



Fondo Acción

Financial, social, and environmental returns

El Fondo Acción created Fondo Misional de Inversión de Impacto (FIMI) to achieve financial, social, and environmental returns. This showed that many organizations and individuals were willing to promote sustainable development initiatives and needed a partner or an investor to strengthen their social businesses and get into the market with a competitive, quality offer.

Fondo Acción

Financial, social,
and environmental
returns



LOCATION:

National - Colombia



MAIN PARTNERS:

- Acumen
- Climate
- Launchpad
- Fundación Bancolombia, among others.



DURATION:

2018

–now



TYPE OF INVESTOR/ SILO:

Investor



SECTOR:

Social businesses:

- Circular economy
- Alternative energy
- Sustainable rural development
- Tourism



FINAL BENEFICIARIES:

Rural communities



MOTIVATION/PROBLEM TO TACKLE:

Lack of appropriate financing options for entrepreneurial initiatives with positive social and environmental impacts and sustainable financing schemes.



NON-FINANCIAL SUPPORT OFFERED:

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



TYPE OF FINANCING:

Equity

RESOURCES INVESTED OR DONATED:

USD 450,000



SDGS ADDRESSED:

IMPACT:

With the investment in MUCHO, work has been achieved in two cities, and farmers and fishermen have been impacted.



With the investment in Awake Travel, work has been achieved with communities from the **Amazon, Caribbean, Pacific, Andean, and Orinoquía regions.**



BACKGROUND AND CONTEXT

Promoting and achieving sustainable development is one of the great challenges that Colombia and the world face today. The United Nations Sustainable Development Goals have shown the importance of addressing the three spheres of development: social, economic, and environmental. Environmental degradation and the different factors that lead to it have an impact on the economy and social issues.¹

Children are among the social groups most affected by environmental damage. “More than 1.5 million children under the age of five lose their lives every year as a result of avoidable environmental impacts, while millions more suffer disease, disability, and an array of other forms of harm, some of which can result in lifelong effects.”² Colombia is no exception to these issues. While there are legal mandates that prioritize the environment and children, there are many challenges in practice to tackle these problems.³

Deforestation and illegal and informal mining are two of the main environmental challenges faced by Colombia. According to estimations by Ideam (the Colombian Institute of Hydrology, Meteorology, and Environmental Studies) “the temperature in that country could increase by 1.6 degrees Celsius by 2041, which would reduce rains by up to 32%, causing multiple disasters.”⁴ On the other hand, mining affects rivers, such as Atrato—the third most navigable river in this country—which in the long run has repercussions on human health because of mercury contamination in water.⁵ As a reflection of this concern, 25 children and youth aged 7-26 brought a lawsuit against the State in 2018, demanding that it guarantee them a future with a healthy environment, health, food, and water.



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¹ Angarita, Roberto Andrés (2012) *Colombia: perspectiva actual de una crisis ambiental* (P 88) Accessed at: <https://revistas.ufps.edu.co/index.php/ingenio/article/download/2176/2120#:~:text=Durante%20los%20%C3%BAltimos%20veinte%20a%C3%B1os,de%20deforestaci%C3%B3n%20anual%3B%20sin%20embargo>

² United Nations Special Rapporteur on human rights and the environment (2018) “Advancing Children’s Right to a Healthy Environment”. Accessed at: https://www.ohchr.org/Documents/Issues/Environment/SREnvironment/ConceptNoteChildRights_EN.PDF

³ Angarita (2012), Colombia: perspectiva actual de una crisis ambiental (P 90)

⁴ Revista Semana (2018) Jóvenes colombianos presentaron demanda exigiendo que les garanticen un futuro sin tragedias ambientales. Accessed at: <https://sostenibilidad.semmana.com/impacto/articulo/jovenes-colombianos-presentaron-demanda-exigiendo-que-les-garanticen-un-futuro-sin-tragedias-ambientales/39434>

⁵ Revista Semana (2018) Jóvenes colombianos presentaron demanda.

In light of the urgency of the aforementioned problems, Fondo Acción was created in 2000. It is a private fund created by means of an agreement between the U.S. and Colombian governments to operate a debt swap for conservation. It was agreed that Colombia would pay part of its debt by investing in environmental and childhood projects. Eventually, Fondo Acción also started managing resources from different donors around priority lines of action.

Fondo Acción, as a second-tier non-for-profit organization, created Fondo Misional de Inversión de Impacto (FIMI) in 2018 to invest in innovative social businesses at a growth stage (two to five years operating). This way, innovating in the use of financial mechanisms, it started a new way to address sustainable development, environmental, and childhood challenges in Colombia.



DESCRIPTION

Fondo Acción has obtained resources from international cooperation and philanthropy by means of a second-tier management that has allowed it to support innovative and high-value solutions in issues like sustainable rural development, conservation, climate change, and protection and development of children and adolescents, focusing on early childhood. Its performance earned it the 2020 Global Compact non-Business award for Sustainable Development Goal 14: Life Below Water.

One of the sustainable financing mechanisms for conservation in which Fondo Acción participates is the carbon market-carbon credit transactions. This market allows companies responsible for the carbon tax derived from liquid-fuel consumption to contribute to environmental conservation by buying carbon credits from projects that reduce deforestation and forest degradation. Fondo Acción facilitates the transaction and allows resources to go directly to the communities in charge of looking after forests, so that they can invest them in local social-benefit and conservation initiatives.

Fondo Acción has been characterized by working alongside local communities while ensuring capacity building so that leaders, NGOs, and community grassroots organizations receive management tools that will allow them to achieve their own sustainability.



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From the outset, the fund's management has pursued financial ease with a business approach. It always looks for the sustainability of the organization and the initiatives that it supports. For this reason, for a number of years one of the most important strategic decisions was the consolidation of an endowment fund, whose yields allow to manage different initiatives in the long run and cover the costs of the human team—which in turn manages new resources. The returns from the endowment fund also finance training for child care providers, through its Glenn Nimnicht Fellowship Fund, which has delivered resources for training on early childhood.

Fondo Acción's Board of Directors—which has always had advisers and experts in financial matters—decided to explore social investment and created Fondo Misional de Inversión de Impacto (FIMI), in order to get financial, social, and environmental yields. FIMI showed that many organizations and individuals were willing to develop sustainable development initiatives and needed a partner or an investor to strengthen their social businesses and go to the market with a competitive, quality offer.



IMPLEMENTATION

The main criteria defined by FIMI to select investments were:

- Sustainability potential.
- Being in a validation stage: the social business must have managed the business for two to five years.
- Positive impact on the environment, society, and/or childhood.

FIMI is not a business incubator and for this reason they use their contact networks, events, and direct referrals to identify a deal pipeline.

The financial evaluation and analysis process for social businesses is thorough—among other reasons, because it also aims to rule out options that may have harmful environmental or social impacts, which is a mechanism used to mitigate negative externalities. Once the social business is selected, the conditions

of the tailored investment are agreed upon. This includes the exit strategy, always willing to adapt over time, as FIMI is a patient-capital fund.

For the first investment, priority was given to responsible consumption. Therefore, in 2018, they reached out to MUCHO, a responsible-consumption platform that connects farmers whose agricultural practices are sustainable—and in some cases organic—with end consumers so as to reduce intermediation.

In April 2020, FIMI made the second investment in Awake Travel, a sustainable tourism enterprise that works alongside local communities in different parts of Colombia. This social business tries to strengthen local tour operators so that they protect ecosystems and biodiversity while earning income. This way, Awake promotes sustainable conservation and income processes, as 80% of what customers pay goes directly to the local tour operator. This opens the door for communities to access the formal market with a value offer.

These investments allow Fondo Acción to strengthen both the capacities of the grassroots communities benefitted by the supported organizations, and impact measurement.

In both cases, the fund holds a seat in the Board of Directors, which allows it to participate in strategic decision-making and thus have an influence on the good environmental, social, and governance performance of the social businesses.



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Tailored Finance

The goal of investing in equity—which has a maximum ticket of USD 450,000—is to recover capital plus interest comparable to a moderate yield, where medium risk is assumed to re-invest in other social- or environmental-purpose initiatives.

The fund opted for equity because it allowed to work in partnership with the entrepreneur. This new financial mechanism aims to achieve a social and/or environmental impact equal or above the endowment fund's return (5% approximately).

"It was clear from the beginning that we were going to prefer equity and maybe a convertible instrument, but not debt, because of the nature of what Fondo Acción does. This option is more akin to our operations as partners." Natalia Arango, Executive Director, Fondo Acción.



Non-financial Support

Upon creating the investment pipeline, FIMI knew clearly that many of the social businesses had the need for preparation prior to the investment. Thus, Fondo Acción has worked with some of them to support them in this preparation stage. Each business's maturity level is analyzed in depth during the financial, administrative, and legal due diligence process, whose results are submitted to the FIMI investment committee, which is in charge of decision-making.

After the investment, support is provided around the issues where the entrepreneur's needs meet the fund's strengths; for example, in sustainable production models, connection with responsible producers, or the development impact indicators. The duration of this support depends on the social business's needs and interest.

"Support in these cases have been provided with our installed capacity. For example, for Awake, a team member with plenty of experience in nature tourism worked with the entrepreneur in the adjustment of their impact, conservation, and biodiversity indicators." Natalia Arango.



RESULTS

FIMI's investments have been recent and it does not expect impact during the first years.

To measure impact, Fondo Acción supports social businesses in the development of appropriate metrics, based on general requirements and guidelines. They have worked very closely with MUCHO to structure the battery of indicators. In the case of Awake Travel, they have worked from the beginning to strengthen measurement and monitoring, alongside technical teams and the enterprise's internal team.



LEARNINGS AND PERSPECTIVES

For FIMI, creating the pipeline has been the greatest challenge of all, as work is done to streamline more and more the evaluation and selection process. Helping social businesses prepare to work with investors is also a challenge—one that has been gradually improving in recent years. In this journey, it has been essential to be aware that FIMI works as patient capital, a decision backed by the Board of Directors of Fondo Acción—they have thus been able to perform strengthening actions in a slow, patient way.

Working with partners from the social investment ecosystem has helped FIMI grow, as it has been able to consolidate a wider network. Moreover, delving into this new ecosystem has led to the acquisition of technical and business knowledge on the operation of projects outside FIMI.

“Impact investment has taken the fund to a different world, which is very interesting for real financial and sustainable-development growth in the Colombian society. One can carry out many sustainable projects based on donations. However, transitioning to an investor logic implies other rules, which are very interesting.” Natalia Arango.



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New challenges and learnings lie ahead for FIMI to effectively achieve the financial, environmental, and social returns that it expects, assuming a more active role compared to the role that it had played thus far in its investment portfolio. That new role—as an investor and active member of the Boards of Directors in which it invests—demands new skills from Fondo Acción.

In the current context, it is worth highlighting the capacity shown by entrepreneurs to organize and prepare for different scenarios, effecting changes that allow to adapt the business model to the economic and social crisis sparked off by COVID-19. Fondo Acción has provided all the support possible based on the installed capacity that it has. Actually, the investment in Awake Travel was made when the crisis had already arisen, since there is full confidence in the selection process carried out.