

## PROJECT SUMMARY

### MEXICO

#### **ADOBE MEZZANINE FUND II (ME-Q0014, ME-T1345)**

Emerging impact businesses<sup>1</sup> play a critical development role in emerging markets by creating employment opportunities, empowering local communities, bringing key products and services to underserved populations, and helping solve important social and environmental issues. Often more flexible and innovative than larger firms, small and medium impact enterprises act as catalytic agents of change with a unique ability to address social challenges offering sustainable, market-based solutions.

Despite their importance, small and medium impact businesses face significant constraints trying to obtain financing as their typical funding needs are generally considered too small and risky for commercial banks, yet too large for microfinance institutions. While a number of Latin American countries have seen a recent boom in seed or venture capital funds, very few of these specifically focus on companies that intentionally generate measurable social and environmental impacts. To address these challenges, Adobe Capital launched a US\$20 million fund in 2012 which invested in 6 small and medium impact businesses in the sectors of healthcare, education, low-income housing, and alternative energy. Adobe's partners responded to the particular financial challenges of these businesses by pioneering quasi-equity (mezzanine debt) instruments with revenue-based repayment structures in Mexico. Additionally, the partners became active members in portfolio company boards, providing business acumen and building networks. These financial instruments along with fund manager involvement have turned out to be well-suited to impact entrepreneurs who typically want to steer their companies towards long term growth rather than commit to be acquired by a strategic investor.

Today, Adobe Capital wants to add scale to this pilot by launching a second fund, Adobe Mezzanine Fund II, with a target size of US\$40 million. Since establishing its first fund, Adobe has observed an increased pipeline of emerging impact businesses, many of them technology-based, increased demand for their pioneering financing model, and requests for larger loan amounts. In order to reach the US\$40 million fund capitalization to address the needs of these businesses, commitments from recognized institutional investors such as the MIF are still needed to crowd-in other investors, and thereby continue to validate that investing in impact-focused SMEs in Mexico can be done profitably.

As a result of this fund investment, the MIF expects that Adobe will demonstrate to other investors a successful model for supporting the sustainable growth of impact businesses which generate knowledge economy jobs. Additionally, Adobe's team will collect data on the social and environmental impacts achieved by the Fund's invested businesses.

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<sup>1</sup> Emerging impact businesses refer to small and medium enterprises seeking positive social and environmental impacts as well as financial sustainability.