enterprises that provide agricultural commodities, quality education, clean energy, health and sanitation services, housing, and safe drinking water to low-income clients in India, Pakistan, Eastern Africa, Western Africa, and Latin America¹. It uses patient and venture capital, that is, debt or investments in early-stage social businesses in order to serve as a bridge between scale-based market approaches and social impact². However, given the characteristics of the patient capital it uses, its source of funding is philanthropic capital, which limits resources that can become available and the involvement of commercial stakeholders.

Virgilio Barco, co-founder and Managing Director of the Alive Fund, was interested in increasing participation for a higher number and a wider variety of stakeholders to get involved in impact investing.

Figure 1. Acumen's Finance Goals



Acumen's investment seeks to address a finance gap faced by social businesses that are not being served by investors, but require investment to grow.

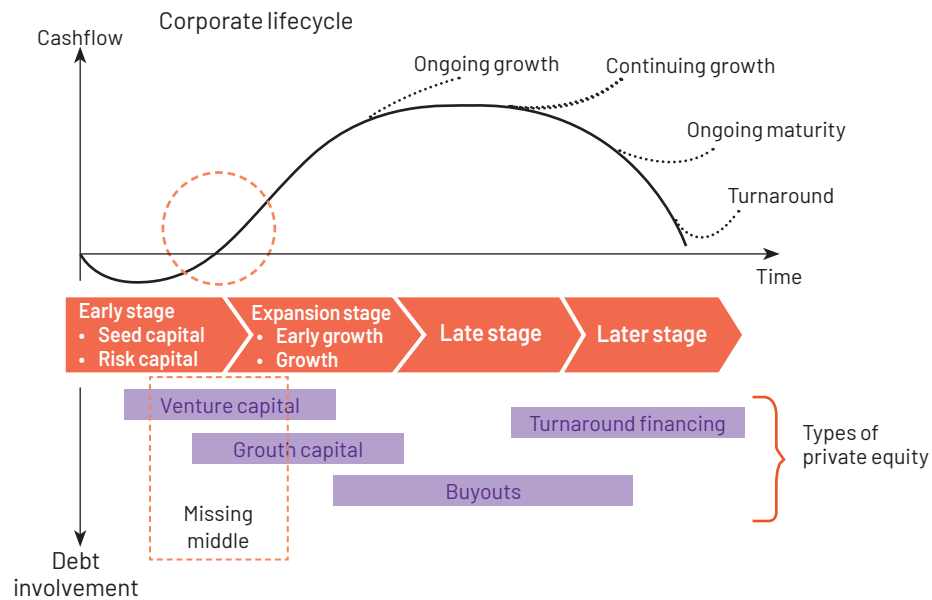
Source: Fondo Sumatoria.

- 1 Acumen(2014). Acumen Overview Spanish. Accessed at: <https://acumen.org/wp-content/uploads/2015/05/Acumen-Overview-Spanish.pdf>
- 2 Ibid.

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He saw the need to broaden the continuum of capital to invest in more advanced and mature enterprises, with profitable businesses and lower risks. This entailed escaping the pioneer gap³, as can be seen in Figure 2, which gave way to the creation of Alive, an autonomous fund manager that is independent from Acumen—in both financial and governance terms—and deploys funds by means of traditional private structures. For this purpose, Barco invited Santiago Álvarez to become a partner and won seed investment from the Inter-American Development Bank (IDB) as an anchor investor with an investment commitment of \$3m USD.

Figure 2. Alive’s investment spectrum



Alive is an autonomous fund manager that is independent from Acumen.

Source: Alive.

³ The pioneer gap addresses the need for investment between the moment a social business first receives resources and the moment it is ready for impact investing.

Alive defined cross-cutting aspects to make investments, such as a gender lens and the consolidation of an investment community. Alive adopts a gender approach in the investment process, from due diligence to the exit strategy, as a way to combat discrimination and power dynamics limiting opportunities for women in Latin America. This allows the fund to support financed organizations for greater gender equality in the workforce and among their clients and providers. Alive also seeks to help build a community of investors concerned about impact and learning, thus aiming at nurturing and strengthening the impact investment ecosystem through collaboration and knowledge exchange.

Based on its geographical scope in Latin America, Alive set investment parameters for its first fund, especially in Colombia and Peru. Initially, it focused on three sectors offering competitive possibilities in the market and high opportunities for impact creation: agribusiness⁴, education and access to formal employment⁵, and access to energy⁶. Within these parameters, Alive considers the possibility of investing if impact creation is part of the business model's DNA. The more a business grows, the greater the impact, thus maintaining the balance between impact and attractive financial return adjusted to the investors' risk.

It has tickets worth \$2m USD on average, which it uses in the form of equity or mezzanine debt, an instrument that combines subordinated debt and shares. Once the investment has been defined through the whole due diligence and Investment Committee approval process, the business receives

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- 4 ALIVE invests in agribusinesses that provide high-quality, nutritious products to local and domestic markets while sourcing from small and medium farmers. ALIVE's companies provide fair prices as well as technical assistance to increase quality and yields, thus allowing farmers to increase their incomes and quality of life. Impact objective: Improve the quality of life for small farmers and their families. Taken from Alive's website: <https://alive-ventures.com/fuera-de-la-red>. Ibid.
 - 5 ALIVE invests in tech-enabled companies that are providing highly pertinent, cost-effective training to young adults across Latin America, allowing them to increase incomes and access well-paying jobs. The Fund also invests in companies that use artificial intelligence to streamline recruiting and hiring, securing employees that are an optimal fit. Because machine learning eliminates human bias, these companies are able to source and place a highly diverse pool of candidates. Its impact objective: Improve access to quality and relevant education that has a positive impact on the levels of formal employability of vulnerable population. Ibid.
 - 6 ALIVE invests in companies that are deploying innovative, renewable energy solutions to on-grid and off-grid communities, including solar mini-grids and home solutions, solar water treatment projects, and rural school and health center electrification projects. Its impact objective: Provide access to sustainable, affordable, and reliable energy to low-income off-grid households. Ibid.

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support for around five years. During this period, the investment supports growth plans and goals for businesses' scale. For this, strategic guidance is provided, holding board seats and providing technical assistance in commercial, talent, impact measurement and management, technology, and financial planning. For the exit process, they consider selling their seat to another investor or stakeholder.

While Alive seeks a narrower risk spectrum—compared with Acumen's Fondo Pionero strategy—, impact is the cornerstone of its strategy. Also, Alive resorts to Acumen's *know-how* to understand and measure impact. The Lean Data tool is essential in this process and is implemented in collaboration with 60 Decibels⁷ to understand the impact created. The following results have been attained so far in four areas:

- a** Lives impacted and jobs created: 10 million.
- b** Percentage of the portfolio businesses' clients or providers considered to be vulnerable:⁸ 48% live in vulnerability, and 29% in poverty.
- c** Indicator or measurement of the significant change in the well-being of a person or a family: 108,000 people have access to solar energy in rural areas; 85% state that their quality of life has improved thanks to this access; 32,000 have accessed formal employment, and 87% report their quality of life has improved.
- d** Gender equity conditions in the company and its target audience (whether clients or providers): The Fund is aligned with the gender lens as it meets the 2X Challenge criteria.⁹ Furthermore, Alive partnered with Value for Women¹⁰ so that each portfolio business can identify its gender gaps and adopt strategies to bridge them. As measured among portfolio businesses, 45% of the workforce is comprised of women, and 44% of them are in leadership positions.

These dimensions in impact measurement show that not only it is important to quantify end results but also to deeply understand how a social, economic, and gender transformation is taking place

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⁷ Company specializing in impact measurement. For more information: <https://60decibels.com/>

⁸ *Vulnerability* is defined as living on \$4 USD to \$10 USD per capita per day (IDB, A Rising US\$ 750 Billion Market).

⁹ 2X Challenge was launched in 2018 to encourage development financial institutions to commit and mobilize capital collectively to positively impact women in developing markets. For more information: <https://www.2xchallenge.org/>

¹⁰ Consulting firm specializing in gender inclusion. For more information: <https://v4w.org/>

among clients, providers, and end beneficiaries since impact is seen as a competitive advantage and a sustainability-generating variable for the organization. Impact measurement is seen in this case as a market competitive advantage that helps attract more investment and lower the risk perception.



Innovative factors

The capital raising process for Alive's first fund (ALEG) involved different stakeholders, to raise a total of \$28m USD. The IDB was the first investor to join through initial capital, ensuring the reliability needed to attract other investors. In order to strengthen the local and regional impact investment ecosystem, Alive looked for new local investors because, while this entailed a slower and more challenging process, it did not want to resort only to stakeholders who were already in the impact ecosystem in places such as the United States and Europe.

"We want to demystify impact and get more players. Many investors are here because they see impact learning as a journey. Alive aims to achieve systemic impact in Latin America, contributing to the vision of investing resources with return on investment to benefit value chain stakeholders." Santiago Álvarez, co-founder and Managing Partner, Alive.

In this search process, Alive found that corporate local investors associated financial return exclusively with the investee's business model and its social impact with corporate foundations. This entailed process to educate and train stakeholders on topics like the continuum of capital, impact investing, the direct relationship between financial return and social and environmental impact, and the risk perception in this type of investments. Because of this learning challenge, the creation of the first fund took over two years. This period did not constitute a barrier, instead, it confirmed the need to dedicate education efforts in order to grow the ecosystem.

Alive's efforts succeeded in attracting new investors, mainly individuals and foundations. That is to say that the corporate investment gap remained because corporates preferred to associate their non-profit arm with impact investing owing to the perceived risk. Nonetheless, it was a considerable step to get Colombian corporate foundations—such as Fundación Bancolombia, Fundación WWB, and Fundación Sura—as well as a second-tier bank, Bancoldex, on board. Since then, more investors have

joined, including Mercantil Colpatría, Dutch Good Growth Fund, and the Mac Arthur Foundation. Thus, Alive has put together an investor base with a significant share of local members, which allowed it to start including local stakeholders in the ecosystem.

Thanks to Alive's interest in supporting the growth of the impact investment sector in the region, as of 2022, it has a mixed group of investors—36% from Latin America and almost all of them investing for the first time in this spectrum of the continuum of capital.

Additionally, a second fund was created to finance non-financial support. This fund raised \$1.1m USD to provide support in sales and access to new markets, talent coaching, impact measurement, the business perception of target groups, technological support, monitoring and evaluation, and financial planning and consulting. In this fund, all capital is purely philanthropic and comes from the capital investment fund's investors. Therefore, this fund shows how important impact creation is for Alive, as well as the expertise and *know-how* contributed by Acumen regarding the importance of providing not only capital, but also a comprehensive support to enhance investee's growth and impact.



Lessons

Alive's first fund had the initial thesis of closing the financing gap for early-stage businesses in Latin America, which needed capital injections to finance their growth and expansion. This first experience and the number of good investment opportunities found in the region since 2018 have supported the fund pursue its initial thesis. Since, Alive has been able to build a strategy and operations for quick capital deployment. Since 2018, Alive has identified and analyzed more than 1,000 investment opportunities. Furthermore, at the end of 2021, Alive concluded the creation of its portfolio, having invested \$13.8m USD in 8 enterprises and contributed \$4.3m USD to follow-on investments, totaling \$18.1m USD or 65% of the fund's investible capital. On the other hand, investment results have shown a 28.9% gross internal rate of return¹¹. In this way, Alive has achieved its purpose of creating attractive impact investment opportunities for stakeholders who are less willing to assume high risk.

¹¹ Gross Internal Rate of Return (IRR) and Gross Multiple on invested capital as of December 31, 2021: 28.9%, 1.7x.

A success story derived from Alive's investments, whereby its investment thesis is better exemplified, is Crehana, an online learning platform for job skills. Based in Peru and present throughout Latin America, it has trained more than 5 million young adults. The first equity investment was made in December 2018, after which Santiago Álvarez, Alive Managing Partner, joined its board of directors—to which he still belongs.

To promote the company's growth, Alive:

- Supported the opening of an office in Bogotá in 2019 and gave more than 35 presentations to potential clients in Colombia¹² for the B2B channel (corporate training).
- Supported and led the closing of subsequent investment rounds, giving presentations to new investors and leading negotiations.
- Granted access to experts in the Edtech industry¹³ for them to learn good practices about successful customer acquisition strategies, building an effective organizational structure in a fast-growing business, and market strategies, among others.
- Financed two impact measurement projects with 60 Decibels, which have been used to communicate their impact to third parties and improve the value proposition for students.
- Launched a B2G channel to start working with Ministries of Education on various education projects through a strategy to widen the scope among low-income populations¹⁴. This initiative was pre-selected by the Global PRI Awards 2020 for the Emerging Markets category.

In May 2020, Alive led a \$5m USD bridge round, investing \$1.5m USD in Crehana. Then, in December 2020, the business closed a Series A Extension worth \$12.5m USD (of which \$7m USD was equity) in which Alive invested another \$500,000 USD. Considering Crehana's good outlook, Alive approached the fund's investors to offer them a co-investment opportunity as part of this round, allowing them to co-invest an additional \$1.15m USD with ALEG I. These efforts have allowed the business to maintain

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¹² Today, Colombia is its largest market in Latin America after Peru.

¹³ Such as Coursera, Udemy, and Udacity.

¹⁴ Led by an MBA intern from Yale University hired by Alive.

a high performance and gain a solid position in the regional market, which have sustained Crehana's finance and thus boost its growth plans.

Given this sustained performance, several prospective investors approached the business and showed interest in leading and accelerating Crehana's Series B growth. Eventually, that series closed—totaling \$70m USD and led by General Atlantic (GA)—in September 2021. After this closing, it became the *Edtech* company with the largest Series B in the history of Latin America. This is how Alive showed its ability to achieve investments that provided both impact and a financial return. It was also successful in attracting other investors, strengthening the impact investment ecosystem, and catalyzing significant capital for Crehana's financial sustainability.

Alive's experience with Crehana, and its first fund in general, has surfaced the investment opportunities of many high-impact businesses with great growth potential in target countries. Despite these opportunities, Alive believes that a capital-access gap remains in the regional market. For this reason, Alive decided to create a second fund, larger than the first, with the goal of almost doubling the number of companies financed with investments between \$1m USD and \$5m USD. To do this, it also aimed to attract additional institutional investors, which remains a significant challenge considering that stakeholders' risk perception and their return expectations in this sector are still unknown.



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As for the investment model, Alive has learned that growing businesses usually have capital needs that are urgent, specific, and more recurrent than initially believed. It had been estimated that 25% to 30% of the fund's capital reserve would be enough for follow-on investments, and that these would take place 18 to 24 months after the initial investment. In reality, the need for capital occurs in the first two years (before 18–24 months), and yet businesses require larger amounts. Therefore, Alive had to make an adjustment to allocate 40% of its first fund's capital reserve to follow-on investments. Considering this lesson learned, 50% will be reserved for these investments when Fund 2 starts operating.

Alive's expertise gained during these first years with the ALEG I fund has helped identify certain challenges. For example, it has been difficult to sustain the active non-financial support that was initially given to portfolio businesses, which has resulted in prioritizing interventions and recurrent support more effectively. At the same time, just as Alive faces capacity challenges, so too do portfolio

businesses. For this reason, Alive has learned to prioritize activities that will be implemented with the businesses where the most added value can be created.

Another important takeaway considered for Alive's second fund has been building its investment portfolio based on impact goals and not sectors. The first fund focused on the agribusiness, education and access to formal employment, and access to energy, but this limited the possibility of assessing pipeline opportunities. Fund 2, regardless of the sector, will be guided by the following impact goals: education and access to quality employment, income-generating opportunities, and products and services that improve the quality of life.

Alive has found that the business models of the enterprises in which it invests can change rapidly, which makes impact measurement very difficult. To prevent this, it will conduct three impact measurement studies with each business throughout the duration of the investment, trying to preserve some of the same metrics while introducing some that can capture the impact of new business lines (for instance, a B2B line that did not exist before)¹⁵.

15 Given that direct beneficiaries of B2B models are businesses, it is difficult to measure "impacted lives" and use metrics that measure impact depth and are comparable to B2C portfolio businesses.