



NESsT invests in social businesses
that introduce innovative business models

NESsT is an international organization that arrived in Peru in order to invest in social businesses that introduce innovative business models, technology, and solid environmental practices to create decent employment and better sustainable-income opportunities for vulnerable groups.

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LOCATION:
National - Peru



- MAIN PARTNERS:**
- The Lemelson Foundation
 - Innóvate Perú
 - Swisscontact
 - Rebaza, Alcazar & De Las Casas
 - Fundación Wiese
 - WWF
 - USAID
 - Elea
 - Trafigura



SDGS ADDRESSED:



SECTOR:
Economic and social development

TYPE OF INVESTOR/SILO:

Investor



FINAL BENEFICIARIES:

Different vulnerable groups (people with disabilities, women and men with limited economic resources, etc.)



DURATION:

NESsT Peru (incubation program):

1997 –now

Fondo NESsT:
2018 –now

Fondo Emprendedor:
2018 –now



MOTIVATION/PROBLEM TO TACKLE:

Provide support and direct investment to social businesses that have little access to finance and show impact in terms of income generation and decent employment creation for vulnerable groups by means of their business model.



TYPE OF FINANCING:

Debt and donations

RESOURCES INVESTED OR DONATED:

Tickets for the incubation program ranging from

USD 10,000

to USD 50,000

delivered in the form of donations or recoverable donations.

Fondo NESsT Tickets from

USD 50,000 to

USD 500,000

delivered in the form of soft loans or donations.



NON-FINANCIAL SUPPORT OFFERED:

- Business model and/or strategy
- Financial management
- Operational (marketing, logistics, IT, sales, purchases, legal)

IMPACT:

Estrafalarío, a sustainable fashion brand, provides training and sustainable income to 30 inmates of the Chorrillos women's penitentiary.

Café Compadre: producers' income increased by around 70%.

Empanacombi currently employs 6 persons with disabilities in its kitchen.

Inka Moss works with around 50 suppliers of the region, with a positive impact on their families.

Sustainable Fishery Trade (SFT): the income of more than 140 fishermen increased between 30-50%.

Llama Pack works with 74 families from 9 communities of the region, creating 411 temporary jobs annually.

Pixed has changed the lives of 20 people through its prosthetics. More than 20,000 health workers have had biosecurity protection in the context of coronavirus.

Greenbox supports secure jobs and income improvement for more than 300 farmers, thanks to the production of dry-fruit snacks.

Caecos is a coffee-exporting cooperative with more than 300 affiliated farmers.

Suritex: the monthly income of 120 families that use Suritex plants increased by USD 6000.



BACKGROUND AND CONTEXT

According to the Instituto Nacional de Estadística e Informática (INEI - National Institute of Statistics and Informatics), almost one million Peruvians lived in extreme poverty in 2019. This means that their spending power did not allow them to consume at least one minimum food basket. 83.6% of those living in poverty and extreme poverty work in agricultural activities, and 5 in 10 poor people are women.

The very geography of Peru has an influence on said inequality, as rural uplands lack infrastructure, access to services, and connectivity—they are quite far from urban areas. These are places usually inhabited by indigenous minorities, also in inequality and exclusion conditions.

Even though poverty rates have decreased notably in the last few years—from 42.4% in 2004 to 20.7% in 2015—rural areas are still the most affected ones. According to INEI, the poverty rate is 44% there, compared to 15% in urban areas.

In this context, NESsT—an international organization present in Brazil, the United States, Hungary, Poland, Romania, and the United Kingdom—arrived in the Andean region in order to invest in social businesses that introduce innovative business models, technology, and solid environmental practices to create decent employment and better sustainable-income opportunities for vulnerable groups.

It started in 1997, supporting the self-sustainability strategies of social purpose organizations (SPOs); in the past few years, it has transitioned to an impact investment fund scheme.



DESCRIPTION

Through its incubation program, NESsT supports SPOs for periods ranging from two to four years, by means of mentoring and financing services (donations and recoverable donations). Once they are prepared, they have the possibility to receive direct investment through partners or join one of the

impact-investment funds.¹ However, participation in the incubation does not guarantee admission to any of the funds.

Fondo NESsT is independent, while Fondo Solidario para el Emprendimiento Social (Fondo Emprendedor) is the result of a partnership with Fundación Wiese. Both were created in 2018.

In the framework of the partnership with Fundación Wiese, NESsT is in charge of managing the investment process (due diligence and SPO selection and support).² Although there are two different funds, all the SPOs are classified under the same portfolio (Fondo NESsT) and take an engaged approach that provides tailored finance and custom support for business development.

“The partnership with Fundación WIESE was established precisely because we realized that outside foundations were gradually looking at the question of investment in Latin America. We therefore saw the need to boost the impact-investment ecosystem for local organizations.”
Isabel Castillo, Director of NESsT Peru.

The capital comes from both international and local investors: foundations, members of its Board of Directors, multilateral organizations, and private investors. Some of them are The Lemelson Foundation, JP Morgan, Innóvate Perú, Swisscontact, Rebaza, Alcazar & De Las Casas, Fundación Wiese, WWF, and USAID. As this is an investment fund, investors provide capital expecting financial return, although always prioritizing social and environmental impact.



IMPLEMENTATION

NESsT follows three pillars to achieve its theory of change:

- 1 **Investing:** Donations and patient capital are collected to be transformed into investment in SPOs that create decent employment and income for vulnerable groups.

¹ Kunan and Universidad Científica del Sur (2019). *Reporte sobre el estado del emprendimiento social y ambiental en el Perú*. Accessed at: <http://www.kunan.com.pe/publicaciones-y-recursos/>

² Fundación WIESE (n.d.) Fondo Emprendedor. Accessed at: <https://www.fundacionwiese.org/fondo-solidario/fondo-emprendedor>

- 2 **Committing:** It commits to the social business by means of tailored finance and non-financial support around business management for a period of 5 to 7 years.
- 3 **Transforming:** Achieving impact through supported businesses, as social entrepreneurs empower communities by means of hard- and soft-skill development, access to technology, and the constant support that they need to improve their livelihood and thus achieve a decent future.³

Some of the criteria that social businesses must meet to participate in the funds are:

Fondo NESsT⁴	<p>Identify and promote duly incorporated businesses that:</p> <ul style="list-style-type: none"> • Have an annual income of USD 100,000–USD 2,500,000; • Have business activities that impact low-income communities; • Have a competent, experienced management team (at least two people) with a history of success creating and/or managing businesses; • Are in their early stages—with at least three years’ operations—and have limitations in terms of access to finance and the capacity to draft basic financial statements to make informed business decisions; • Have a sales history that shows a positive trend and a business model that shows growth potential. Are profitable or are on their way to be profitable within six months; • Are committed to social impact and work to fight poverty and exclusion; • Are environmentally and socially responsible and interested in working with the fund to improve in these areas when necessary.
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The capital comes from both international and local investors: foundations, members of its Board of Directors, multilateral organizations, and private investors.

³ NESsT Perú (n.d.). Región Andina. Accessed at: <https://www.NESsT.org/region-andina>

⁴ NESsT Perú (n.d.). Solicitar un préstamo. Accessed at: <https://www.NESsT.org/fondo-NESsT-criterio>

Fondo Emprendedor⁵

It aims at identifying and promoting duly incorporated businesses that:

- Have been created in order to address a social issue relevant for the most vulnerable communities, by means of their commercial operations;
- Are in the early stages of their operations, before their commercial scaling;
- Can produce some evidence of the success of their business model, in terms of economic growth potential, self-sustainability, and social impact;

The social businesses selected to be a part of the Fondo Emprendedor portfolio receive expert advice and tailored finance (soft loans and donations) for a maximum period of 30 months, against formal commercial scalability, self-sustainability, and social impact commitments.

To date, the NESsT portfolio comprises ten SPOs in total: Estrafalarío, Café Compadre, Empanacombi, Llama Pack, Pixed, SFT, Inka Moss, Greenbox, Caecos, and Suritex.⁶ The selection process does not exclude any social business as long as it generates income or creates decent employment for a vulnerable group (children, adolescents and/or youth, senior citizens, women, people with physical or mental disabilities, inmates or recidivists, unemployed persons, minority groups–ethnic communities, LGTB, among others–people living in poverty and/or extreme poverty, and rural communities).

On the other hand, one of the conditions to partner with social businesses is that NESsT should have a seat in the Board of Directors. Otherwise, NESsT asks for a seat among the partners or directors in charge of decision-making, so as to have a bearing on these scenarios.



The selection process does not exclude any social business as long as it generates income or creates decent employment for a vulnerable group.



Tailored Finance

The incubation program provides finance that is tailored to the SPO, which can be in the form of donations or recoverable donations, depending on the case. The average ticket ranges between USD 10,000 and

⁵ Fundación WIESE (s.f) Fondo Emprendedor. Accessed at: <https://www.fundacionwiese.org/fondo-solidario/fondo-emprendedor>

⁶ NESsT Perú. Portafolio. Accessed at: <https://www.NESsT.org/incubation-portfolio>

USD 50,000. Once the donation is recovered, this money is reinvested in other social businesses that participate or that are going to participate in the program.

Fondo NESsT grants soft loans ranging from USD 50,000 to 500,000, with 8-12% annual profitability. This is why it offers competitive interest rates and terms that are more patient and flexible than traditional capital sources, which allows entrepreneurs to sustainably accelerate their growth.

The social businesses selected to be a part of the Fondo Emprendedor portfolio receive expert advice and tailored finance by means of soft loans with lower interest rates than those of financial institutions (between 4% and 6%), for a maximum period of 30 months, against formal commercial scalability, sustainability, and social impact commitments. The investment can go from USD 10,000 to USD 50,000. Donations are also made.

The portfolio manager act as a consultant to the social business from the due diligence stage until it is ready to be introduced to the investment committee and the fund. Upon introducing the social business to the investment committees, the instrument and the rates are independently determined, depending on the degree of progress the business is at, and as a result of the analysis conducted during the due diligence process. Both funds seek profit to make reinvestments. The incubation program also expects a return to reinvest in other social businesses.



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Non-financial Support

NESsT has an incubation program for social businesses with a support and investment methodology. It comprises two stages. The first stage is due diligence, which lasts 4-6 months and during which work is done to become familiar with the social business, understand its investment needs, and bridge the gaps that businesses may have. For example, oftentimes they do not know the sector in which they are, do not know their customer segment, do not have a clear growth strategy, or have difficulties with human talent. They have the Talent Tool, which is applied at the beginning in order to diagnose the social business teams' status and the points to improve, depending on the stage they are at (validation or scaling).

The next stage is the portfolio stage, in which a deeper strengthening is advanced by means of mentorship, educational modules, and tailored training, always observing the first due diligence stage.

The other services related to non-financial support are tailored to the needs of each social business. In some cases, legal or financial advice is provided; in other cases, the development of a theory of change or an income strategy may be supported. It works with Amaz Foods—an organization that produces food from chocolate and cocoa grown in the Peruvian forests—to accelerate sales, develop financial systems to monitor results, and create plans for increased expansion and investment. It supports Suritex—a social business that reduces raw-wool processing costs by means of solar-energy technology—so that the latter can improve its production capacity through the design, validation, manufacturing, and installation of solar collectors in its textile plan.



RESULTS

All the social businesses that enter the NESsT portfolio are monitored by means of the enterprise's own performance management tool known as HAD (Herramienta de Administración de Desempeño). This tool is used to measure quarterly and annually impact-related progress (number of direct and indirect beneficiaries, income improvement, formal jobs, training, suppliers, gender inclusion, among others).

In order to measure environmental impact, Dignified Jobs is used to conduct a survey among the social businesses' beneficiaries at the beginning of the intervention, so as to have a baseline. Then, progress and improvement over time are measured by means of the quarterly evaluation. Green Tool is used to diagnose the environmental impact of the social business and, while it does not measure the carbon footprint, it makes an analysis to improve and mitigate the negative impact.

The organization's performance is analyzed each year. For this purpose, a benchmark is established for the global portfolio, in order to define which businesses are doing well, which ones need more support, and to define the exit strategy. An evaluation is conducted to find out if the enterprise met its performance goals, which factors determined sales behavior, and the like.

Most of the time, the exit takes place because businesses are more solid, have the capacity to respond to other financing options, or no longer feel that the scope of NESsT is enough. However, there are other situations which lead to the organizations' exit, for example lack of trust or if it leads to decisions that do not entirely favor the growth of the enterprise.

"The most important factors to determine the exit of a social business are performance, added value, and impact potential that could be achieved with the enterprise, as well as its investment needs." Isabel Castillo, Director of NESsT Peru.

Some of the most relevant accomplishments in 2018 are:⁷

- ... Launching NESsT's first social impact investment fund (USD 20 million) for social businesses of the Andean region.
- ... Starting the implementation of a youth employability program thanks to the partnership with JP Morgan Chase.
- ... Achieving the first partnership with a Peruvian foundation in order to invest in social businesses of Peru, which set in motion Fondo Emprendedor (USD 700,000), alongside Fundación Wiese.
- ... Achieving a direct investment for USD 350,000 in partnership with Fundación Lemelson and a co-investment for more than USD 1 million for the portfolio's enterprises.

It is also worth mentioning the impact achieved by some of the social businesses:

- ... **Amaz Foods:** 70 families receive income from cocoa sales. 70% increase in farmers' income after the training and improved market access.
- ... **Café Compadre:** It is estimated that coffee producers' income increased by 70%.
- ... **Estrafalario:** 30 women receive income, with an expected expansion to 70 by 2021.
- ... **Inka Moss:** 8300 people impacted, 350 remote Andean families employed, 45,000 people whose livelihood will improve by 2020.



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⁷ Fundación WIESE (s.f) Fondo Emprendedor. Accessed at: <https://www.fundacionwiese.org/fondo-solidario/fondo-emprendedor>

- ... **Project Pietà:** 40 inmates employed and 20 currently under training to get involved in the project.
- ... **Suritex:** The monthly income of 120 families that use Suritex plants increased by USD 6000.
- ... **Sustainable Fishery Trade:** Fishermen's income increased by 30-50%. 210 fishermen trained and 200 lives improved in the sustainable fish trade communities.



LEARNINGS AND PERSPECTIVES

NESsT is testing the hypothesis related to investment in social businesses, as the organization started supporting social businesses for a period of 3 to 5 years. The latter entered the portfolio with needs ranging from USD 20,000 to 50,000 and, as they grew, the needs increased. This led to a rethinking of the support provided, as it fell short. That is why the idea to have a fund to work in the incubation of growing social businesses to then bolster them came about.

A lesson learned along the way is that portfolio managers were in charge of supporting social businesses during their process but, at first, they did not have a specific profile. However, they understood that the social business had to have a strong focus or insight on financial aspects, as most have weaknesses in these regards.

It has also been established that SPOs in Peru are not at an ideal moment to receive equity, since they are not at the most adequate maturity level. Moreover, entrepreneurs are very cautious during these stages, avoiding this type of investment.

Impact measurement costs are very high, and NESsT is in charge of measuring impact for all social businesses, as the latter do not have resources to do it. Therefore, one of the main challenges is for enterprises to be able to perform this measurement themselves, or at least to identify their impact or theory of change. It is important for them to have a tool that allows them to have visible indicators to understand the metrics and monitor them in the business.



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“One of NESsT’s good practices is that all of its methodology and the indicators are very well structured, and historical data has been gathered. This has allowed to have visibility on the impact that is being achieved.” Isabel Castillo.

Support from universities and companies such as Berkeley, Stanford, Fundación Cisco, Watson, Google, Autodesk, and Salesforce has been essential for the creation of NESsT’s own measuring tools. Having a well-structured methodology and indicators allows to have clarity on the impact that is being achieved.

In the context of the COVID-19 pandemic, payment schedules have been adjusted, the financial model has been reviewed alongside every social business—as well as their health—and repayments have been made more flexible. Nevertheless, some social businesses, particularly those in the tourism sector, have been very affected, which is why they created the Relief Fund, which served to collect money for the most affected social businesses.