

From a Local Chapter to a Regional Catalyzer

Innovations Case Narrative:
New Ventures México

New Ventures México (NVM) started out almost 10 years ago as a small dream, when I was recruited to start a local chapter of the New Ventures program, the brainchild of the World Resources Institute (WRI), a think tank based in Washington, D.C. The program's purpose was to involve the private sector in the funding of environmental enterprises to achieve large-scale impact. The challenge was daunting: no one even spoke of social or environmental companies in Mexico at the time, let alone supporting or funding them in any way. Nevertheless, it was a challenge I was eager to take on.

At first we supported environmental businesses through an acceleration program, but we quickly built a dynamic team that had contagious entrepreneurial energy, which resulted in something much greater. Our acceleration program is now sustained by the integrated platform we've developed, which includes a series of initiatives such as Las Paginas Verdes (LPV), the Latin American Impact Investment Forum, and Adobe Capital. NVM has grown alongside Mexico's green business ecosystem, and in the process we have learned to adapt to external changes while sticking to our core mission and values. This strategic approach accounts for the progress we've made so far.

I hope my story and that of NVM can shed some light on how we transitioned from a local chapter of a think tank to a business platform that is sustainable and scalable, attracts top-tier talent, and is an important catalyst in the region. I also hope my personal story will add to the growing momentum behind the idea that it is possible to do good while doing well, and that the private sector can have a positive impact on problems that were once considered exclusively the responsibility of the nonprofit and government sectors.

MY BACKGROUND AND TRAJECTORY

The story begins in 2004, when I was fresh from my MBA program and looking for a job back in Mexico. With my creative and restless character, I knew I could

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never be part of a large corporation, thus I had to find something flexible and challenging. I somehow stumbled upon the WRI and its nascent project, New Ventures, and immediately fell in love with its mission: to create and showcase successful environmental and (later) social businesses, to demonstrate their viability, and generate a demonstration effect that inspires other environmental and social entrepreneurs and attracts investors to these companies and strengthens the ecosystem.

After four years of accounting studies at Tec de Monterrey University, three years of work in accounting and finance, and then a two-year MBA program at Australia's Royal Melbourne Institute of Technology, it was exhilarating to apply my accumulated technical knowledge to something so different from the kind of work I had envisioned myself doing for the rest of my life. I also realized that I wanted to rescue the essence of the entrepreneurial self I had manifested as a child. If I had graduated from high school when entrepreneurship was flourishing, I never would have been an accountant and would have been able to thrive doing what I enjoyed at an earlier age. Therefore, the position I was offered as founder and director of NVM was an invaluable opportunity to take my career in a new direction.

Looking back at my childhood, I now realize that I always had an entrepreneurial spirit. As a kid I organized small-scale businesses that I thought would make me rich, such as hunting and selling grasshoppers, organizing fairs with my friends and charging an entrance fee, buying toy cars from one friend to sell them for a profit to my schoolmates, and giving rides to my neighbors in supermarket carts and charging their parents for the service. This entrepreneurial spirit, along with an insatiable desire to shake things up and do something different, led me to accept the position at NVM.

Oddly, I took on the position without having had a desire previously to be actively involved in solving social and environmental issues. It was not something I had manifested early on, as I had my entrepreneurial spirit. I cannot even say that I was drawn to taking courses on these issues during my studies. I developed this passion only after I had dived into my work at NVM. After 10 years of working in the field and talking to people about my trajectory, I still enjoy the responses I get when people learn that I was not deeply engaged in social and sustainable issues before working with NVM. In my opinion, this transition was rather simple. One does not have to be academically engaged in social and environmental issues to care profoundly about them, and I like to ask, "Who does not want to improve the well-being of the environment and the people who inhabit it?"

The greater challenge of our work does not stem from ideology but from the practicality—or lack thereof—of resolving identified social and environmental problems. When I learned about New Ventures' approach to tackling environmental issues, I knew I could use my hard skills and impulsive, driven, entrepreneurial child-self to do something big. New Ventures provided a platform that I knew I could build on and expand without feeling limited by the fact that we had to work within a certain structure: all that mattered was the bottom line, our core values,

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and our vision, which I knew I shared with New Ventures. And so, NVM was born. I had little idea at the time of how I was going to accomplish our mission, but that was a great part of the appeal.

BIRTH OF NEW VENTURES MÉXICO

In 2004, WRI formalized a partnership with the Mexican Fund for the Conservation of Nature (FMCN), and NVM was officially established. The WRI and FMCN each contributed \$35,000 to fund the acceleration of 10 environmental enterprises. Although this beginning was thrilling, I realized the learning curve would be steep. Social entrepreneurship was practically unheard of in Mexico and Latin America and accelerators were nonexistent, thus NVM developed along with the movement.

One colleague's recent comment nicely illustrates what I believe we have achieved: "Before NVM there were only hippies with green ideas. Today there are social and environmental entrepreneurs in Mexico and Latin America." This rapid growth and development of the sector has been impressive and dynamic, and although it is still emerging I am proud to say there is an ecosystem: there are now 26 incubators and 12 accelerators that are recognized and supported by the national government; more than 700 identified social and environmental enterprises; more than five recognized investment funds focused on small- and medium-size enterprises (although only our fund, Adobe Capital, is currently focused on social and environmental impact); and there are other key organizations, such as Ashoka, that have contributed to establishing the sector and creating a link between all of the existing and new players. We acknowledge that it will require decades to become more than a niche, yet we believe the progress that has been made within the past 10 years has been significant and visionary.

Many of the acceleration programs emerging during the current boom are undergoing an identity crisis, their leaders often asking me, "What is the real role of an accelerator?" "How can we measure its success?" "How can the model be sustainable?" I do not pretend to have found all the answers, but I do believe we at NVM have found a unique model that has proven to be successful and sustainable.

EARLY STAGES OF NEW VENTURES MÉXICO

During its first year, NVM set the pace for innovating and developing initiatives. We were granted the funds needed to identify and accelerate 10 companies with interesting business models that tackled critical environmental problems. Although finding companies during the first year of operations presented a challenge, we contacted 33 companies and selected 10 to participate in NVM's first acceleration and showcasing process. An investor forum was held in November 2004 in Mexico City, which brought together more than a hundred participants. The FMCN provided office space for NVM. With generous support from our

founders and allies, we continued to accelerate small and medium-size enterprises to generate environmental, social, and economic impact.

The task of finding viable companies remained a challenge during our second year, but 28 companies applied to the NVM program, from which the top 10 were selected, accelerated, and presented at an investor forum. Despite a scarcity of companies, NVM chose promising companies, such as Alianza por la Biosfera (Alibio), a leading firm in the research, development, and commercialization of sustainable biotechnology products. Alibio remains in operation today; it has developed two thousand microbial strains and has clients such as Bimbo, Modelo, and Cuervo, making it a leader in Mexico's biotechnology sector. I cannot say that we alone are responsible for Alibio's success or growth. Instead, I believe that Alibio and other such companies exist as a result of an entrepreneurial vision to resolve an issue, and of the drive and tenacity to make it happen.

Many of the social and environmental entrepreneurs with whom we work often feel alone in their efforts to solve social or environmental problems by applying innovative business strategies; through their work with NVM, they discover an entire ecosystem of support and opportunity. We've developed an acceleration process that helps entrepreneurs step out of their day-to-day operations and see the bigger picture with the guidance of deeply committed mentors. Witnessing these companies' growth and maturity gives me great satisfaction, but even more powerful are the synergies that arise. A large number of our portfolio companies have established long-lasting relationships with each other and are either doing business together or collaborating by sharing information, contacts, and so on.

The nature and culture of the NVM team is what has driven all our projects. We have always been a dynamic group, sometimes failing, sometimes succeeding, constantly experimenting. In the early years we organized two investor forums that did not last, as the Mexican ecosystem was not yet prepared for our visionary initiative. Even today, with a much more developed ecosystem, organizations struggle to find investors for social and environmental enterprises in Mexico. Nevertheless, the forums did put impact investing on the agenda and helped to make NVM what it is today.

Another unsuccessful project that helped strengthen our understanding of the challenges entrepreneurs face was an incubation program. Given our small team, we were not able to work with companies in such early stages of development. In retrospect, it is clear that our current success is largely a positive result of how our team has used our failures to modify successive steps. We've had to find individuals with solid finance backgrounds, with sales experience, and those with great communications and public relations skills. We have learned to identify the tasks that need to be done and to find individuals with the perfect blend of skills and passion to accomplish those tasks.

By 2006, we were expanding our focus to include a wide variety of environmental and social enterprises. New Ventures followed the direction of WRI board member C. K. Prahalad's bottom of the pyramid theory, thereby drastically changing the direction we would take and the impact we would have on the sector in

Mexico. We were outgrowing the FMCN, both physically and philosophically. Therefore, we created a spinoff of NVM, a separate nonprofit to house and run the NVM program and to carry on the mission of raising funds to support environmental entrepreneurs and connect them with investors. A new board was formed to guide the spinoff, and NVM launched an ongoing, year-round search that same year to source more and better companies. That year the Mexican Ministry of Economy also created a program to support accelerators; we were one of the first six to be officially recognized. With a strong injection of government funding, we continued to scale our operations and moved into our beautiful permanent office.

NEW VENTURES MÉXICO:
INDEPENDENT FROM WORLD RESOURCES INSTITUTE

Our physical move to Coyoacan marked the beginning of a new stage for NVM. Though we had a strong injection of funds, we still depended on FMCN and on funding from the Ministry of Economy. It soon became clear that I could become a permanent fundraiser to keep the accelerator afloat. I did not enjoy fundraising, and I realized that growth would be limited by the funds we could raise, and that sustained growth would be very difficult to plan and even more difficult to accomplish. Therefore, we formed a for-profit entity to complement our nonprofit arm and generate sustainable income sources, such as LPV. In addition, companies started supporting NVM through their business units by enlisting it as a contractor rather than making outright gifts. We also started supplying and charging for consulting services, the revenue of which went to the NVM acceleration program. Not all the alternative revenue streams survived, but NVM did as a result of their returns. Months of sleepless nights and relative uncertainty eventually came to an end because we had found the ideal balance between our nonprofit and for-profit work to keep us afloat.

Paginas Verdes

The most successful for-profit project we founded within NVM was Las Paginas Verdes, a “green” directory for sustainable products and services. I recognized that a bottleneck separated customers from sustainable-technology enterprises, and I thought a directory would be useful. I also thought it would foster networking between companies that might be working on the same things in isolation. I wanted this directory to be a revenue stream for NVM. However, I also wanted to include as many companies as possible, thus I couldn’t charge them for listings, and for them to reach the relevant targets I couldn’t charge users either. So we developed a model that produced revenue by selling advertising in the directory. LPV became a significant pipeline for the acceleration program by helping it to map the universe of sustainable companies in Mexico and providing NVM with an additional source of revenue.

These funding sources allowed NVM to scale its operations and amplify the impact of the original funds. Little did I know how relevant this for-profit arm

would become, as government and donor funding in recent years have shifted away from acceleration services and toward direct support of social enterprises, thus making NVM's original funding model untenable. With new funding sources and various projects up and running, our first year drew to a successful close; in fact, I was recognized as an Ashoka Fellow for the creation of LPV. Becoming part of the Ashoka program reminded me how important it is for an entrepreneur to step back and evaluate ongoing operations objectively in order to plan next steps strategically. The year 2007 was a turning point in our trajectory. We began to formalize and expand our mentoring process and network, institutionalize best practices, showcase successful companies as proof of the profitability of environmental entrepreneurship, and develop new initiatives to further support environmental entrepreneurs.

In 2008, we started producing the first Global Reporting Initiative reports with our entrepreneurs in Latin America. This laid the foundation for what would be a much more strategic focus on measuring impact. As a result of this initiative and the others we were working on, I was granted the UBS (Union de Bancos Suizos) Visionaris Social Entrepreneur of the Year Award, which was created in 2004 in order to bring recognition and added impetus to leading Mexico-based social entrepreneurs who are solving social problems with innovative and groundbreaking ideas. Receiving such awards reminds me that the hard work is well worth it but, more importantly, it motivates me to work to a high standard. As a government-certified accelerator who had won awards for entrepreneurship, I had to step back and evaluate our status carefully to take full advantage of our momentum.

Strategy Boot Camp

Becoming a government-certified accelerator is something we are proud of. Although our acceleration program, the Strategy Boot Camp, has been modified as needed, its core structure and purpose have remained the same. It consists of a five-month process, during which the founders of 10 social and environmental enterprises are each assigned three to five mentors, whom they meet with once a month to work on the following topics: business potential and going to market; risk and opportunity management; growth requirements; critical issues; and speed pitch and impact measurement. At each session, the entrepreneur analyzes the enterprise's current status and begins devising strategies that will enable the company to grow at the desired rate while maintaining, if not increasing, its overall social and/or environmental impact.

Entrepreneurs find it invaluable to step away from day-to-day operations and to reevaluate strategy with the guidance of experienced mentors from internationally recognized firms, such as Ernst & Young and PricewaterhouseCoopers. Such mentors not only contribute to the growth of participating enterprises, they learn from the entrepreneurs and contribute to the development of the sector. Furthermore, once the enterprises graduate from the acceleration process, they become members of NVM's portfolio, where they remain connected to the social

and environmental entrepreneur community, collaborate on projects, share information, and continue to receive support and guidance from NVM through workshops, notification of relevant opportunities in the sector, follow-up sessions with mentors, and networking events.

LATIN AMERICAN IMPACT INVESTMENT FORUM

At the beginning of 2010, everything was going well in terms of our project development and public image, yet we were going through our most difficult time. We were highly dependent on government funds and only received a portion (roughly 20 percent) of what we were expecting. Things got so bad that I went six months without pay, we gave no bonuses, and we began to lose some of our most committed employees. It is extremely difficult to direct an organization when uncertainty is permeating all its projects and discussions. When things are going well, everyone is motivated and happy; when things get rough, you can feel it in the air, as creativity is stumped and nothing seems to flow. Watching our limited funds dwindle away, I thought, “We either die slowly or we tackle the problem head on.” Then we decided to host the Latin American Impact Investment Forum (Foro Latino Americano de Inversion de Impacto, or FLII). It not only salvaged our financing, it changed the entire paradigm and reenergized the team.

Recognizing showcasing as a key component of our original concept, we decided to broaden the themes and activities beyond matchmaking to include a wider audience, to convene and catalyze varied stakeholders in the impact investing sector, to continue building the New Ventures brand, to generate revenues, and to showcase the most successful environmental and social enterprises in Latin America. The initial FLII 2011 was a resounding success, garnering media coverage and generating approximately \$200,000 in revenues and \$90,000 in profits for NVM, which represented approximately one-third of our accelerator budget for that year. We managed to recover and to thrive, as we always had, full of energy and an insatiable desire to innovate. The FLII also positioned us as opinion leaders in the sector and allowed us to know and understand the actors in the ecosystem better than we had before. NVM hosted the second forum the following year and every year thereafter, including the upcoming 2014 FLII.

The idea behind the FLII was to bring together key stakeholders in the sector to increase collaboration and strengthen the ecosystem, and the experience was invaluable. It allowed us to understand the impact of our work more fully and identify critical areas that needed development. We began to recognize that the next step companies needed help with was funding, thus we decided to develop an impact investment fund. We launched Adobe Capital in 2011. I knew the timing was right, but I was not sure we could make it happen. I had never worked within an investment fund, though I knew how they work, and our team was relatively small and already spread thin. Nevertheless, we were enthusiastic about the fund’s potential to change the sector in Mexico significantly, so we decided to move forward. The Kellogg Foundation gave us a grant to work out the logistics of estab-

lishing the fund and, more importantly, to define the investment thesis to which we would commit.

Adobe Capital

Developing Adobe Capital was one of the most challenging projects I have ever worked on because of both logistics and the harsh realization that we would not be able to invest in the majority of companies we had accelerated. If I truly wanted NVM to pioneer Mexico's impact investment sector, I knew we had to take the precautions necessary to make successful investments. There is a thin line between high- and low-risk companies, and it is tricky to identify those that are truly prepared to leverage the capital and serve as role models for other social and/or environmental enterprises. This continues to be our greatest challenge, for better or worse, one that we share with accelerators and impact investment funds around the world. Companies have a hard time finding funding, and funds have a hard time finding companies. As an accelerator and a fund, we are in the perfect position to understand this disconnect and enable both parties to make the necessary improvements and strategic compromises, which eventually will narrow the gap and increase the number of investments made.

From the dynamic projects and initiatives we pioneered, I learned one critical lesson: do what you do best and create a team of individuals who also are doing what they do best. With this in mind, I began searching for *the* investment manager who would share our passion for social and environmental issues while operating the fund with the same discipline and rigidity of a classic private equity fund. After a long interview process and numerous dinners and drinks with people interested in the idea of creating a new fund, I got a call from Erik Wallsten. I had met Erik in my early years with New Ventures, when he was the principal of a private equity fund and I was trying to interest him in the New Ventures portfolio companies. He expressed interest in starting an impact investing fund with principles much like the one we were framing. After a few months of back and forth, he came back to my office with the news that he had just quit his extremely well-paid position at a large real estate private equity fund to venture into our spinoff, for which he suggested the name Adobe Capital.

Erik Wallsten was born and raised in Mexico City and later moved to Chicago, where he completed his MBA at the University of Chicago Booth School of Business. After graduation, Erik—unlike myself—actually dove into the investment sector, working for six years as a venture capital and private equity professional who worked his way into a senior position. I fortunately met Erik when he had decided to get out of the traditional investment sector and into impact-driven investments. It didn't take long before he and I realized we had the perfect combination of skills and attributes needed to work as partners in the creation of Adobe Capital. We now are often referred to as the company's yin and yang, I being more spontaneous entrepreneurial and Erik being more structured and disciplined.

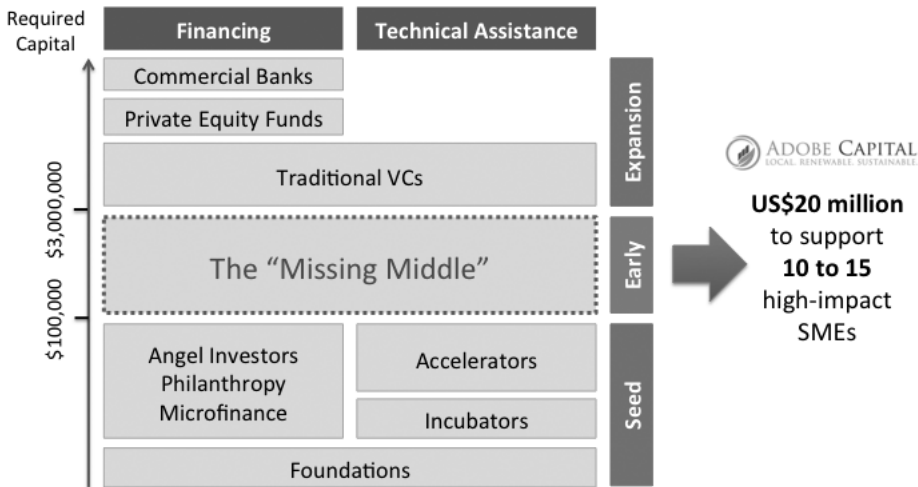


Figure 1. The “missing middle”

Working together was a real success, and we launched Adobe Capital at the 2011 FLII. Adobe Capital’s investment thesis is in some way “walking the talk” of NVM. The objective is to demonstrate that small investments in social and environmental enterprises can be made viably and profitably. Adobe Capital aims to fill in the “missing middle” faced by companies that are too large for angel investors and too small for traditional venture capital and private equity funds (roughly \$100,000 to \$3 million; see figure 1). The idea is to create a demonstration effect and promote the entrance into the sector of more mainstream investors to strengthen the impact investing ecosystem.

Adobe Capital and IGNIA—a venture capital firm based in Monterrey, Mexico that supports the founding and expansion of high-growth social enterprises that serve the base of the socio-economic pyramid in Mexico—were the first impact investing funds in Mexico and Latin America. Adobe’s thesis is unique, however, in that it focuses on an overlooked niche: smaller companies that need less than \$3 million in funding and for whom straight equity is often not the best solution. Mezzanine funding, on the other hand, gives the entrepreneur almost the same flexibility as equity and a clear way to exit the fund; what’s more, the entrepreneur is not forced to sell his or her stake in the company. In November 2012, Adobe completed a first closing of \$15 million with 100 percent institutional investors and is aiming for \$30 million by 2014, which would exceed our original commitments goal by 50 percent. By 2013 we had made our first investment in a company named FINAE, which is a financial company that offers student loans to the more than 700,000 students who cannot get into public universities and cannot afford private ones. FINAE was part of the portfolio of companies that graduated from our acceleration process. It gave me great satisfaction to be able to support FINAE full cir-

cle, and it opened my eyes to the work a company has to do to become investment ready. As a result, we are now taking a different approach throughout our acceleration process, focusing heavily on preparing companies to take those next steps and to have everything that is expected of them once they decide to receive an investment.

Despite the relationship between NVM and Adobe Capital, we had many conversations about whether the fund should operate independently, enter a strategic alliance with NVM, or merge with it completely. We decided that the greatest synergy would result from merging the fund with NVM. By incorporating Adobe Capital into our platform, NVM began a process of professionalization and institutionalization. We also started attracting higher level talent than we had access to before, even though we pay less than traditional industries or funds. NVM reaps direct benefits from its presence in the sector, including our outreach, communications, and knowledge.

EVOLUTION OF AN ECOSYSTEM

Thanks to work and perseverance, NVM and I have been able to accomplish a great deal. The ecosystem is clearly much stronger today than 10 years ago. In 2004, the market was just awakening to the power of environmental and social entrepreneurship for sustainable development. When NVM was founded, it was among the first business accelerators in Mexico. People talked about green businesses only in a purist, academic way. We were the first to start applying the green component to business strategies, to create a space in the government's small and medium-size enterprise agenda for green entrepreneurs, and to reach out to the media and other private-sector actors. By 2006, the Mexican Ministry of Economy had recognized six accelerators; today there are 40 that have been selected from more than a hundred. In 2012, a high percentage of the companies that were finalists for the business magazine *Expansion's* Mexican Entrepreneur of the Year were social and environmental, and NVM had accelerated a high percentage of them. Endeavor and Ashoka have been the other main catalyzers of Mexico's social, environmental, and entrepreneurial sector.

DIFFERENTIATING FACTORS

Our model has been successful for several reasons. Traditional accelerators are full of good intentions, but they have difficulty scaling or at least being sustainable with a small scale. The people leading these accelerators often become permanent fundraisers, but I knew that if we became dependent on it, we would soon fail. Instead we developed projects and initiatives that would produce a revenue stream we could rely on, such as LPV, FLII, Adobe Capital, and other temporary projects. We are constantly questioning, fine-tuning, and redefining our model, but we believe we've found a model that works, that can sustain itself, is aligned with our overarching mission, and has had an important role in developing the entrepre-

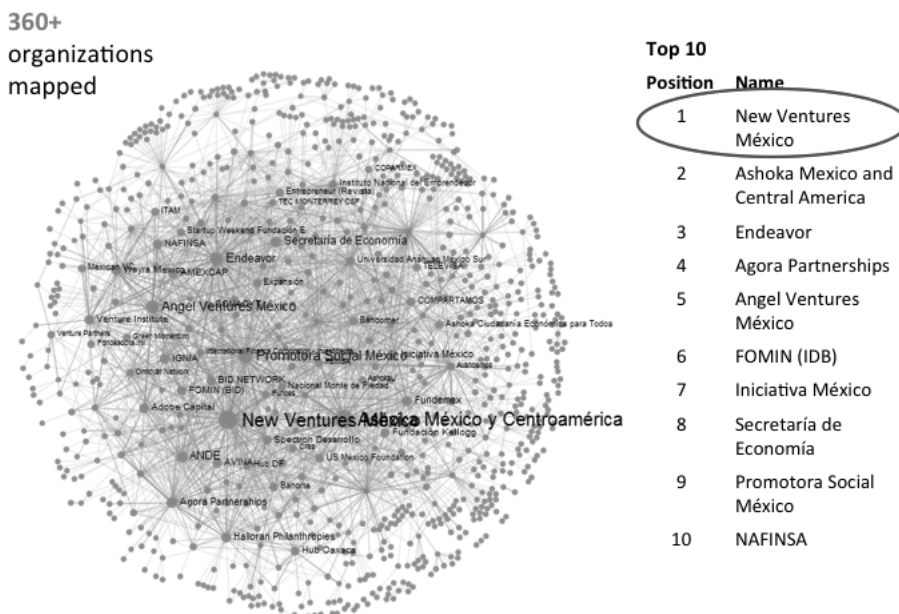


Figure 2. Ashoka’s ecosystem map of the impact investing sector in Mexico and Latin America

neurial ecosystem in Mexico and Latin America. We understood our mission clearly, and from our perspective the companies we serve are a tool to communicate what is embedded in that mission: that investing in social and environmental enterprises is viable and profitable. The success of our companies is our own success, therefore we have concentrated all our energy on supporting our companies in a variety of ways, which allows us to spread the word about it and thus strengthen the ecosystem as more talent, resources, and relevant players are drawn into it (see figure 2).

Our accelerator still is not sustainable on a standalone basis. However, when integrated into the entrepreneurial platform we’ve created, it becomes one of the essential pillars that allows us to develop other initiatives around it. The accelerator on its own cannot scale and have a great impact, but the combined platform can. Our model, which has made the market more understandable, combines the accelerator with the fund. However, the beauty of it is that the accelerator does not depend on the fund alone, and the fund does not depend entirely on the accelerator. We seek the best way to support great companies and showcase their success, and in so doing we stick to our expertise. This overarching mission has allowed us to define a set of values that distinguish us, motivate employees, and make our people proud. We are able to attract talented MBAs and other professionals who recognize the impact we’ve had on developing the ecosystem in Mexico and Latin America, and who believe in the our platform’s potential to keep growing.

REFLECTIONS

Through our experiences with NVM, I learned that, regardless of what conditions we were operating under, we always would manage to accelerate companies successfully and stay loyal to our core mission. The greatest challenge we faced as a nonprofit was the uncertainty of our incoming revenue stream, and we learned that the only way to survive was through constant adaptation. Our structure has changed in terms of both methodology and logistics over the past 10 years, and we have always made the most of the available resources and leveraged our economic and human capital to produce the desired outcome: to help social and environmental entrepreneurs strengthen their business models and structures, to understand their finances, become a part of the ecosystem, and thus successfully tackle their social or environmental issues of interest.

My story would not be complete if I failed to mention my wife Geli, and our twin boys. I returned to Mexico in December 2003 and met Geli in April 2004. In that month, both my personal and professional life took a new direction. My relationship with Geli has been fundamental to all the work I have accomplished. I come home every night to the most determined and hard-working person I've ever known, which helps me persevere.

CONCLUSION

It is important to know what you want to accomplish and build on that. This sector attracts a lot of enthusiasts, but people with specific backgrounds are needed to make ideas materialize. I've always believed that people are the most valuable resource, and I have built a strong organization by surrounding myself with smart people who can respond to my spurts of creativity by making amazing things happen. I have played up their abilities, keeping a hands-off attitude and empowering their initiatives. We have managed to understand and stick with our mission and do what we know we do best. We have always thought about NVM as a platform with potential to innovate, scale, and function in an integrated way that has a significant impact on the ecosystem and, more directly, on the social and environmental issues we are tackling.

Looking forward, we want to stay focused on innovation, but always within our original mission. We believe we have achieved a great part of our original mission to find, help build, and showcase social and environmental entrepreneurs; to demonstrate that they are viable and profitable investments; to create a demonstration effect; and to catalyze the formation of a new industry. Today, many business accelerators help entrepreneurs in this early stage, there are more funds available, there is more awareness in general, and the ecosystem exists. It's time to take the next big step.