



Fundación Sofía Pérez de Soto

From traditional to strategic philanthropy

Fundación Sofía Pérez de Soto's Fondo de Emprendimiento is an example of a traditional foundation seeking innovation in its lines of action through a financial mechanism that is unconventional in philanthropy: convertible notes. Thanks to Fondo de Emprendimiento, the foundation can support entrepreneurs and create jobs, foster development, and promote innovation.

Fundación Sofía Pérez de Soto

From traditional to strategic philanthropy



LOCATION:

Antioquia, Colombia



SECTOR:

- Economic and social development
- Entrepreneurship



MOTIVATION/PROBLEM TO TACKLE:

Lack of financing and capacity-building opportunities for social businesses with impact potential.



TYPE OF FINANCING:

Hybrid financing and equity

RESOURCES INVESTED OR DONATED

USD 300,000

per contribution



TYPE OF INVESTOR/SILO:

Foundation



NON-FINANCIAL SUPPORT PROVIDED:

- Impact measurement and management
- Business model and/or strategy
- Financial management
- Governance
- Operational (marketing, logistics, IT, sales, purchases, legal)
- Other (partnerships and securing investors).

IMPACT:

Co-existence of traditional and strategic philanthropy in the creation of a model to support entrepreneurs through a philanthropic capital fund.



COP 7 billion (approximately

USD 1,850,000

invested in **7 social businesses**, out of which 5 still continue.



PARTNERS:

Taurus Capital



DURATION:

2013

– present



FINAL BENEFICIARIES:

Entrepreneurs



SDGS ADDRESSED:



One of the social businesses that have completed the process attracted **another private investor**, which constitutes a success.



BACKGROUND AND CONTEXT

Antioquia, located in northwestern Colombia, is the second area with the most startups in the country, accounting for 20.1% of the nation's total.¹ Particularly, Medellín—the capital of the department—has been one of the major entrepreneurship and innovation hubs in the country. With initiatives such as Créame,² Medellín Emprende, and corporations like Ruta N (see the case study in this report), local and regional governments have played a particularly active role.

Apart from this public-sector support, private organizations have also contributed to dynamizing the ecosystem.

One example is Fundación Sofía Pérez de Soto (FSPS), which after identifying financing barriers faced by social businesses started rethinking its role as a second-tier organization. Thus, it conducted research on national and international funds to build its own investment model.

Based on the premise that every social business has the potential to achieve social impact, FSPS started Fondo de Emprendimiento in 2013, with the aim of creating jobs, fostering development, and promoting innovation. This is how it decided to transform its traditional support approach based on donations into a mechanism to invest in early-stage enterprises.



DESCRIPTION

Since its inception 49 years ago, FSPS has acted as a second-tier organization focusing on local cooperation for and by Antioquia with no sector-specific approach. It has addressed various social issues related to education, children, and rural development, among other areas. The foundation's nature and philosophy have revolved around traditional grant-making philanthropy.

¹ Innpulsa (2016) "Mapeo e infografía". In *Ecosistemas regionales del emprendimiento en Colombia*. Accessed at: https://www.innulsacolombia.com/sites/default/files/documentos-recursos-pdf/2.2_mapeo_e_infografia.pdf

² Enterprise incubator that designs business-creation programs and supports entrepreneurs.

In order to train and teach entrepreneurs how to set up a social-impact enterprise while providing financial and non-financial support, FSPS created Fondo de Emprendimiento, which brought about changes and challenges concerning how the foundation had worked until then. Nonetheless, the other lines of action continued operating under traditional philanthropy, and so both ways of working co-exist today in the organization.

Given that it did not have any previous experience with social businesses, it partnered with Taurus Capital, a company from Antioquia specializing in identifying social, environmental, and financial problems to create value for the community by means of investments in non-traditional assets.

“In our case, a difference is made by creating opportunities for entrepreneurs who, because of their size, do not have access to private banking or other types of knowledge for their growth, entrepreneurs who need support to scale up their business ideas and fulfil their dreams of starting a company, creating jobs, being sustainable, and solving social problems.” Lina Botero, FSPS Executive Director.³

With this fund, the foundation seeks to incentivize innovation and creativity to solve social issues and foster the long-term sustainability of societies by forming strategic partnerships. This way, it hopes to contribute to the creation of knowledge and to the active search for capital investors.



IMPLEMENTATION

It was decided that the capital of Fondo de Emprendimiento would belong to the foundation, which shows a determination to bet on venture philanthropy. The capital being philanthropic, an impact-first approach was opted for in hopes of recouping the capital invested, only to re-invest it again in the fund to support other social businesses in the Department.

From the outset, it was clear that in order to have positive results, it would be necessary to work with a specialized partner. Taurus Capital, an investment fund with a focus on high-impact non-traditional

³ Lina Botero was the Executive Director of Fundación Sofía Pérez de Soto at the time research was conducted for this case.

assets,⁴ was selected for this purpose. With its help, criteria were set for the selection of social businesses, and it was decided not to focus on one specific sector so as to diversify the risk and keep the spirit of FSPS.

Taurus pre-selected some potential deals, which were then submitted to the FSPS Investment Committee—comprised of members of the Board of Directors and three external individuals—which is responsible for approving social businesses and the amounts to be invested. One aspect taken into consideration for the selection was the relationship with entrepreneurs and the synergy they could potentially form with FSPS and Taurus for joint work during the financing and support process.

Another aspect considered was the level of maturity of the social business to support. In no case were only business ideas considered. Social businesses must have been operating for at least one year but still be at an early stage. Besides being active, those businesses had to show sustainability potential to be selected.

Given that most social businesses did not have a consolidated Board of Directors or clear statutes, the process began formally with a stockholder agreement. This agreement was very important for FSPS, as having a clear understanding of the conditions set between the parties facilitated its entry as a new stockholder.

With this fund, the foundation seeks to incentivize innovation and creativity to solve social issues and foster the long-term sustainability of societies by forming strategic partnerships.

Tailored Finance

The foundation considered different financial instruments to structure the fund. After analyzing the options and seeing that the fund was not prepared to assume the role of a direct investor, convertible notes into stock were chosen. These allowed it to keep a low profile in its interventions—a constituent element of the foundation's philosophy—and assume more controlled risks with some flexibility for the future.

⁴ Alternative or non-traditional investments are those based on assets different from the traditional categories of stock, treasury bonds, highly rated bonds and debt, and bank instruments. We search for and manage assets offering relatively higher yields and having a low correlation with traditional investments to offer our investors an excellent mix that allows them to diversify their portfolio and boost their profitability. Taken from: <https://www.tcapital.com.co/>

Convertible notes are expected to yield a financial return that will be re-invested in the fund and not distributed among stockholders, so as to keep supporting other projects. As for the exit strategy, the note is sold, the exit load is paid, or the share is purchased by a strategic investor.

Non-financial Support

From the outset, Fondo de Emprendimiento considered non-financial support as a fundamental element of the process, which has constantly adapted to the needs and evolution of each enterprise. That role has mainly been fulfilled by Taurus Capital through management and general support. When needs are more specific, Taurus finds mentors who provide that support pro bono.

Support mainly consists of advice sessions for skill and knowledge transfer to the human talent of each enterprise. This is coupled with guidance for commercial, relational, and strategic development and participation in Board meetings. The foundation plays a key role because it also facilitates the creation of entrepreneur networks and enables relationships with other actors.



RESULTS

Fondo de Emprendimiento has posed several challenges to Fundación Sofía Pérez de Soto, one of which is the results and impact measuring system. Notwithstanding, follow-up has been conducted by means of focus groups and interviews, using qualitative methods.

Between 2013 and 2019, Fondo de Emprendimiento invested around USD 1,850,000 in seven social businesses, out of which five are still operating. One of the enterprises withdrew, as it was placed in settlement; another investment was exit by bringing another investor.

As for the enterprises that still work with Fondo de Emprendimiento, most have seen their sales double compared with levels prior to the investment. Furthermore, their direct jobs have increased by almost 50%.



LEARNINGS AND PERSPECTIVES

From the start, FSPS has faced a major challenge: being a foundation centered on traditional philanthropy in an entrepreneurial environment. For this reason, it was not uncommon for entrepreneurs to have certain expectations—at times, they were expecting support different from the one provided by the fund. In the words of Lina Botero, “foundations are often equated with donations.”

Another challenge, rather related to the dynamics of the ecosystem, has been the limited number of second-tier entities and organizations willing to support entrepreneurs. This, in the foundation’s opinion, is partly due to the fact that supporting social businesses and startups requires patience and resilience, as results are seldom achieved in the short term.

“Patience is required for this type of philanthropy, and resilience is essential to understand that mistakes are part of the learning process.” Lina Botero

A valuable exercise done by the foundation during the process with Fondo Emprendedor has been the identification of lessons learned. Some of them are:⁵

- I Disbursement of small amounts:** providing large amounts may lead to a sense of wealth among entrepreneurs and to the money’s being invested in low-priority needs or in improvements that could wait.
- II Strategic partnerships:** when there is lack of a specific skill, third parties should be invited to supplement it.
- III Permanent follow-up of the strategy:** clearly defining a strategy and continuously monitoring it requires discipline. Reaching the break-even point is a vision that should always be present, and the goal of making the project viable should be clearly set from the beginning.

⁵ Taken from the unpublished document *Lecciones aprendidas más importantes del Fondo de Emprendimiento*. Fundación Sofía Pérez de Soto(2020).



From the start, FSPS has faced a major challenge: being a foundation centered on traditional philanthropy in an entrepreneurial environment.

IV... Resource follow-up: auditing the allocation of invested resources and clearly knowing how they will be used must be part of the follow-up for Boards and investors. The greater the clarity regarding the use of the money invested, the easier it becomes to build trust that may open up future opportunities with stakeholders.

V... The search for capital must not stop: from the moment an investment in a social business is approved, the search for more resources and investors interested in the enterprise or its product begins.

In the context of COVID-19, a decision was made to facilitate and make entrepreneurs' obligations more flexible. Additionally, a fund to support the businesses' payroll payments was created. Taurus Capital and other partners also joined this fund.