



Fondo Inversor

Capital and support for
impact organizations

Fondo Inversor channels resources from social investors in order to leverage plans to grow, expand, or consolidate small and medium-sized enterprises that have a profitable, scalable business model with the potential to have a high social and environmental impact in Colombia.

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LOCATION:
National - Colombia



MAIN PARTNERS:

- JP Morgan
- Corporación Mundial de la Mujer
- Fundación Avina
- Fundación Saldarriaga Concha
- Fundación Bavaria
- Compartamos con Colombia
- Banca de Inversión Bancolombia
- Brigard Urrutia
- Bolsa de Valores de Colombia Estrategias Corporativas
- LAEFM (Latin America Enterprise Fund Managers)
- Fundación Diego y Lía
- Fundación Bolívar Davivienda



TYPE OF INVESTOR/SILO:

Financial institutions and asset managers with a social or environmental impact.



MOTIVATION/PROBLEM TO TACKLE:

- Promote the impact investment ecosystem
- Contribute to the development and growth of small and medium-sized enterprises
- Create jobs and contribute to the economic development of Colombia



SECTOR:

- Financial services
- economic and social development



NON-FINANCIAL SUPPORT OFFERED:

- Impact measurement and management
- Business model and/or strategy
- Financial management
- Governance, and operational (marketing, logistics, sales, purchases, legal)



FINAL BENEFICIARIES:

- Women
- People with physical and/or mental disabilities
- Unemployed people
- Minority groups
- People living in poverty
- Entrepreneurs



DURATION:

Corporación Inversor was created in **2009** and, in **2011**, it launched Fondo Inversor, with **2021** as the year of closure.



TYPE OF FINANCING:

Debt and/or equity

RESOURCES INVESTED OR DONATED:

USD 7 million

USD 1,400,000 per enterprise on average (5 enterprises).



SDGS ADDRESSED:

IMPACT:

300 jobs have been created

The jobs of **26.8%** of the enterprises' workers have become formal.



Working conditions have been improved for

30% of the workers.

The enterprises of the portfolio have seen an

11.2%

weighted growth in sales, and EBITDA has grown 1.8 times since the fund started investing and up to 2019.



BACKGROUND AND CONTEXT

In 2007, as the Rockefeller Foundation coined the term *impact investment* – grouping a trend of new investments that did not only take into account financial returns but also produced a social and environmental impact – different actors of the Colombian social and entrepreneurial sector decided to create a fund that responded to these principles.

First of all, a study was conducted with help from Compartamos con Colombia (a consultancy), in order to have other references and assess the viability of the fund. Second of all, Corporación Inversión Social Rentable–Corporación Inversor–was created to serve as a professional manager for the fund. In 2009, the corporation was brought to life with participation from fourteen organizations from the foundation and business sectors.

“The merger of these two worlds is what Fondo Inversor wants to represent. Achieving a mix on the social side, where high impact is expected, and trying to make resources last over time; going beyond traditional philanthropy. And, on the business side, looking for growth, profitability, effectiveness, economic development, always in the spirit of achieving a significant social and environmental impact.” César Rodríguez, Head of Investment for Corporación Inversor, Professional Manager of Fondo de Capital Privado Inversor.



DESCRIPTION

Fondo Inversor channels resources from investors interested in achieving socio–environmental impact, in order to leverage plans to grow, expand, or consolidate small and medium–sized enterprises that have a profitable, scalable business model with–more importantly–the potential to achieve a high social and environmental impact in Colombia.

It is supported by partners with different insight and experience. From a financial standpoint, there is Bolsa de Valores de Colombia, JP Morgan, Banca de Inversión de Bancolombia, Estrategias Corporativas,

and LAEFM; law firm Brigard Urrutia provides legal support, and organizations from the social sector contribute based on a perspective bringing together financial and social aspects – such as Corporación Mundial de la Mujer, Fundación Avina, Fundación Saldarriaga Concha, Fundación Bolívar Davivienda, Fundación Bavaria, Compartamos con Colombia, and Fundación Diego y Lía.

These multiple voices do not only reflect the possibilities to bring together different actors in the Colombian private social investment ecosystem; they also represent benefits, inasmuch as they provide financial, technical, and human support for the development of the fund and its investments.

Since 2011, the fund has invested in five social-purpose enterprises, and it will support them until 2021.¹ These enterprises come from different sectors, which makes the fund a multisectoral one, with high-impact initiatives. These enterprises are:

- ... **Hotel Waya** (*Tourism*): An hotel that promotes tourism development in the La Guajira region – one of the poorest areas of Colombia – and offers a sustainable alternative for its development, as well as job creation different from traditional mining, on which this Department traditionally depends.
- ... **Gaia Vitare** (*Environmental Services*): This enterprise separates and recovers electric and electronic waste (e-waste) by means of standardized processes, ensuring environmental preservation, with the goal of putting this waste back in the market for industrial use.
- ... **Groncol** (*Construction*): It designs, develops, and maintains green construction projects across the country, such as green walls and roofs, by means of innovative products that accumulate social, environmental, and economic benefits.
- ... **Fruandes** (*Agribusiness*): This enterprise focuses on organic-fruit drying processes to export to countries with a high consumption of healthy foods, thus benefiting small farmers from Colombia. It exports to Canada, the United States, Sweden, Switzerland, the United Kingdom, and Italy. Fruandes has fair-trade, organic, and B Corporation² certifications.



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¹ Fondo Inversor, Portafolio. Accessed in: <https://www.inversor.org.co/fondo-inversor/#portafolio>

² B Corporation refers to a type of company that uses the market's power to provide solutions and help solve social and/or environmental issues

- ... **Mejor en Bici** (*Services - Urban Mobility*): It designs and implements comprehensive bike rental services for public use and private organizations in the cities. Additionally, it develops activities that promote the use of bicycles as an alternative means of transportation.



IMPLEMENTATION

Corporación Inversor, the professional manager of Fondo Inversor, was created as a non-for-profit entity to channel resources from investors that sought profitability but not financial returns, investing their resources as donations and stipulating that their profits stay with the managing company to keep on promoting impact investment. Fondo Inversor was for its part established as a private equity fund, a collective closed portfolio in which investors must contribute their capital before the final closure of investments—as of that moment, no new investors are admitted—and commit the funds for a period that usually lasts ten years.

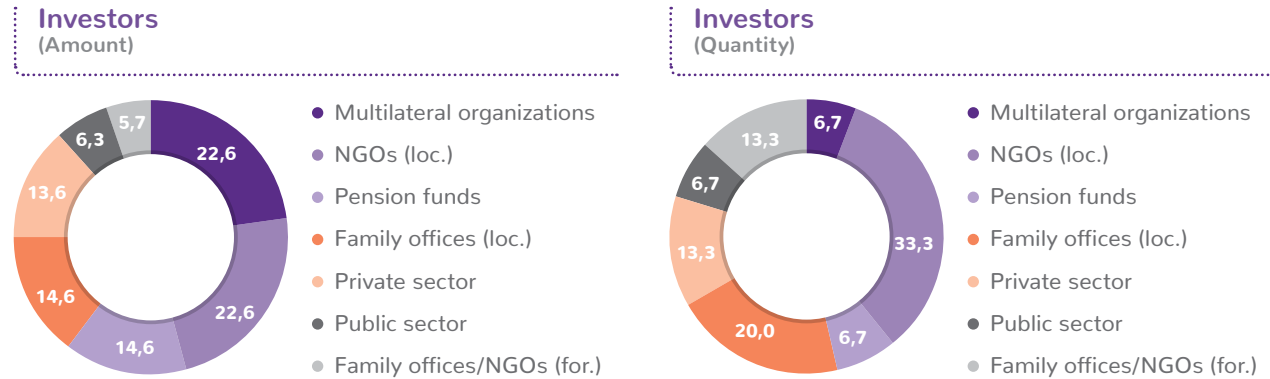
Fondo Inversor was introduced to around 83 organizations in Colombia, of which 27 showed initial interest in understanding and learning more about the fund and about this type of investments, very new at the time the fund was created.



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Finally, 14 investors joined this effort. They have contributed capital for approximately USD 7 million, which – according to the amount invested – is divided as follows: Multilateral organizations, 22.6%; non-governmental organizations, 22.6%; pension funds, 14.6%; local family offices, 14.6%. The remaining 25.6% is distributed among the public sector, the private sector, and international NGOs/family offices. Several Colombian foundations were interested in participating in the initiative, as well as a pension fund (Skandia) as the first institutional investor to support these impact investment vehicles.

Investors had different motivations to participate. Those in the foundation sector were looking for options and alternatives that would prevent them from depleting their resources and that would achieve impact, while those in the private business and financial sector looked for initiatives that would achieve market profitability, business growth and, at the same time, significant social and environmental impact.



Source: Fondo Inversor 2019 Report.

As for the selection of investments, from the establishment of the fund until the closure of the contribution stage, close to 179 investment opportunities were analyzed. Then, a detailed study was carried out for 58 of them, and 25 moved on to the due diligence stage. Finally, the list was reduced to 5 enterprises that moved on to signing agreements.

To select them, a detailed indicator analysis was performed for each enterprise, taking into account the economic sector in which they operate. However, some indicators are common to all of them—for example, the fact that they achieve social or environmental impact. As for the social perspective, the indicators reviewed were job creation for vulnerable groups and improvement of work conditions for said population. In terms of the environment, the indicators varied depending on the business model. In general terms, however, they were related to the enterprises’ good environmental practices and contributions to environmental care and protection.

Other motivations for selection were based on financial and strategic aspects, to make sure that enterprises had growth and scalability potential in their business models.

An intangible, yet very relevant aspect of the selection process was related to the human component. Not only was it important to have an attractive business model with a clear social and environmental impact, but it was also essential to have a smooth and constructive connection between the fund and the entrepreneur. As this is a long-term investment (approximately 6-8 years), trust is essential.



Tailored Finance

Since its inception, Fondo Inversor's philosophy has been based on financing businesses by means of equity as a financial instrument that makes the fund's commitment to the final impact and results evident. Nevertheless, lessons were learned along the way that have meant adapting to each enterprise's requirements and to the characteristics of the entrepreneurs.

Considering the particular features of each social business, an analysis was made of aspects such as the resources needed and where they would be used, as well as the social business's position – sometimes, they would choose a loan over a direct partner.

This same reflection led the fund to consider other financial instruments to make up for risks and make exit strategies easier. With a mix of equity and debt, it was able to adapt to the enterprise's requirements and, at the same time, have opportunities to make additional investments using adaptable methods.

Given the above, the fund is made up of 40% equity and 60% mezzanine debt (a non-traditional debt mechanism – more flexible than that of the banking sector – which meets the demands in terms of grace periods, rates, form of payment, and other conditions; it is also aligned with the enterprises' growth prospects). This is beneficial for social businesses, as this type of debt is tied to the success of the business model—it does not let the business "drown" but rather goes hand in hand with growth. The fund provides capital where bank debt is not available, and the rate that it uses depends on an analysis of different variables such as risk, time, securities, and use, among others, trying to be competitive within the market average.



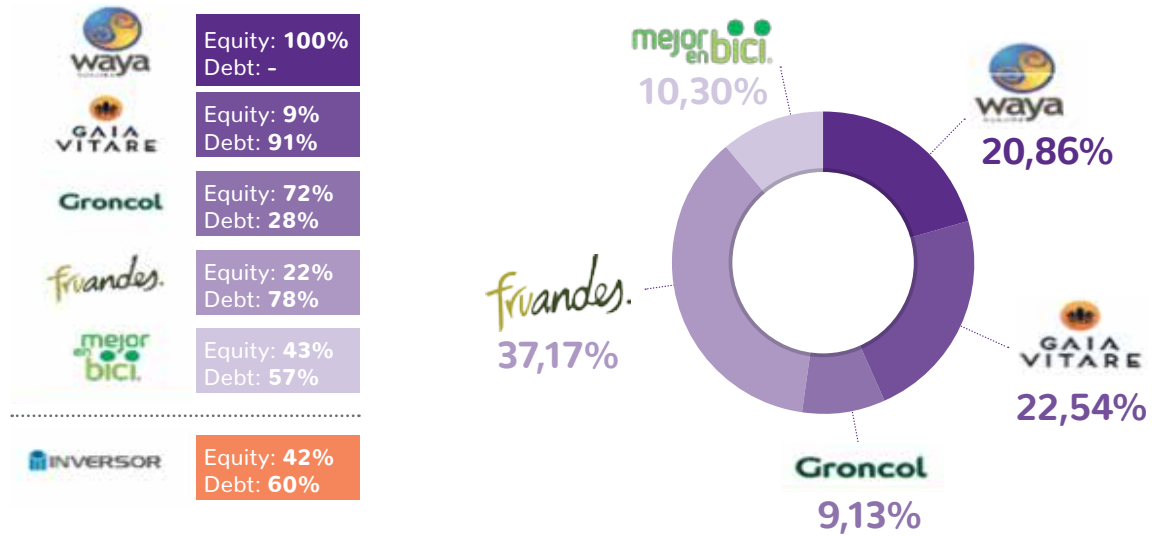
Non-financial Support

Non-financial support – constant throughout the process – is essential to monitor investments and support them with a complementary work team. In particular, Fondo Inversor comprises five people. One of them follows up and supports impact, two more support financial, operational, and transactional issues, and the other two are in charge of cross-cutting aspects such as the strategy, commercial and



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Graph 1: Portfolio distribution



Source: Management Report, Fondo Inversor, 2019

legal affairs, among others. This team actively participates in the enterprises' day-to-day business, trying to contribute to their development by:³

- 1 Strengthening the business model and strategy.
- 2 Optimizing the financial structure.
- 3 Opening new markets.
- 4 Strengthening corporate governance practices.
- 5 Maximizing the social and environmental impact.

³ https://www.inversor.org.co/fondo-inversor/#estrategia_inversion

Additionally, members of the corporation's Board of Directors and of the Investment Committee are part of the enterprises' Boards of Directors and act as high-level advisers. Through the Board of Directors, the Investment Committee, and the contact networks, Fondo Inversor aims at identifying people that can help strengthen the enterprises' competences.



RESULTS

In order to monitor impact and results, the fund is in constant communication with the enterprises (at least once a week) and has three lines of measuring indicators:

- 1 The enterprise's own indicators, which report on the sector in which it works and which are measured on a semi-annual basis.
- 2 Standardized indicators common to all the enterprises under the IRIS+ and Global Impact Investing Rating System - GIIRS⁴ taxonomy until 2019. These indicators are assessed annually and include aspects such as jobs created; employment for vulnerable groups; gender in management positions; purchases from local suppliers; corporate governance; independent members, among others.
- 3 Good practice follow-up, which is not a specific indicator but does consider the good practices suggested by GIIRS. They are intended to serve as improvement opportunities among the fund's enterprises.

The results to date, prior to the expiration of the fund in 2022, have been the creation of around 300 jobs, of which approximately 70% correspond to vulnerable groups (ultra-poor, mothers heads of households, among others). Moreover, 26.8% of jobs have become formal, and working conditions have improved for 30% of workers.⁶

⁴ GIIRS (Global Impact Investing Rating System): Tool to measure annually the fund's social and environmental impact, as well as its portfolio, in order to measure and compare its performance. The maximum score is 200. Fondo Inversor joined this measurement initiative in 2013 and has managed to increase by 19.1 points from the 2013-2014 period to the 2018-2019 period, achieving a total score of 156.6, which positions the fund in the Platinum ranking. This measurement was, however, abandoned in 2019, since that system itself came to an end.

⁵ <https://www.inversor.org.co/wp-content/uploads/2020/06/INVERSOR-2019-Informe-de-Resultados-2019.pdf>

Thanks to non-financial support, the definition of the enterprises' strategic lines and the structuring of financial issues have been formalized. Furthermore, impact strategies have been developed for social and environmental issues. This is reflected on sales growth-weighted average of 11.2%-and EBITDA-1.8 times that of 2019.

The GIIRS measurement for 2018-2019 highlighted that the portfolio's score had improved by 5 points compared to the previous year. The Professional Manager's score remained the same compared to the previous year. Also, three out of the five enterprises improved their score.⁶

Another factor worth highlighting is that the diverse mix of investors - ranging from international cooperation, public resources, foundations, family offices, business sector, and pension funds - made the fund have very demanding, strict practices. For example, the fund has to prepare periodic reports, not only for the corporation but also for its partners, investors, governing bodies, and regulatory bodies. Similarly, it has accountability and constant follow-up and monitoring schemes that help not to lose sight of the main impact that is to be achieved.

Besides, in the midst of the current situation, the enterprises have proved to be more resilient to face critical circumstances such as those brought about by COVID-19. While their sectors are among the most affected ones - such as tourism and construction - they have been better prepared to face these scenarios and have had the chance to redesign their own products and services according to this new reality. For example, Gaia Vitare, which provides comprehensive electric and electronic waste management services, has expanded its service offer, introducing new waste-processing and value-generating lines, such as hospital waste management and value-added plastics.



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LEARNINGS AND PERSPECTIVES

One of the main accomplishments of Fondo Inversor was to pave the way for new impact-first investments that proved the thesis stating that the financial and social sectors can coexist achieving profitability and social and environmental returns.

“The ecosystem is far more robust today. There are more intermediaries involved in impact investments and willing to strive to create these spaces. We have shared experiences with academia and other funds, which has been very valuable, as that has allowed to open and develop the ecosystem.” César Rodríguez, Head of Investment for Corporación Inversor, Professional Manager of Fondo de Capital Privado Inversor.

Another accomplishment and learning for Fondo Inversor is that it is possible to structure a multisectoral fund that achieves impact and has enterprises that can grow and last over time. For this purpose, a team that deepens its knowledge is required in these sectors, so that support for businesses is high value. With these learnings, a second fund is being structured, comprising a more experienced, knowledgeable team.

Additionally, another important lesson learned has to do with the fact that, as it was the first impact fund in this country, an appropriate investment size was not considered to ensure the sustainability of the structure required throughout the process. To respond to this challenge, investors have closely followed up the organization to offer constant guidance and non-financial support. However, these very rooted limitations have implied barriers expected to be adjusted for the second fund.

As for the enterprises, a lesson learned highlighted by the fund is the importance of strengthening the teams that guide and support business managers, since they are the human capital that makes good ideas and initiatives that contribute to scaling up impact possible.

Lastly, and based on its experience in the Colombian private social investment ecosystem, Fondo Inversor has seen the need for organizations that support businesses in strengthening capacities different from the ones that it covers. Legal issues, human resources, and marketing, among others, are key for the growth of businesses with a social and environmental impact in Colombia, whose direct suppliers are usually very expensive at early operation stages.