



LGT Venture Philanthropy

Strengthens
Impact Ventures

LGT Venture Philanthropy (LGT VP) is a Liechtenstein-based private foundation that provides funding and support for business models that generate effective, innovative and scalable social and environmental solutions. That is why it supports social for-profit and non-for-profit organizations that have difficulties in finding investment.

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Strengthens Impact Ventures



GEOGRAPHIC LOCATION:

Headquarters in Liechtenstein¹, with an investment in Latin America.



YEAR OF FOUNDATION:
2007



TYPE OF INVESTOR/ SILO:
Foundation.



SECTORS:
Entrepreneurship and education.



CONTINUUM OF CAPITAL:
Impact investment.



INVESTMENT INSTRUMENT:
Grants, equity, and hybrid instruments (SAFE)².



MAIN PARTNERS:
Does not apply.



MOTIVATION OR PROBLEM TO SOLVE:
Facilitate financing and non-financial support for Social Purpose Organizations.



NON-FINANCIAL SUPPORT OFFERED:

- Strategic strengthening.
- Governance.
- Access to ecosystem actors.
- Impact management and measurement.



FINAL BENEFICIARIES:
People in vulnerable situations.



TYPE OF FINANCING / RESOURCES INVESTED OR DONATED:
USD 1,650,000
between 2012 and 2021 in Lumni.



IMPACT:

- **16,280** students from 10 Latin American countries selected in 2022, a figure 6 times higher than what Lumni had achieved at the time of receiving the investment from LGT VP in 2012 (2,690 students).
- **85%** of supported students are low-income.
- Today Lumni is fully sustainable and profitable: **100%** of its income is from services, including design and fund management and student employability.
- Revenues are growing at a **40%** annual rate.

SDGS:



1 The information responds to the role that LGT VP has and has had in the specific relationship with Lumni. In other cases and regions, the role, silo, sector, investment instruments, and in general the scope and type of intervention may change.

2 "They are a type of contract by which an investor delivers a certain amount of money to a *start-up*, in exchange for the promise of obtaining shares in the future (...)" In Garrigues (2021). SAFE, an option for investors in 'start-ups' with advantages... and also some risks. https://www.garrigues.com/es_ES/noticia/safe-opcion-inversionistas-start-ups-ventajas-also-some-risks



OVERVIEW

The compatibility between financial sustainability and social development is a growing trend. It can be evidenced through social enterprises, which from their origin seek to solve social and/or environmental problems through sustainable business models.³ These enterprises contribute to the generation of jobs and income, especially for vulnerable populations, while implementing strategies based on the generation of their own income. Despite their contributions and transformative potential, they face great barriers to access to financing to execute the business idea⁴.

In Colombia, the need for more social enterprises that contribute to combating the various social and environmental challenges has been very important, even more so after the Covid-19 pandemic⁵. However, the existing social businesses tend to be concentrated in the main cities and regions, preventing reaching isolated rural areas where socio-environmental challenges are largely present.⁶

The challenges faced by social enterprises in their strengthening, execution and scalability are reflected in the following figures⁷:

- 1 74.5% of social enterprises in Colombia claim to have a structured business model through the sale of a service or a product.
- 1 Only 9.8% have a marketing and relationship strategy.
- 1 And only 2.5% have management evaluation systems, which prevents their growth and continuous improvement.

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- 3 Recon (2022). X-Ray of social entrepreneurship in Colombia: II Report on the state of social entrepreneurship (p. 5). Recon Colombia and Embassy of Sweden. <https://drive.google.com/file/d/1YaMlaXsJ-0o0SS2BsB7lx6vqMAEEoset/view>
- 4 Global Impact Investing Network, "What you need to know about impact investing," Viewed at: <https://thegiin.org/impact-investing/need-to-know/#:~:text=NOUN%3A%20Impact%20investments%20are%20investments,impact%20alongside%20a%20financial%20return>
- 5 Recon, (2022) X-Ray of social entrepreneurship (p.4).
- 6 "The departments with the highest number of social enterprises are Bogota 17.1%, Antioquia 10.6%, Valle del Cauca 10.4%, Santander 5.7%, Cundinamarca 5.5% and Bolivar 4.9%" (Recon, 2022, p. 8).
- 7 Recon (2022). X-Ray of social entrepreneurship (p. 33).

The main challenge that 78.9% of them show is financial sustainability due to “the lack of cash flow, that is, the lack of funds to finance their activities and their operations. This is a short-term obstacle that prevents them from advancing in their medium and long-term growth strategy”⁸.

The financing that these companies manage to obtain comes mainly from their families, friends, their own resources, and to a lesser degree from donations or private investment funds. This shows how small and medium-sized social enterprises face the missing middle problem⁹, not being able to access sources of financing in the market.

Since 2007, LGT Venture Philanthropy (LGT VP), a private foundation based in Liechtenstein, has highlighted the problem of lack of funding for social business models, which is why it supports organizations with effective, innovative and scalable social and environmental solutions. Its mission is to contribute to improving the quality of life of vulnerable people, promote more sustainable ecosystems and consolidate resilient, inclusive and prosperous communities. To achieve this, it believes that an *impact first*¹⁰ and a business approach to social and environmental problems allows generating more lasting solutions. That is why it supports local organizations (for and non-profit), that have social and/or environmental business strategies and that face difficulties in finding investment.

To support these organizations, LGT VP uses tailored finance and non-financial support that adapts to the needs and characteristics of each entity. The financing instruments used with for-profit organizations are equity capital and debt, and for non-profits it usually offers donations; however, it is open to exploring other types of alternatives. Initially, the portfolio covered Latin America, Africa and India, but as of 2018 LGT VP decided to focus on the latter two regions in order to better use its resources. However, through Lightrock, a strategic ally that invests private equity in Latin America, they continue to support their only investment in this region: Lumni.



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⁸ Recon (2022). X-Ray of social entrepreneurship (p. 39).

⁹ The *missing middle* refers to the set of micro, small and medium-sized enterprises (SMEs) that are too large to receive microfinance financing and too small for traditional investors, or even impact investors. For more information on the term, see: <https://www.upayasv.org/blog/the-missing-middle-is-more-complicated>

¹⁰ Prioritization of social and/or environmental impact over financial return.

Lumni is a social enterprise created in 2002 with the aim of providing financing for higher education to young people in Latin America, most of whom are at the base of the population pyramid, with lower incomes and higher rates of poverty. LGT VP decided to invest in this organization in 2012 upon seeing that it was a scalable, sustainable model with a clear social impact by addressing the crisis of access to higher education and with a wide geographic presence in the region (Colombia, Mexico, Chile, and Peru). In addition, a fundamental aspect for LGT VP is being able to find entrepreneurs with whom it would be possible to consolidate a lasting trust relationship.

“What attracted us to Lumni is the vision of being able to create a profitable model out of funding higher education for young people, which on a large scale allows the organization to have the ability to fund itself independently.” Oliver Karius, CEO of LGT VP Venture Philanthropy.

When Lumni and LGT VP met in 2012, the market opportunities to provide capital to organizations and social enterprises were very low. The financing that Lumni had received came from the co-founders' own investment and from friends and family, without the support of any institutional financier. Its operations covered Chile, Colombia, Peru and Mexico. This geographic scope posed operational, financial, and strategic challenges, since Lumni's operation was decentralized through various entities for each country, which prevented it from acting as a single organization. Thus, individuals were opting to invest just in one country rather than the entire operation. This made it difficult to ensure the sustainability of the organization.



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In 2013, LGT VP saw great potential in Lumni to establish itself as a *holding company* simplifying governance, operations, human resources and funding strategies. Given this diagnosis, the social enterprise decided to address the opportunities for improvement pointed out by LGT VP and centralized its operations in Colombia. It then invited the local shareholders of the main subsidiaries to exchange their domestic shares for shares of the *holding company*.

Throughout this process LGT VP supported Lumni considering that its main objective is impact and not just financial return, for which non-financial support was a fundamental aspect. Having these enabling conditions, LGT VP began its investment in 2013, through a contribution in shares of USD 1.5 M, which allowed Lumni to consolidate its entire technological platform and strengthen its operations.

This was the first institutional venture capital investment that Lumni received, opening the doors to subsequent investments from other investors.

“The education and orientation of young people towards employment is the best way to promote social mobility, the economic independence of families and the creation of sustainable value for the whole society”. Felipe Vergara, co-founder and CEO of Lumni.



INNOVATIVE FACTORS

“LGT VP’s approach is tailor-made. It is developed around the needs of the organization, it involves direct experience, as we believe that this is the only way to provide long-term support with an active commitment from the company.” Oliver Karius.

LGT VP has philanthropic capital that allows it to have an *impact first* focus that allows it to provide support to its investees. Regardless of how capital is used, LGT VP uses non-financial support as a fundamental pillar to achieve the impact of its investments, since with this support, organizations manage to enhance their strategy, operations, finances and governance to achieve and maintain impact and the expected sustainability over time. The basis from which LGT VP starts to consolidate the strengthening plans is the due diligence process, which allows for an in-depth initial diagnosis of the organizations.

This process is usually considered as an essential step to define any type of investment. For LGT VP it consists of four components that allow a complete view of the organizations:

- 1 Evaluation of the business and administration.
- 2 Detailed evaluation of internal and external risks.
- 3 Impact evaluation focused on the end beneficiaries and on understanding the impact generated on them.

- 4 Evaluation of capabilities in seven categories: aspirations (mission and vision), strategy, organizational skills, human resources, systems and infrastructure, organizational structure, and culture.

LGT VP uses a rating system with indicators that allow it to evaluate the capabilities of the enterprise or business. Each of them, corresponding to the four components of the evaluation, is scored from 1 to 7 and the results are contrasted with the strategic plan of the corresponding organization. In the case of Lumni, this started with a strengthening process that addressed these aspects and then proceeded with the investment.

LGT VP emphasizes that due diligence information does not stop only at the initial stage. Its results are taken as a baseline for annual evaluations, with which to understand the progress in the capacity building process.

With these evaluations, the organization carries out a self-evaluation, which is contrasted with that of LGT VP and from there, spaces for dialogue and collaborative work are opened. In addition, a success factor for LGT VP is being able to count on an impact measurement implemented by a third party, such as 60 Decibels¹¹, in order to compare the results and the impact achieved by the organizations.

“The starting point of LGT VP’s theory of change is that we want to support organizations. We provide the core funding, but we are not a programmatic, research, or grant funder start-up. It’s all about investing in the organization as such, in the business and impact model; for this, they must understand the organization in depth and that is where the due diligence process plays a key role”. Oliver Karius.



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As a result of this first evaluation, LGT VP evidenced the operational and governance challenges that Lumni faced. The social enterprise had a board of directors in the *holding company* made up of at least seven members, including close people and angel investors, but without institutional investors or independent experts. At the same time, for each of the four subsidiaries, there was a board of directors

¹¹ 60 decibels(s. f.)Approach. <https://60decibels.com/approach>

with a composition similar to that of the *holding company*. This created coordination and strategy issues and involved a lot of preparation time for the global management team and managers in each country. The foregoing evidenced the need to have a single governing body that would have the capacity to promote the growth and scalability of the social enterprise.

At the suggestion of LGT VP, Lumni went from being a complex bureaucratic structure with five boards of directors, to having a single global board that guides the strategy and supervises the company together with the external auditors, and an administrative team in charge of defining the strategy and implementation to achieve social and financial impact results. These changes, added to the launch of an action plan, have made it possible to align the different key players, optimize the cost structure, attract and retain talent more efficiently in order to compete and create sustainable value and impact.

Beyond the due diligence process and periodic evaluations that support non-financial support, LGT VP provides tailored strengthening, among other aspects, through the LGT Impact Fellowship¹². This program began in 2009 with the aim of linking highly qualified professionals interested in using their knowledge and skills to support organizations and companies in the LGT VP portfolio. Thus, for a year, the aim is to strengthen the organization's capacities, in accordance with findings from the diagnosis. In addition to generating value for companies, this program has also allowed *fellows* to later become entrepreneurs and leaders of companies that reach the LGT VP portfolio¹³.



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For six months, Lumni had the participation of a New York professional who had previously worked at Goldman Sachs, and who led the design of a capital raising strategy for impact investment funds. One of the benefits of this program was the improvement of communication materials and raising resources for Lumni.

All the non-financial support provided by LGT VP is based on the assumption that the organization is to be successful and to be able to make a follow-up investment, which responds to the fact that the investor seeks to consolidate long-term relationships with the organizations. This is an intentional

¹² LGT (s. f.) LGT Impact Fellowship: use your skills to create positive impact. <https://www.lgtvp.com/en/fellowship/>

¹³ 30% of *fellows* have reached the portfolio of LGT VP.

decision, because it seeks to exit only when the organization is in the best capacity to sustain itself over time and continue to generate impact on its own. In the case of Lumni, no specific exit has been considered so far, and a follow-up investment of USD 150,000 was made in 2021.



LESSONS

For LGT VP, the key to success is to consolidate trust and horizontal relationships in which the organization is treated as a strategic ally. This opens the doors to fruitful conversations, in which it is possible to address positive and negative aspects, and find solutions together. A fundamental aspect to be able to achieve this relationship has to do with the entrepreneurial leadership of the organization, which almost always falls on the entrepreneur, since it is he who guides the organization and its staff. This for LGT VP, beyond the development of the organization as such, is a fundamental aspect for the investments to be successful.

“The most important thing is the trust that is generated with the organization, because people, ideas and missions are being supported. Building trust relationships is essential to be able to become allies in the long term. Investing enough time to build trust is the best ingredient to be able to face the future together.” Oliver Karius.

LGT VP, being a foundation based in Liechtenstein, highlights the importance of having local teams in the regions where the portfolio companies are located, in order to be able to understand the local context and generate a connection of trust with beneficiary organizations.

The success of LGT VP’s investment in Lumni has been reflected in the increase in the scope of beneficiaries impacted by the social enterprise from 2,690 in 2012 to 16,280 in 2022. Lumni beneficiaries are located in 10 Latin American countries, a figure 6 times higher than what it had achieved at the time of receiving the investment from LGT VP. In addition, 85% of supported students are low-income and a significant proportion come from small towns or rural areas.

For example, in Colombia Lumni is present in 30 of the 32 departments and in more than 300 of its 1,100 municipalities. Investment and support from LGT VP regarding sustainability and impact at Lumni



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has helped the company go from a \$60,000 monthly cash scheme to being fully profitable with 100% revenue from fund management and design services and employability of students.

Added to this is the positive cash flow and EBITDA of the company, the increase in revenues at an annual rate of 40%, the solid liquidity reserve and the absence of debts with third parties. In 2022, Lumni uses its financial capacity to strengthen its team, technology and products. This has allowed them to improve efficiency, and reach more vulnerable youths, while increasing their salaries.