



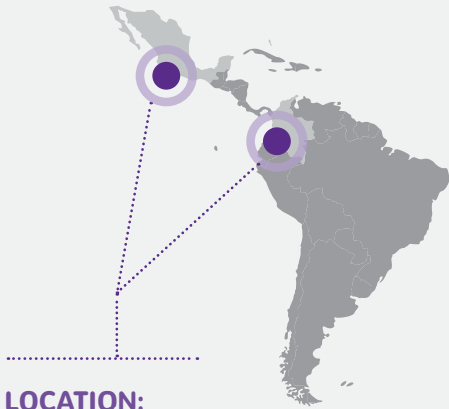
Kaya Impacto

Bridging the Gap between
Impact Investors and
Entrepreneurs

Kaya Impacto is a **financial consulting** firm whose goal is to help consolidate social and environmental businesses by improving their access to capital. To this end, Kaya Impacto brings together businesses and potential investors. The organization develops three service lines to build capacity and thus leverage finance, advise investment funds, and manage social and/or environmental impact projects. Kaya Impacto stands out for its strong support and sound advice for both investment funds and social entrepreneurs.

Kaya Impacto

Bridging the Gap between Impact Investors and Entrepreneurs



LOCATION:

Colombia, Spain, and Mexico.¹



YEAR OF FOUNDATION:
2016



TYPE OF INVESTOR/ SILO:

Professional services firms.



SECTOR:

Social and environmental businesses.



CONTINUUM OF CAPITAL:

Impact investing.



MAIN PARTNERS:

- Sistema B.
- MEF.
- Red de Impacto.
- Impact Hub.
- Latimpacto.
- All MX.
- I3 Latam.
- Aspen Network of Development Entrepreneurs.



FINAL BENEFICIARIES:

Entrepreneurs.



MOTIVATION OR PROBLEMS TO SOLVE:

Entrepreneurs who face barriers to access the capital needed to fund their businesses and who want to further develop its management practices in order to increase their impact.



NON-FINANCIAL SUPPORT:

- Strategy and/or business model.
- Financial sustainability.



TYPE OF FINANCE / RESOURCES INVESTED OR DONATED:

Not applicable.



IMPACT:

77 organizations supported, 17 countries impacted, +700 entrepreneurs trained, **USD 35 M** worth of capital invested in businesses, 38 investments closed, 89% capital-raising success rate.

SDG'S



¹ Kaya Impacto has had clients in South, Central, and North America, Spain, France, England, Switzerland, Uganda, and Nigeria.



OVERVIEW

Entrepreneurship in emerging economies is regarded as a practice that can drive sustainable economic development.² Small and medium-sized enterprises (SMEs) have become a relevant strategy for job creation, poverty reduction, productive and financial inclusion, and social protection universalization.³ Nevertheless, a significant number of startups fail. According to reports by the Global Entrepreneurship Monitor (GEM), most social businesses in Latin America do not make it through the first three months of operation, which leads to their early shutdown.⁴ Furthermore, recent studies have identified five major factors behind the failure of social enterprises:⁵

- ... Inability to access resources and infrastructure as funding opportunities are scarce.
- ... Economic and social inconsistency and instability in Latin America.
- ... Lack of corporate governance.
- ... Entrepreneurs' skill development.
- ... Balancing how to address a social issue and developing and implementing a profitable business model.

The impact investment ecosystem has become a scenario that promotes solutions to the challenges above, although its use is still proportionally low compared with the impact capital deployed

Most social businesses in Latin America do not make it through the first three months of operation.

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- 2** Barragán, J. N., Guerra, P., Sandoval, P., Sosa, E. (2019). El emprendedurismo en economías emergentes: estudio comparativo entre Venezuela y México. *Daena: International Journal of Good Conscience*. 14(2) 290-301. Available at: [http://www.spentamexico.org/v14-n2/A18.14\(2\)290-301.pdf](http://www.spentamexico.org/v14-n2/A18.14(2)290-301.pdf)
 - 3** Rocha, K., Arévalo, N. & Cocunubo, L. (2018). Las PYME en economías emergentes: el emprendimiento empresarial en Chile como factor determinante en el desarrollo económico de la última década. *Punto de vista*, 9(14). Available at: <https://journal.poligran.edu.co/index.php/puntodevista/article/view/1176/891>
 - 4** Maiza, C., Rivera, P., and Morales, D. (2019). El fracaso de las empresas nacientes en el contexto latinoamericano. *Unian des Episteme*, 7(2), 162-176. Available at: <http://45.238.216.13/ojs/index.php/EPISTEME/article/view/1490/1099>
 - 5** The Failure Institute (2017). Causes of failure in Mexican Social Enterprises (p. 53). Available at: <https://www.thefailureinstitute.com/wp-content/uploads/2017/04/Causes-of-failure-in-social-enterprises-low-res.pdf>

worldwide.⁶ Building this ecosystem has been possible particularly as a result of technical assistance and capital mobilization from different investors to social businesses and SMEs. Nevertheless, investors also face a wide range of challenges. According to an analysis by Statista, the lack of appropriate capital across the risk/return spectrum was perceived as the main challenge as of 2020.⁷

Kaya Impacto acknowledges these factors as key elements, not only for the survival of businesses but also for impact realization in socio-environmental organizations. The firm acts as a financial and capital consultant, advising businesses, investors, and other companies, such as accelerators, non-governmental organizations, foundations, and multilateral organizations, to help them realize their vision and scale their impact. Consequently, the organization's value proposition revolves around three axes or service lines. In the first service line, Kaya Impacto offers entrepreneurs alternatives to access capital and manage financial resources through support that includes:

1 Assessment:

- A Assessment of the business model and development stage.
- B Streamlined development of a financial analysis of the enterprise.
- C Definition of strategic recommendations and tailored work plans for capital consultancy and the service of an external Chief Financial Officer (CFO).

2 Capital counseling:

- A Support for the business's strategic planning.
- B Development of the materials needed to raise capital, including a financial model with financial projections, a one-pager, and a pitch deck.

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- ⁶ Between 2018 and 2019, the global impact investing market mobilized around \$715b USD (Forbes, 2022). Available at: <https://forbes.co/2022/06/08/economia-y-finanzas/latinoamerica-el-nuevo-centro-para-las-inversiones-de-impacto/>. According to the Aspen Network of Development Entrepreneurs (2020), around \$600m USD was deployed in Latin America in that same period, which represents growth compared with previous years but still a small proportion of all the capital mobilized worldwide. For more information, see: <https://www.andeglobal.org/publication/la-inversion-de-impacto-en-america-latina-tendencias-2018-2019/>
- ⁷ Statista (2022). Main challenges for the impact investing industry worldwide 2020. Available at: <https://www.statista.com/statistics/1200353/main-challenges-for-impact-investing-industry/#:~:text=The%20lack%20of%20appropriate%20capital,significant%20challenge%20for%20the%20industry.>

- C Formulation of a capital-raising strategy.
- D Identification of and connection with investors that best meet financing needs.
- E Counseling to optimally negotiate key business aspects.

3 External CFO service:

- A Strategic planning: Growth plan, financial modeling, budget, financial function design, and capital raising.
- B Performance management: Cashflow control, profitability optimization, unit profitability, financial statement analysis, and KPI (key performance indicator) analysis.
- C Relations with key stakeholders: Investor relations, periodic reporting, and support for board meetings.
- D Training and development: Counseling for the CEO, training for the finance team, and support in selecting the finance team.

4 Strategic counseling, with two types of services:

- A Strategic planning: Business model, SWOT⁸ analysis, goal setting for one, three, and five years, and project identification and prioritization.
- B Operational planning: Feasibility analysis, short- and medium-term work plan, and definition of key indicators.

"We are not an accelerator. Our niche is businesses with some traction that need specialized services for which they are willing to pay for consultancy. We began working with businesses when they were small, and we currently keep working with Series A or Series B enterprises [...] we are a catalyst." Estefania Arenas, Associate, Kaya Impacto.

The second service line—for investors—Kaya Impacto supports the design and operation of impact investment funds. In this case, support is aimed at organizations that want to launch a new investment fund or have limited operating capacity. This support focuses on three areas:

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- 8 Strengths, weaknesses, opportunities, and threats.



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1 Investment strategy development:

- A Investment thesis definition: Sector, geography, stage, impact, traction, amount.
- B Process development for fund management: Pipeline construction, investment criteria, initial business selection, due diligence, and investment committee.
- C Internal material development: Private placement memorandum, term sheet, and financial model.
- D Investment instrument identification: Debt, equity, royalty-based instruments, among others.

2 Analysis process of due diligence:

- A Financial analysis: Financial sustainability, projections, scalability, repayment capacity.
- B Impact: Theory of change, key indicators, results to date.
- C Investment criteria: Compliance with investment thesis, financial instruments, terms and conditions.
- D Business model: Market analysis, competitive advantage, equipment, risks and mitigation strategies, scalability.

3 Investment portfolio management:

- A Monthly reports on performance and impact.
- B Participation in the businesses' board meetings.
- C Strategic and support sessions with portfolio businesses.
- D Risk analysis and mitigation strategies.

Kaya Impacto's last service line is aimed at organizations in the impact investment ecosystem, such as foundations, multilateral organizations, and accelerators. These services consist in developing tailored programs around access to capital.



INNOVATIVE FACTORS

As a financial and capital consulting firm, Kaya Impacto serves as an intermediary between investors and social and environmental businesses. As shown by its service lines both for investors and entrepreneurs, Kaya Impacto provides detailed and flexible consultancy that addresses each fund or business's improvement opportunities and needs according to their level of development.

In the case of funds, for instance, the organization provides comprehensive support in the investment process by implementing the Triple D methodology, developed by Kaya Impacto. This methodology intends to help fully understand each business's specificities to design a capital strategy that suits its needs. The Triple D methodology, specifically during the design stage, includes support for the definition of the investment instrument that adapts both to the investors' expectations—in financial and impact terms—and to the finance demands of social and environmental businesses. This stage includes substantial assistance for businesses that would potentially receive investment and help them identify the most appropriate financial instrument according to their stage and financial situation, while aligning with the investment fund's expectations.

To find the optimal capital instrument, Kaya Impacto has taken hybrid financial instruments into account, for example, in structuring debt mechanisms with impact incentives, as well as combining debt with donations in the form of technical assistance. The framework of the emergency program launched by Promotion of Social Entrepreneurship in Latin America was the first case developed in a partnership between Ashoka, Bridge for Billions, LeFil Consulting, New Ventures, VC4A, and the Swiss Agency for Development and Cooperation. As part of this program, Kaya Impacto provided financial and technical support to entrepreneurs facing challenges stemming from the effects of the pandemic, especially in terms of liquidity and risk of insolvency. As part of this alliance, Kaya provided technical assistance in financial management, including cashflow management, loan negotiation, planning scenarios, and financial modeling. This program made it possible to finance initiatives like Doktuz,⁹ which accessed debt with a potential forgiveness percentage dependent on the achievement of pre-defined impact goals, one of them being the number of beneficiaries impacted. In this case, the Swiss Agency for

⁹ Doktuz is a company that grants access to health services in Peru. For more information, see: www.doktuz.com

Development and Cooperation became a catalyst providing its capital in the form of potential *first loss* to finance impact.

Structuring this kind of instruments relies on the fund's degree of flexibility. In some cases, funds can set strict conditions whereby Kaya can only make suggestions regarding—among other aspects—the finance terms or grace periods. In other cases, funds have a relatively clear idea of the finance instrument they wish to implement, while they accept counseling on the most convenient mechanisms. Lastly, there might be funds allowing Kaya Impacto to define the instrument, for which the consulting firm carries out a closer analysis of the businesses comprising the pipeline, specifically in terms of their capital needs.

“We always offer possibilities. That depends on the fund’s wishes, interests, and flexibility. Based on that, we discuss what can be done.” Natalie Vergara, Managing Partner, Kaya Impacto.

Another relevant aspect of Kaya Impacto's counseling is the accumulation of detailed and profound knowledge of the social and environmental businesses. This makes understanding of daily challenges that entrepreneurs face possible and allows Kaya Impacto develop tailored financial instruments based on the entrepreneurs' financing needs according to their repayment capacity.

Funds' impact and profitability goals are reconciled, while counseling for businesses enables capacity building to access capital and set a series of key measuring indicators to assess impact. These indicators are defined according to each fund's interests.



LESSONS

Kaya Impacto's role in bringing together investors and social and/or environmental impact businesses has allowed it to understand both stakeholders' needs, limitations, and projections.

“Entrepreneurs say that there is no capital. Investors say that there is no pipeline. Both are right. We have developed processes to change this so that entrepreneurs and investors may come together in the right place.” Natalie Vergara.

Through this knowledge, the firm has added analyses to its service lines to promote access to capital for businesses while building the supported investment funds' operating capacity, specifically regarding the analysis process of portfolio enterprises and the management of the portfolio itself.

Thanks to the counseling provided through one of Kaya Impacto's service line, businesses have been able to develop financial models, define strategies to raise capital,¹⁰ and consolidate internal financial processes, among other actions that have had an impact on their sustainability.

Kaya Impacto has identified two main areas where its most significant challenges lie. On the one hand, unifying and standardizing the value proposition poses a major challenge of services provided to entrepreneurs. While tailored assistance is one of Kaya Impacto's focus areas, service standardization would allow to channel efforts to particular areas, promoting a more efficient and scalable operating model.

Kaya Impacto has also found that another challenge in setting precise impact measuring indicators since companies come from different sectors. This might limit how impact is estimated by leaving aside particular aspects relevant to each organization's impact.

In the first half of 2022, Kaya Impacto has been involved in setting up Kaab Capital, an impact investment fund in the Mexican farming and rural sector co-founded, led, and owned by a women's majority. Kaab Capital is expected to resort to mezzanine debt¹¹ as a financial instrument and by the end of 2022, it should be able to mobilize resources for up to USD 10 M. This fund's premise will be managing patient capital while providing non-financial support to ensure the impact of financed organizations. This fund's goal will be financing early-stage businesses with high impact and scaling potential in the Mexican rural and agro-industrial sector, which experience difficulty accessing traditional finance.



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¹⁰ The capital-raising success rate has been 89%. Of the total USD 35 M raised as capital, USD 29.75 has been obtained through services to entrepreneurs. Additionally, 38 investments have been closed.

¹¹ Mezzanine debt is defined as a hybrid instrument that combines subordinated debt and equity. It usually takes the form of a medium-term bond with some option or security on leveraged or bonus shares. It is used to cover finance needs as the business grows and evolves.