



Acceleration and Access to Finance in Central America

**A Knowledge Brief by the
Global Accelerator Learning Initiative**

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Introduction

In Central America, entrepreneurship is on the rise as an attractive career path and is increasingly seen as an opportunity for governments and donors to support employment growth and social innovation. However, startups are vulnerable, and entrepreneurs commonly point to a lack of networks and capital as their primary hurdles. Business accelerators are an increasingly popular form of venture support that aim to identify the most promising entrepreneurs, help them overcome these hurdles, and propel them to scale.

While studies have found that acceleration does, in the aggregate, have a positive effect on new venture growth¹, further investigation has shown that there is significant unmet need for financial capital, particularly in developing economies.² Little investigation has been done on how accelerators (particularly those that do not invest in their ventures directly) make connections with finance providers and whether these efforts are effective.

The Global Accelerator Learning Initiative (GALI), a partnership between the Aspen Network of Development Entrepreneurs (ANDE) and Emory University, was created to explore questions such as these. Between 2013 – 2020, GALI partnered with dozens of accelerator programs to collect detailed data from entrepreneurs who applied to their respective application processes. These entrepreneurs, including those not selected into a program, were then resurveyed annually to gather valuable follow-up data about the status of their ventures over time.

This knowledge brief explores GALI data from Central American startups, as well as qualitative insights from accelerators and finance providers, to address the following questions:

- 1. What types of capital are entrepreneurs seeking when applying to accelerators?**
- 2. Are accelerators effectively connecting entrepreneurs with capital?**
- 3. How can accelerators and finance providers better work together to fund early-stage ventures?**

What is an accelerator?

Accelerators share a set of program characteristics that distinguish them from other forms of capacity development services. Specifically, they are time-limited programs that work with cohorts or “classes” of ventures to provide mentorship and training, with a special emphasis on connecting early-stage ventures with investment.* In Central America, the terms incubator and accelerator are often used interchangeably, and the two often have similar goals and structures. The purpose of this knowledge brief is not to challenge this definition, but to consider whether and how these growth-oriented programs are connecting early-stage ventures with capital and to identify opportunities for better engagement between investors and acceleration/incubation programs.

*Definition adapted from: Cohen, S. & Hochberg, Y.V. [Accelerating startups: The seed accelerator phenomenon](#). 2014.

1 Gonzalez-Uribe, J. and Leatherbee, M. [Business Accelerators: Evidence from Start-Up Chile](#). 2015.
2 Roberts, P. et al. [Accelerating Startups in Emerging Markets: Insights from 43 Programs](#). 2017.

Methodology

This brief draws upon data collected by GALI as well as interviews with local stakeholders. Once data analysis was complete, interviews were conducted to gather qualitative insights to add context and depth to the quantitative trends identified in the data. Interviewees included six accelerators and four investors that work in Central America.³ The investors in the study were already connected with accelerators, either through formal partnerships or informal touch points.

About the sample

The GALI dataset contains information on 809 ventures in Central America that applied to one of 21 different acceleration programs that ran in Central America between 2013-2018 (Table 1). The analysis in this brief uses application data (from ventures accepted into an accelerator as well as those that were rejected) and one-year follow-up performance data from accelerated ventures.

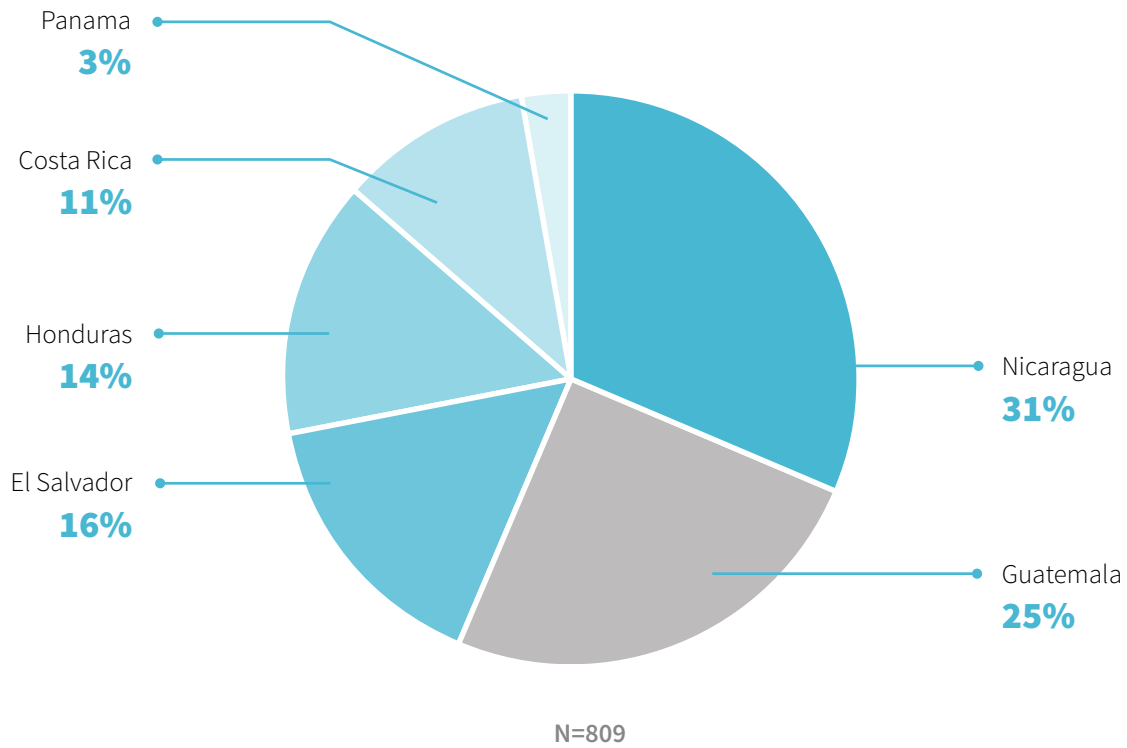
Table 1: Central American programs in GALI dataset

| Organization | Programs | Ventures |
|----------------------|-----------|------------|
| TechnoServe | 8 | 345 |
| Pomona Impact | 5 | 188 |
| Agora Partnerships | 4 | 102 |
| INCAE | 1 | 74 |
| Thunderbird for Good | 1 | 54 |
| Impact Hub | 1 | 24 |
| Fusades | 1 | 22 |
| Total | 21 | 809 |

The Central American ventures in the GALI dataset mostly operate in Nicaragua and Guatemala, followed by El Salvador, Honduras, and Costa Rica (Figure 1).

³ Interviewed investors mostly invest across multiple Central American countries (see the Appendix for a full list of interview participants).

Figure 1: Central American ventures in GALI dataset, by country of operations⁴



Most ventures in the sample work in the agriculture, environment, or artisanal sector and are for-profit companies. Nearly all ventures identify as having social or environmental goals.

All financial statistics are in United States Dollars (USD) and were self-reported by entrepreneurs in the 2013 – 2019 timeframe. The GALI dataset does not adjust for inflation.

⁴ Data were collected between 2013-2019, so not all ventures in the dataset are still in operation. The purpose of the research is to understand the ventures applying to accelerators and their growth in the following year.

About acceleration and access to finance

Early research on acceleration identified connections to investment as one of the key defining features of the accelerator model, be it via direct seed capital in exchange for equity⁵ or accelerator programs’ “demo days” or other pitch events to present accelerator graduates to potential investors.⁶ A GALI survey of accelerator program managers based in both high-income countries and developing economies found that nearly 100% of programs offer some form of “access to investors” as a service for participating ventures – most commonly as a combination of an investor event and one-on-one matchmaking.⁷

Despite the interconnectedness between acceleration programs and access to investment, financing can be hard to come by for early-stage entrepreneurs, particularly those working outside of the tech industry and high-income countries where capital is abundant. In 2016, for example, \$69 billion of venture capital was invested in the United States, compared to only \$5.6 billion in India and \$526 million in Mexico.⁸ This is consistent with CrunchBase data on seed-stage financing, which shows that investment rounds are smaller on average for ventures in developing economies.⁹ A GALI study found that developing economy accelerators more often have to facilitate deals with investors who live and work outside the country, and that that recruiting these investors to participate in their programs can be quite challenging.¹⁰

While a main function of acceleration is to prepare entrepreneurs to receive capital and to introduce them to investors, it is clear that in reality this can be challenging due to structural barriers. The rest of this brief explores what types of capital Central American entrepreneurs are pursuing, what role acceleration plays in facilitating investment deals, and how accelerators and investors can work together more seamlessly in the region.

5 Miller, P. and Bound, K. [The Startup Factories: The rise of accelerator programmes to support new technology ventures](#). 2011.

6 Cohen, S. [What Do Accelerators Do? Insights from Incubators and Angels](#). 2013.

7 Global Accelerator Learning Initiative. [The Accelerator Landscape, 2016 Global Accelerator Survey](#).

8 High-income country data published in Venture Pulse: Q4'16 Global analysis of venture funding, and emerging market data from EMPEA Research.

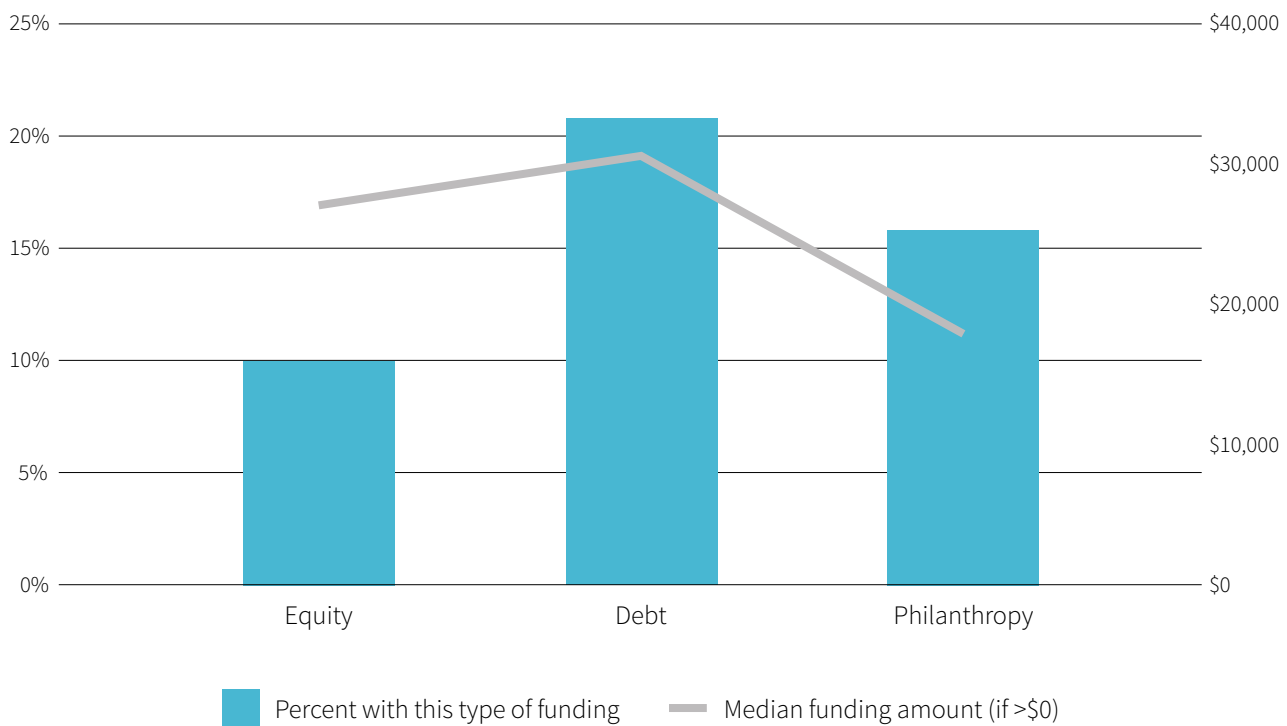
9 Seed-stage investment data from www.crunchbase.com.

10 Roberts, P. et al. [Accelerating Startups in Emerging Markets: Insights from 43 Programs](#). 2017.

How much funding do entrepreneurs have pre-acceleration?

Within the GALI dataset, ventures that applied to accelerators in Central America were generally early stage: most had been in existence five years or less. The majority were post-revenue (73%) and had at least one full-time employee (79%), yet less than half (40%) had received any financing. Debt was both the most common type of financing and accounted for the highest amount of financing on average (Figure 2).

Figure 2: Percent of ventures with any funding (and median amounts) at application, by capital type



N=809

Table 2 shows the most common sources of funding as reported by entrepreneurs when they applied to accelerators in Central America. Equity investment most commonly came from angel investors or government sources, while debt came from banks and other financial institutions and philanthropy (i.e. funding in the form of grants or donations) from government and non-profits.

Table 2: Most common investment sources by type of capital

| Most to Least Common | Equity (N=78) | Debt (N=173) | Philanthropy (N=132) |
|----------------------|------------------------|---|--|
| 1 | Other (18) | Banks (98) | Government (44) |
| 2 | Angels (15) | Non-bank financial institutions (31) | Nonprofits (44) |
| 3 | Government (11) | Other (17) | Friends/Family (26) |
| 4 | Companies (6) | Friends/Family (13) | Business plan competitions (26) |

Interestingly, the likelihood of having financing pre-acceleration was nearly identical among ventures that were accepted or rejected into an accelerator program (41% versus 39% respectively). Ventures that reported having financing were only slightly older on average (7.4 years versus 6.9 years) but were nearly twice as likely to be earning revenue and to have at least one full-time employee. The ventures that were most likely to have financing at application to an accelerator were those that operate in the energy, supply chain services, and artisanal sectors (Table 3).

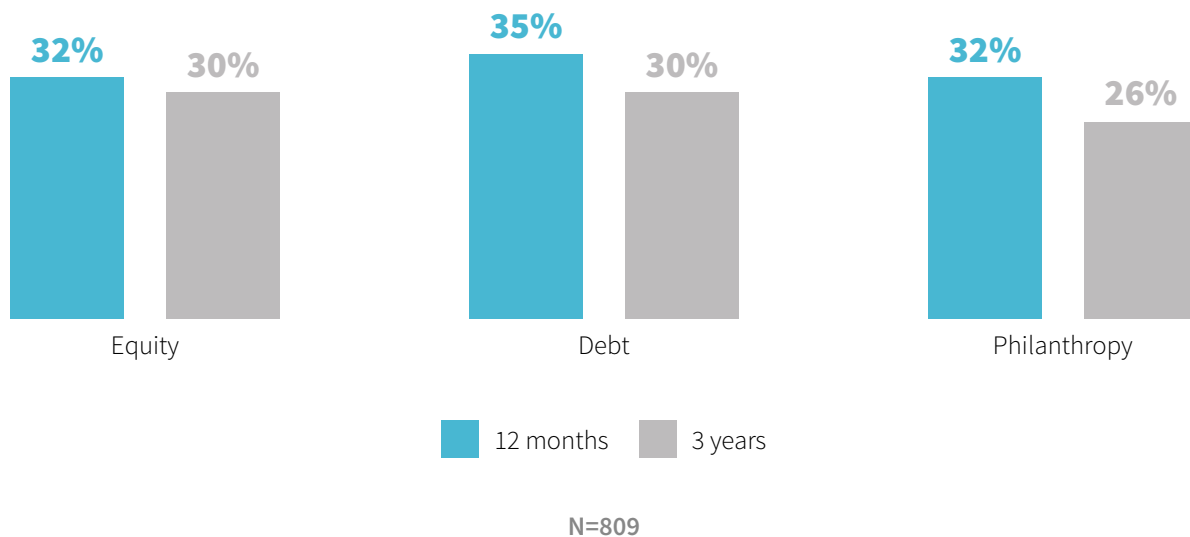
Table 3: Likelihood of having funding pre-acceleration, by sector (for sectors with N≥20)

| Sector | Number of ventures by sector | Percent of ventures in each sector that had funding |
|---|------------------------------|---|
| Energy | 20 | 70% |
| Supply chain services | 37 | 57% |
| Artisanal | 59 | 53% |
| Education | 28 | 46% |
| Agriculture | 154 | 39% |
| Environment | 69 | 39% |
| Information and communication technologies | 45 | 38% |
| Health | 38 | 37% |
| Tourism | 38 | 37% |
| Infrastructure/facilities development | 27 | 19% |

What types of financing are accelerator applicants seeking?

Of the 809 Central American ventures in the sample, nearly three-quarters had plans to secure additional financing in the next 12 months. When looking at the type of funding sought, there is an equal appetite for equity, debt, and philanthropic capital, with roughly 30% of ventures seeking each type of financing in the coming year. Three-year fundraising plans were similar, though fewer ventures anticipated obtaining debt and philanthropic capital in the long term (Figure 3). Approximately half of those seeking new funding already had some investment when applying to an accelerator.

Figure 3: Percent of applicants with 12-month and 3-year fundraising plans (Central America)



To put Central American ventures' fundraising expectations into context, Figure 4 displays fundraising plans among the full sample of Latin America-based ventures in the GALI dataset.¹¹ When comparing Figures 3 and 4, it's clear that entrepreneurs in Central America are more likely to seek debt and less likely to seek equity investment. This finding resonated with interviewed accelerator representatives, who emphasized that entrepreneurs in Central America are often not prepared to receive equity because they have yet to demonstrate profitability and scalability. In addition, interviewees shared that many companies are family businesses and are not open to outside partners (and even fewer are open to foreign investors).

11 The GALI dataset includes 7,502 ventures based in Latin America & Caribbean, most commonly based in Mexico (34%), Brazil (17%), Chile (15%), and Colombia (8%).

Figure 4: Percent of applicants with 12-month and 3-year fundraising plans (Latin America)

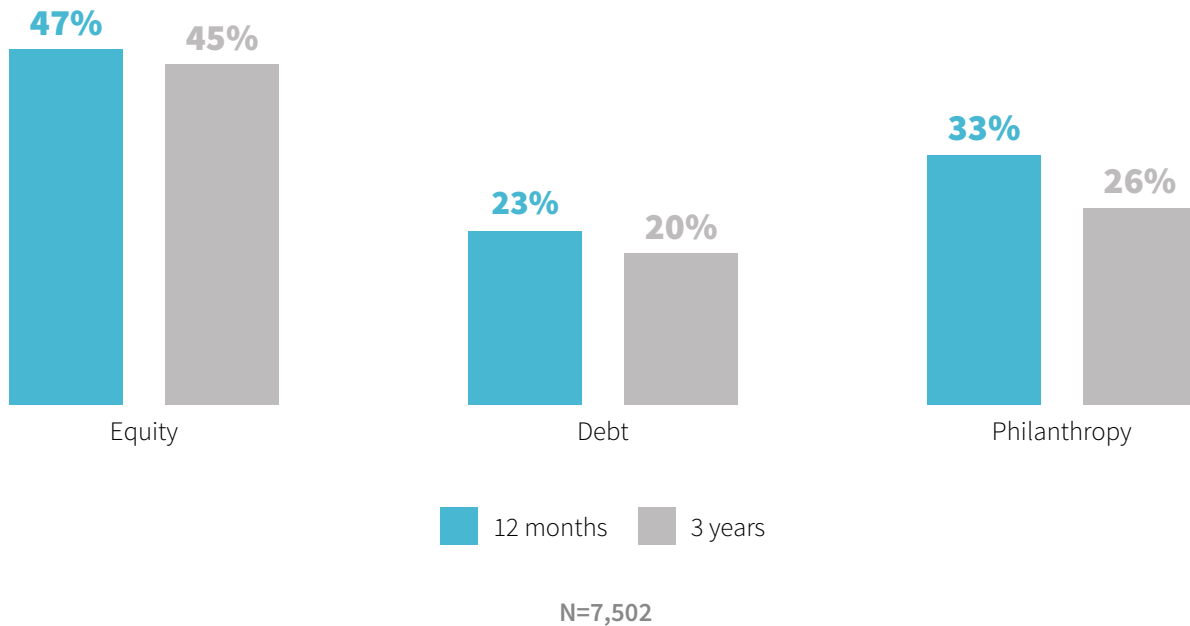
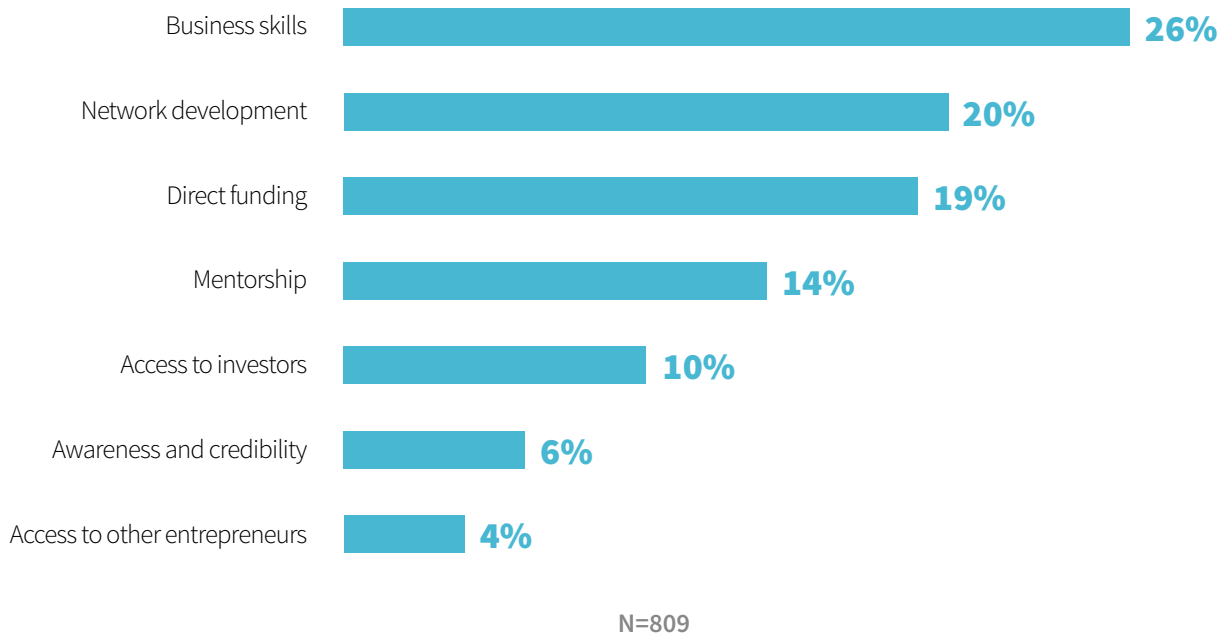


Figure 5 shows which accelerator services ventures prioritize as most important for the development of their business. Interestingly, “access to investors” is low on the list, despite a considerable portion of entrepreneurs in the sample seeking financing as a next step in their business growth. Entrepreneurs were actually more likely to prioritize securing funding from an accelerator program itself (“direct funding”), though business skills and network development were most commonly cited as the top desired benefits of acceleration.

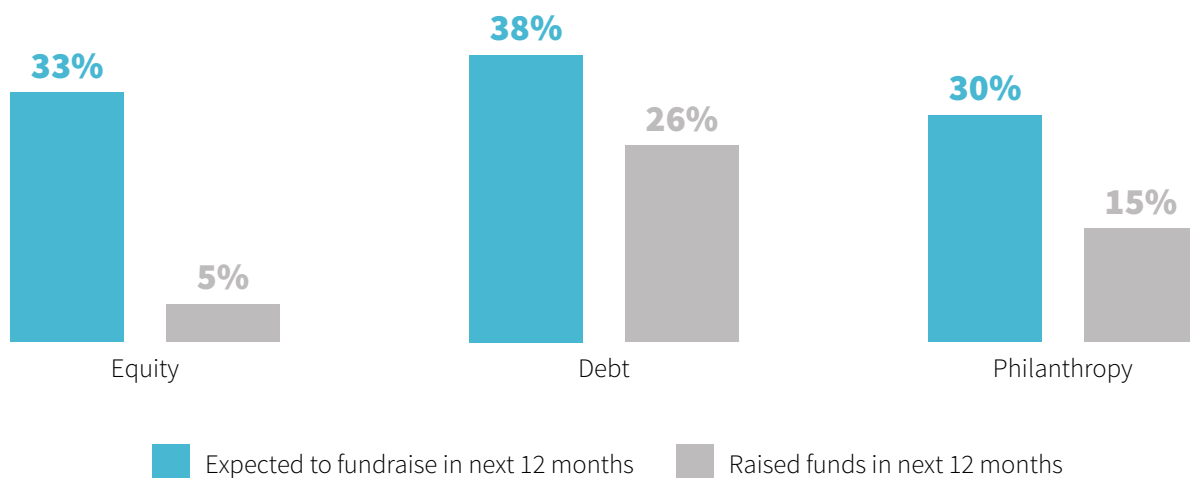
Figure 5: Top desired benefit of acceleration (for ventures based in Central America)



Are accelerated ventures securing new investment?

This section examines a smaller sample of ventures – those that participated in an accelerator program and answered GALI’s one-year follow-up survey. Not all accelerated ventures managed to raise new investment in the year of the program. If they were successful in obtaining new financing, it most commonly came in the form of debt, followed by philanthropic capital (i.e. grants or donations). Very few ventures were able to raise new equity investment (Figure 6).

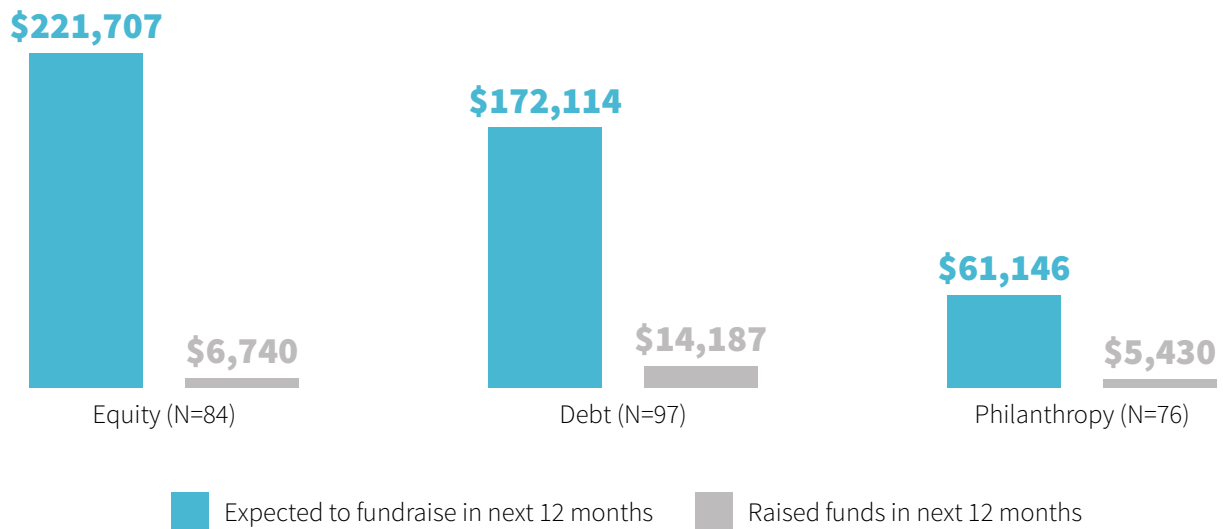
Figure 6: Fundraising expectations versus reality for accelerated ventures



N=255

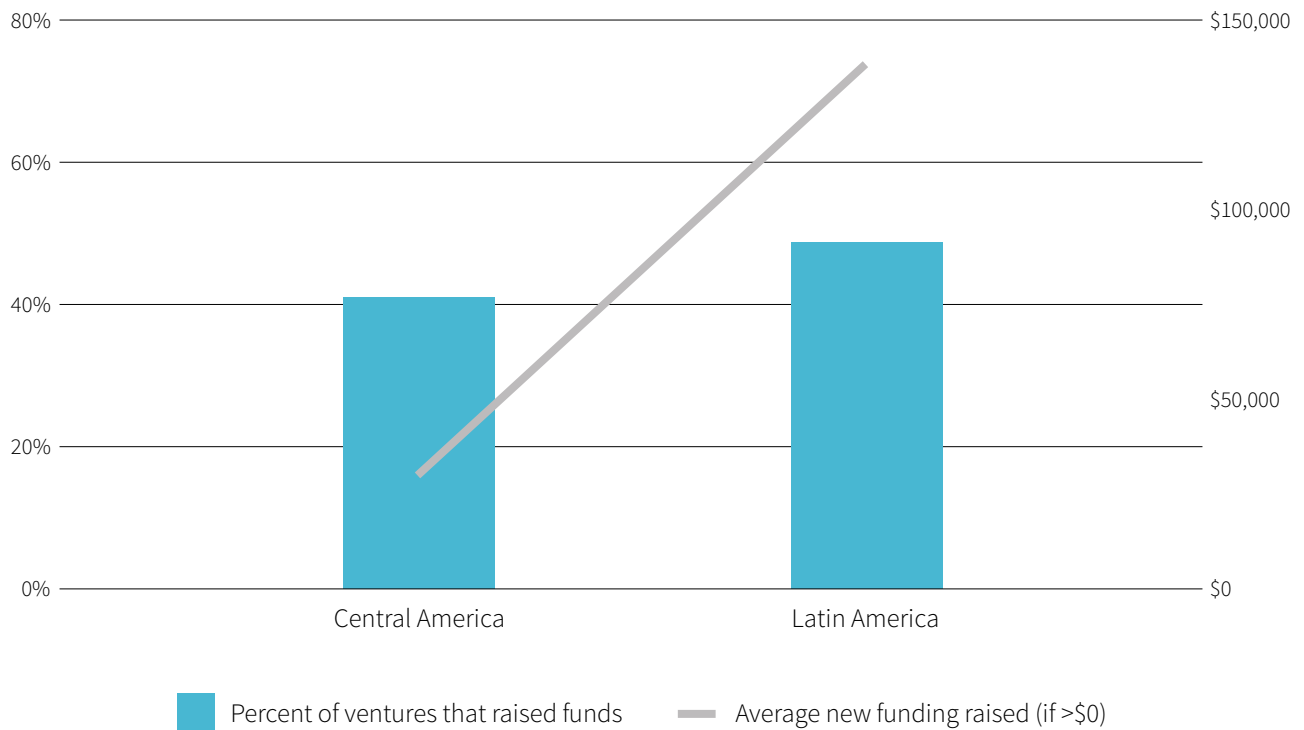
Figure 7 isolates those entrepreneurs who had fundraising plans and compares their 12-month fundraising targets to the amount of funding raised in that timeframe. While average amounts raised were low across the board, the discrepancy is particularly stark when it comes to equity, consistent with the common interviewee perspective that entrepreneurs’ expectations for equity financing are not realistic, even with the support of acceleration programs.


Figure 7: Average fundraising expectations versus amounts raised for accelerated ventures



To put this information in context, Figure 8 compares fundraising actuals for Central American ventures versus the full sample of Latin America-based ventures in the GALI dataset. A similar proportion of accelerated ventures received new investment one year after application in Central America compared to those in the broader Latin America region. However, Central American ventures fall behind in terms of average amount received when they do secure new investment.

Figure 8: Average fundraising for ventures in Central America versus Latin American





Interviewed investors and accelerator representatives pointed to several reasons why Central American ventures struggle to fundraise during or shortly after the acceleration process. From the investor perspective, entrepreneurs have ample opportunities to access financing. According to investors interviewed for this brief, the primary challenges exist instead with the mindset and stage of the entrepreneurs; specifically that many entrepreneurs are unprepared to pitch to investors (due to an inability to communicate financial projections and provide historical financial documentation), are too early-stage for return-seeking investment (specifically an inability to demonstrate how they will scale), and have aversions to international financing and ownership sharing (they are not prepared to internationalize their products or services or are not open to accessing share capital mainly for cultural reasons). In addition, investors cite difficulty accessing accurate market size information due to information gaps and a lack of consistent data, forcing them to rely on proxies for financial forecasting which adds additional risk and uncertainty.

“ It is very difficult for entrepreneurs to raise funds, even if they have a spectacular business model. The challenge is how to make it scalable – how to get out of a single Central American country market and take the business to Mexico or to all countries in the region. Individual country markets in Central America are very small and risky – as an investor, we are unsure how we would get out of that company well. How could we make that investment profitable?

— Investor working in Central America

“ Many have the potential, but [the entrepreneurs] mostly seek subsidized financing and low amounts - not what an investment fund offers. Some of them do not understand or are not aware of what it means to have an investment fund as a partner and rather expect it to be like working with a local commercial bank...The other challenge is the size; the companies that have an impact profile do not reach the level and size required by an investment fund.

— Investor working in Central America

Accelerator representatives agree on the need for financial education and investment preparedness and focus explicitly on developing these skills in the entrepreneurs who attend their programs. However, interviewees shared that entrepreneurs face barriers from the supply side of capital as well – that investors are not doing enough to consider the needs of startups, with not enough right-fit capital for entrepreneurs at an early-stage, when capital can be critical to gain traction. There are few sources of seed-stage equity financing as there is a lack of angel investors and typical venture capital deals have ticket sizes that are too large for most startups.

While debt financing is more common and accessible to entrepreneurs, there are still significant challenges to accessing loans. Traditional banks require proof of revenue as well as collateral, and for earlier-stage companies it is difficult to present the right financial proof to convince banks to take the risk. This is exacerbated by the fact that many Central American economies are volatile, making growing, still-developing businesses an even greater investment risk.

“ For companies that are new or have little financial knowledge, it is difficult and much more complex to obtain financing with a favorable condition in traditional banking. Because the Central American economy is so volatile, it makes SMEs unpredictable in terms of revenue, especially compared to larger companies with more predictable financial forecasting, deeming them higher-risk and cornering them into unfavorable interest rates.

— Accelerator working in Central America

Gender differences

When discussing early-stage financing, it is important to remember that challenges are not experienced equally among entrepreneurs of different genders. A 2020 GALI study* found that women-led ventures are less likely to enter accelerators with financing and oftentimes find themselves even further behind men-led ventures post-acceleration (the figure below shows a similar trend among Central American ventures). Some of this discrepancy can be accounted for in women entrepreneurs' lower risk tolerance and lack of openness to outside ownership, but even when accounting for these differences there is a significant unexplained gap – most likely a result of gender biases that exist in investment and acceleration practices that need to be further explored and addressed. ANDE is working to investigate solutions to gender financing gaps through our [SGB Evidence Fund](#) and [Advancing Women's Empowerment Fund](#).

Percent of ventures with investment pre-acceleration, by founding team gender



* Davidson, A. and Hume, V. [Accelerating Women-led Ventures](#), 2020.

The relationship between accelerators and finance providers

Preparation for investment and connections with investors are typically central focal points of acceleration program curricula, yet based on the above analysis, entrepreneurs are clearly not securing their desired levels of investment in Central America. This begs the question, what is the relationship between accelerators and investors in Central America, and are there ways these interactions could be more mutually beneficial?

Based on interviews with both financiers and accelerators, the relationships with investors and accelerators vary considerably. These relationships can generally be bucketed into two categories:

- 1. Formal relationship:** An agreement between the accelerator and investor to feed accelerated ventures into the investment pipeline. Oftentimes the accelerator and investor are under the same umbrella organization, while occasionally these are formal partnerships where a lender will provide the capital for accelerator graduates.
- 2. Informal relationship:** Investors are in an accelerator's general network and are invited to events like demo days, one-on-one meetings with entrepreneurs, or other ecosystem convenings. Sometimes investors also provide financial knowledge as part of an accelerator's curriculum. Generally, interviewees described informal relationships based on specific needs of a program (i.e. advisory support), but not a strategic and ongoing relationship.

There is a widespread perception among investors that accelerators play in “another league” (i.e. with ventures too early-stage and risky for sizeable investments). Due to this mismatch, accelerators are generally keener to pursue and formalize relationships with investors than vice versa. Often, accelerators' strongest relationships are instead with multilateral and bilateral donor institutions that see supporting acceleration as a mechanism for economic development but may have limited capacity or desire to provide long-term appropriate growth capital for participating entrepreneurs.

From the perspective of investors, accelerators do not generally go far enough in de-risking ventures through robust investment-readiness support prior to putting these ventures in front of investors. Accelerators already place significant emphasis on helping ventures become investable, but training and mentorship may not be enough to close the gap between accelerator graduation and securing investment. Investors shared that more formal partnerships may help align incentives between accelerators and finance providers. This could either look like accelerators providing financing directly, or by accelerators working more closely with investors. By making these interactions more regular and predictable, accelerators could better earn the trust of the investors as a strong provider of ventures into the investment pipeline.

“ **There needs to be better communication between investors (like us) and accelerators on a permanent and recurring basis to build trust, and then information can flow more easily and more areas of collaboration can emerge, such as informal consultations about a company and its numbers...**

— *Investor working in Central America*

“ **For me, the most successful model is where the accelerator is also an investor and continues to help these startups in the phases in which they begin to scale. They shouldn't just teach pitching, but they should go way beyond that. In the absence of funds, they are not really helping the ventures and are becoming sources of frustration for entrepreneurs. Many entrepreneurs don't speak well of local accelerators; they feel they have wasted time rather than gained something beneficial. Accelerators should be more proactive.**

— *Investor working in Central America*

Alternatively, from the accelerator perspective, finance providers could be more flexible to meet the needs of startups. Notably, it seems the most valuable relationships with finance providers were the formalized alliances which guarantee funding for program graduates.

“ I think there is supply; the point is that there are often banks that claim to have an approach to SMEs but when it comes to seeing the requirements and the formalities, the truth is that there is not much differentiation in terms of the treatment of a startup versus another type of client. There are inflexible rates.

— Accelerator working in Central America

“ We have a formal alliance with an international cooperation. We’ve tried several programs, and what we’ve realized is that it’s best to work with an organization that’s able to lend. [Our partner] will lend at a not-so-low rate, but in which no guarantees are needed...

— Accelerator working in Central America

In interviews, much of the onus was put on entrepreneurs when it comes to addressing fundraising constraints. Both accelerators and finance providers suggest that ventures need to be better prepared to meet with finance providers, present more scalable models, and develop business models that are less risky given regional economic volatility. While continued engagement between traditional investors and accelerators may help adjust expectations on the investor side and investment-readiness programming on the accelerator side, there is likely also an important role to play for impact investors and donors in bridging this gap. ANDE’s bi-annual report on impact investing trends in Latin America found that 53% of impact investors in the region target below market-rate returns.¹² This allows these investors to take on more risk, and so may represent a more appropriate risk profile for earlier-stage ventures coming out of acceleration programs. In addition, accelerators with their own funds to invest can play a critical role in providing seed capital to allow ventures to get to the point of readiness for more traditional investment. Flexible donor support for accelerators can play an important role in helping spur the development of these funds.

How is COVID-19 affecting accelerator-investor connections?

There is limited insight on how the pandemic has affected connections between accelerators and finance providers. Half of the accelerators interviewed did not track this and so could not comment, while the others shared mixed opinions (both positive and negative). Some shared that since they rely on events to get investors in the door and involved in the program, it’s been challenging as they transition to digital events and lose that in-person interaction. However, based on comments from finance providers, this was not the best way for accelerators engage them in the first place, so this might be a good time for accelerators to reevaluate how they engage potential investors.

Interviewed finance providers shared that the pandemic did not affect the requirements related to their financial products; requirements were neither changed nor relaxed. This might be a missed opportunity, since many accelerators note that investment requirements are already asking too much of ventures, who are unable to meet those requirements and run their business effectively.

Conclusion and recommendations

Both accelerators and financiers are looking to help ventures succeed, yet Central American ventures are struggling to meet their own fundraising expectations and to keep up with their Latin American peers. There is a clearly a mismatch in the type of funds entrepreneurs need and the type of financing available, but what can the accelerator model, and in particular accelerator-investor collaborations, do to address this gap?

Insights from data analysis and interviews:

- 1. Entrepreneurs are not meeting their own fundraising expectations.** Interviews with investors and accelerator representatives suggest that entrepreneur fundraising expectations are not realistic, and that regional and economic constraints limit access to capital. Entrepreneurs are most likely to seek and secure debt, with little access to equity financing and challenges in securing favorable loans.
- 2. Investors largely point to a lack of investment readiness and scalable business models.** Interviewed investors pointed to the very early stage and lack of formality of Central American businesses as unattractive to finance providers, alongside the inherent economic volatility in the region making revenues unpredictable. Several also feel that accelerators are not doing enough to prepare entrepreneurs to take on investment or to engage the investment community.
- 3. Accelerators focus on financial education but acknowledge a lack of financing designed for early-stage enterprises.** Accelerator representatives agree that entrepreneurs need significant improvement in their investment readiness and confirmed that their programs aim to close this gap. But interviewees also noted that traditional financiers have unrealistic expectations of startups and that the lack of right-sized and flexible capital is a major constraint.

Recommendations based on this evidence:

- 1. Accelerators should make capital raised an impact metric for their program success.** This will incentivize accelerators to work more closely with investors throughout the investment process, rather than ending at “demo day,” which sometimes does work but oftentimes leaves entrepreneurs unfunded and investors unimpressed.
- 2. Accelerators should carefully consider the profile of investors they are engaging and prioritize relationships with impact investors that are willing to work with riskier early-stage ventures.** The mismatch between the risk profile of early-stage ventures graduating from acceleration programs and the demands of many traditional investors may simply be too large to overcome in the short term. In these cases, accelerators should work to identify investors willing to accept greater risk in exchange for the greater potential impact that comes from being “first-in” capital.
- 3. Donors and other ecosystem supporters can provide flexible capital to accelerators to help them make investments directly.** By taking an investment position in some of the ventures going through their programs, accelerators can maintain a strong relationship and provide continued support to help bridge the gap between acceleration and traditional investment.

Appendix: List of Interviewees

Maria Denise Duarte, Agora Partnerships

Cecilia Foxworthy, Agora Partnerships

Maité Marroquín, BAC Credomatic

Andrés Rubio, BID LAB

Stephany Orozco, Bpeace

Roxana Durán, Cenpromype

Michelle Herrera, Cenpromype

Nathalie Prado, EcoEnterprises Fund

Daniel Granada, Pomona Impact

Julio Martínez, Pomona Impact

José Ordoñez, SEAF

Oscar Artiga, Technoserve

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