Venture Capital for Low-Income Markets

IGNIA Fund Bets on Investments for the Underserved

Investing in housing, healthcare, education, basic utilities and nutrition can not only fulfill a social mission, but it can also be a profitable business venture.

This is the concept of IGNIA Fund, which will channel venture capital resources to fund commercially viable growth companies serving the “base of the pyramid,” those persons in Latin America and the Caribbean earning less than $3,260 a year. The IGNIA Fund selects projects with the potential to be expanded on a larger scale, thereby increasing the social and economic impact.

The fund was established by two prominent microfinance pioneers, Michael Chu, former CEO of ACCION International, and Álvaro Rodríguez Arregui, who has held a number of senior positions in business, banking and microfinance. They and other investors in the IGNIA fund have a track record of professionalism, business expertise and a commitment to the social and economic development of underserved markets. Chu is also a senior lecturer at the Harvard Business School, where he specializes in majority markets issues.

“Partnering with the IDB is especially meaningful given the Bank’s leadership through its Opportunity for the Majority Initiative,” commented Chu.

The IDB is supporting the fund with a $25 million senior secured loan, a $5 million equity investment from the Multilateral Investment Fund—which is part of the IDB Group—and a MIF grant of $205,000 for technical assistance.

IGNIA’s initial investments were in Primedic, which delivers quality health care to low-income families in Monterrey, Mexico, and in Jardines de Grijalva, a business that develops low-income housing in Chiapas, Mexico.

“Partnering with the IDB is especially meaningful given the Bank’s leadership through its Opportunity for the Majority Initiative. With the IDB’s support, we hope to create the vanguard of new industries that will deliver key goods and services to help the poor realize their full human potential,”

—Michael Chu (Funding Partner and senior lecturer at the Harvard Business School).

Forging Partnerships

The loan to IGNIA, approved in 2008, was the first by the IDB in the framework of the Opportunities for the Majority initiative. It illustrates the Bank’s ability to form partnerships to expand investments that serve majority markets and to leverage resources that attract other investors who have the skills, experience and capacity to develop focused projects with a significant, positive impact on low-income groups. At the same time these projects offer an attractive rate of financial return.

The IDB loan enables IGNIA to move forward on its plan to raise a total of $75 million for investments benefitting the majority in up to 12 business projects throughout Latin America and the Caribbean. The fund intends to focus investments on small- and medium-sized companies, those whose revenues are less than $10 million a year, and on those firms that operate on the “last mile” of the value chain: businesses that provide services directly to consumers. In addition to improving the quality of life of low-income groups, a firm receiving an IGNIA investment must represent a proven, robust business model with low fixed costs and the ability to quickly generate sufficient cash flow. IGNIA expects to make an exit from all its investments after 12 years with a significant profit.

For more information about the fund contact: OM-IDB@iadb.org