



Sumatoria

Financial Instruments
for Impact

Sumatoria is a civil organization based in Argentina. Over the last twelve years, it has worked on bringing together investors with different return expectations and social and environmental impact businesses and organizations facing barriers in accessing finance. Two of its main management innovations rest on the parametrization of impact as a key feature of its investment strategy, and the use of innovative financial instruments.

Sumatoria

Financial Instruments for Impact



LOCATION:

Argentina



YEAR OF FOUNDATION:
2010



TYPE OF INVESTOR/SILO:
Investor.



SECTORS:

- Financial inclusion.
- Social economy.
- Agroecology.
- Healthy eating.
- Circular and impact economy.



CONTINUUM OF CAPITAL:

Investing for impact, investing with impact.



FINAL BENEFICIARIES:

Social purpose organizations without access to finance.



MAIN PARTNERS:

San Cristóbal Caja Mutual, Beccar Varela, Fundación Avina, Sistema B, Banco Galicia, DirecTV, Ashoka, Red Argentina de Cooperación Internacional, Movimiento Argentino de Productores Orgánicos, Tonka Solar, Cámara Argentina de Fintech, Banco Comafi, Fundación Alimentaris, BBVA, SMS, Untref, University of Buenos Aires.



MOTIVATION OR PROBLEM TO SOLVE:

Access to finance.¹



FINANCIAL INSTRUMENT:

Debt.

RESOURCES INVESTED OR DONATED:

Since Sumatoria was founded, total investments have amounted to

\$247.75m ARS

(\$1.86m² USD), including an active portfolio of

\$154.7m ARS

(\$1.16m³ USD) as of June 2022. Average ticket of \$2m ARS (\$15,055⁴ USD).



IMPACT:

137 financed projects. More than **441,840** people impacted, including more than **91,000** in 2022.

SDGS



1. Sumatoria believes that the popular economy includes productive units (individuals, small businesses, organizations) on the verge of informality and without access to traditional finance. These sectors excluded from the labor market create their own jobs. For more information: <https://www.infobae.com/opinion/2022/07/13/economia-popular-un-recorrido-por-el-conurbano-productivo/>
2. At current exchange rates for August 5, 2022.
3. Ibid
4. Ibid



Overview

Based on the Sustainable Development Goals (SDGs) international agenda, countries will have to make adaptations, modifications, and transformations to the foundations of their economic models in order to consolidate a sustainable economic structure by 2030. In the Southern Cone in Latin America, especially in Argentina, the debate has focused on understanding how development pathways could facilitate integrating and promoting sustainable practices in a leading food-production country, with large-scale industries consolidated in the agriculture and cattle farming sectors, and with vast renewable energy potential.⁵

Driven by this potential, the main drivers of sustainable development in Argentina has been identified along with green employment promotion, professional training, technological investment in small and medium-sized enterprises, fostering triple-impact businesses, and social dialogue in the circular economy.⁶ Actors such as the Argentine government and banking, insurance, and capital market regulatory agencies around these core areas have reached consensus and commitments to promote sustainable finance. Such agreements are based on understanding that one of the main barriers faced by triple-impact businesses is access to finance.

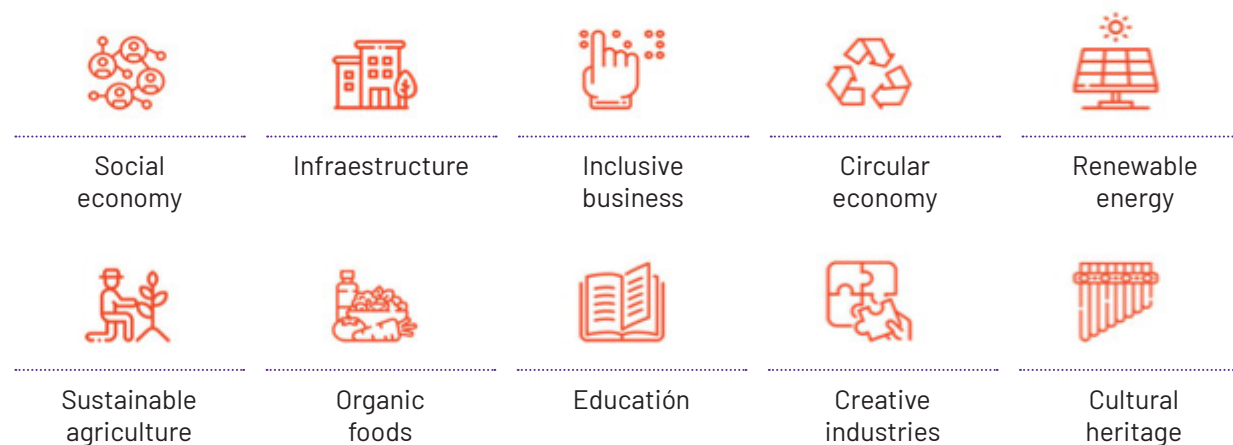
Sumatoria is a civil society founded in 2010 with a purpose to connect investors with different return expectations, with social purpose organizations, with limited access to capital. Sumatoria was originally set up as a collective investment platform to bring micro-investors and micro-entrepreneurs together, providing them with loans to finance social and/or environmental projects and initiatives. In 2019, Sumatoria added a new line of services stemming from the creation of Fondo Sigma, financed exclusively with resources from San Cristóbal Caja Mutual.⁷ Under this fund, loans continued to be made available,

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- ⁵ World Bank (2020). Argentina: panorama general. Available at: <https://www.bancomundial.org/es/country/argentina/overview>
- ⁶ Télam Digital, (2022). Organismos de la ONU apuestan por una Argentina inclusiva, sostenible y resiliente. Available at: <https://www.telam.com.ar/notas/202203/587605-recuperacion-economica-organismos-onu-sostenible-inclusiva-argentina.html>
- ⁷ Member of Grupo San Cristóbal. It is a leading financial solution provider focused on community sustainable development, supporting social and environmental impact projects with simple proposals, building trusting relationships aligned with the SDGs. The fund was structured as a trust with the possibility of adding more investors, although this is not part of the short-term plans.

but the amounts were higher than those the platform proposed, making prioritization of finance for organizations, projects, and initiatives in ten areas (Figure 1).

Figure 1. Impact areas targeted by Fondo Sigma



Source: Fondo Sumatoria.

In the wake of the socio-economic crisis triggered by the COVID-19 pandemic, Sumatoria launched Fondo COVIDA-20 to support resilience and economic recovery.

In 2020, in the wake of the socio-economic crisis triggered by the COVID-19 pandemic—which increased the demand for finance—Sumatoria launched Fondo COVIDA-20 to support resilience and economic recovery by granting emergency soft loans to financial inclusion institutions, associative groups, and social economy cooperatives, as well as positive impact organizations and businesses affected by the pandemic.⁸ This fund has been developed together with Fundación Alimentaris, supported by the Becar Varela law firm. Later, Banco Galicia, DirecTV, and Ashoka joined, becoming the first contributors. Twenty projects were financed in 2020, totaling \$24m ARS (approximately \$197,000 USD⁹).

⁸ Asociación Civil Sumatoria (2020). 2020 Financial Statements (p. 3). Available at: https://drive.google.com/file/d/1G4T-bz9ri4linAc2U7LuAVjhQgj_pk4R0/view

⁹ At current exchange rates for June 9, 2022.

In general, Sumatoria’s operating costs are underpinned by two sources. On the one hand, an origination fee is applied to each loan, which is covered by the amount awarded. On the other hand, thanks to Sumatoria’s relationship with the capital market, it seeks to integrate capital costs into the amount to be repaid, which is shared between the investor and the financed organization or business.

The following table outlines Sumatoria’s three main strategic inputs: its guiding principles, its value proposition, and its lines of intervention.

Table 1: Sumatoria’s main strategic components

Objectives	Invest in triple impact organizations in order to catalyze a new sustainable and inclusive economy	Promote more solidarity and collaboration		Ensure transparency from deal structuring to investment impact	
Purpose	Expand the frontiers of the financial system	Support the needs of clients through tailored finance	Decision making based on the needs of each client	Finance only organizations that successfully comply the impact matrix	Ensure fit between investors and investees and tailor interest rates based on impact outcomes
Activities	Financial and gender inclusion	Social economy	Health food and organic agriculture	Circular economy	Social enterprises
	<ul style="list-style-type: none"> • Increase access to financial services • Support gender inclusion • Support the development of vulnerable communities 	<ul style="list-style-type: none"> • Support cooperatives and community organizations • Support the economic development of vulnerable communities 	<ul style="list-style-type: none"> • Support small scale organic producers • Improve health through healthy food 	<ul style="list-style-type: none"> • Support reuse and recycling of materials • Support organizations and workers in the recycling sector 	<ul style="list-style-type: none"> • Support innovative businesses that work towards solving social and environmental problems



Sumatoria seeks to integrate capital costs into the amount to be repaid.

Source: Prepared by the author based on information provided by Sumatoria.



Innovative factors

Sumatoria is characterized by making investment decisions that prioritize impact and adjust debt terms and conditions to each organization. Its investment strategy is based on a thorough analysis of the impact that the initiative, project, or organization to be financed creates or could potentially achieve, as well as their institutional soundness. Impact remains the overriding eligibility criterion and is estimated based on an assessment matrix set by the Sumatoria team, which is available for organizations that request financing. To assess impact, Sumatoria focuses on how the organization operates around its lines of intervention, such as environmental protection, the circular economy, social inclusion, service and product provision, and market access, among other variables.

If the initiative or organization is eligible for funding, a second two-stage assessment is carried out. Repayment capacity is examined in the first stage. If the analysis is not positive, Sumatoria suggests ways to strengthen this capacity, but does not provide funding. If, on the contrary, the analysis is satisfactory, the second stage begins, assessing organizational strength or vulnerability.¹⁰

Once the impact and institutional soundness assessment has been completed, Sumatoria builds an algorithm to determine the interest rate for each investment and a lower capital cost for higher-impact organizations. Under this framework, the higher the estimated vulnerability level, the lower the capital cost Sumatoria offers to organizations and productive units that create significant impact. In contrast, greater organizational robustness will entail a proportionally higher capital cost—although still favorable compared with what the financial market offers.

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"We established a variable where those who are more robust indirectly and support those with greater organizational vulnerability." – Andrés Schapiro, Chief Financial and Administrative Officer, Sumatoria

¹⁰ This is analyzed in relation to the managerial experience gained, the accounting and legal processes and practices consolidated, the complexity of the Board of Directors, the technology available, market presence, team positioning and make-up, among other factors.

Embedding hybrid finance practices and instruments into both the Sigma and COVIDA-20 funds is a key finance aspect along with the concept of the continuum of capital. The association has four main investor types. First, traditional philanthropists, especially grantmaking foundations. Even though Sumatoria is not particularly interested in using grants as an instrument, it uses the capital raised under grants to structure blended funds that are later used to provide loans.

Second, there are donors with specific mandates. Donors particularly provide resources to Sumatoria in order to finance specific projects or initiatives within the areas prioritized by Fondo Sigma or Fondo COVIDA-20. The enterprises' and foundations' impact goals are thus in line with Sumatoria's main lines of intervention.

Third, the association also obtains resources from traditional finance institutions, such as insurance companies. These institutions use their investment pools to support social impact initiatives. In the case of these companies, Sumatoria is responsible for repaying the capital and paying the agreed interest, while the companies leverage Sumatoria's pipeline to maximize their impact.

Finally, Sumatoria has issued two public bonds in the Argentine capital market. The first bond was issued in late 2021 in the amount of \$30m ARS (\$246,000 USD¹¹) and listed as a *social bond*. Sumatoria was the second civil association in Argentina's history to issue this type of bond. The second bond was issued in May 2022 for \$60m ARS (\$493,000 USD¹²) with a sustainable gender lens label,¹³ which translates into a social and a green labels combined. Both bonds were intended to fund and leverage Sumatoria's entire spectrum of funding and initiatives to invest in certified social impact businesses, not only under Sumatoria's standards but also based on international standards adopted by the Argentine capital market. These impact standards' implementation is audited by international consulting firms to assess compliance with agreed impact goals so that bond investors see how the resources financed are performing.¹⁴



Sumatoria has achieved results and learned lessons that make it one of the most innovative stakeholders in the Argentine impact investment ecosystem.

¹¹ At current exchange rates for June 10, 2022.

¹² Ibid.

¹³ This is the second issuance of this type of bond in the world (the first was in Singapore).

¹⁴ If the consulting firm delivers a negative report, the capital market authorities have the power to remove the bond's label and, consequently, restrict the possibilities of raising capital.



Lessons

During its 12 years, Sumatoria has achieved results and learned lessons that make it one of the most innovative stakeholders in the Argentine impact investment ecosystem. One of Sumatoria's main outcomes has been the consolidation of a new impact investment fund with a regional lens and whose primary financial instrument will be equity. This fund will aim to further contribute to broadening the finance spectrum for social purpose organizations. Sumatoria anticipates setting up the fund by the end of 2022, working hand in hand with Latin American partners to raise capital. The fund's resources are expected to amount to \$10m USD.

Another lesson learned by Sumatoria is the value of balancing impact with financial returns, working with different investors along the continuum of capital, increased access to credit to scale impact, and supporting organizations to execute projects.

The ability to balance financial return with social and/or environmental impact has also been an important learning experience. Regarding financial return, Sumatoria has successfully fulfilled its obligations under traditional funding schemes, such as capital markets and insurance companies. Return on investment and the related interest payments have been secured, maintaining comparatively low default levels in comparison to market standards, and reporting zero debt uncollectible rates.

On impact, Sumatoria has institutionalized detailed follow-up and monitoring practices to track how the funds granted are used, by tracing the amount financed and the impact created. For this purpose, the last loan term integrates a final evaluation where impact units are established for each allocated resource.

"We must weigh impact in the interest of the financed organizations." Andrés Schapiro, Chief Financial and Administrative Officer, Sumatoria.

Although Sumatoria does not have a dedicated non-financial support unit, it strives to maintain close relationships with the businesses, companies and organizations that it finances. This has allowed Sumatoria to adequately understand the issues faced by these organizations and to provide advice and



Another lesson learned by Sumatoria is the value of balancing impact with financial returns, working with different investors along the continuum of capital

bring them closer to partners that are able to provide tailored technical assistance. Deep, direct insight into the organizations has been key to maintaining significantly low default rates arrears.

At the same time, credit provision within each of Sumatoria's financing tracks has allowed to recognize the relevance of access to debt as an incentive for organizational sustainability.

"The ability to take on debt brings a promise of development and future growth for organizations." Andrés Schapiro.

Being able to take on debt highlights not only the original organizational strengths, but also the most relevant organizational and financial aspects that need to be consolidated. Thus, incurring debt as a financing mechanism creates momentum that impacts the organization's sustainability, thereby removing any potential dependence on grants.

The value added by pooling funds from investors along the entire continuum of capital is a distinctive feature of Sumatoria's investment model. Fund diversification is relevant for a number of reasons. First, combining the capital market with grants provides sufficient freedom to engineer investment decisions.¹⁵ For the organization, the potential of blended finance is highly relevant,¹⁶ combining resources ranging from traditional philanthropy to the capital market, thus reaching investment decisions with capital from different sectors—enabling Sumatoria to increase access to capital and boost impact while managing resources efficiently.

Lastly, blending capital allows to structure and grant loans tailored to each borrower's needs, and to weigh each organization's vulnerability and impact. This practice has allowed to meet the impact and financial return goals required by Sumatoria's diverse investors.

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¹⁵ This includes identifying and defining the optimal instruments to finance each organization, interest rate and impact estimations, organizational vulnerability, and structuring the investment pipeline. For more information: <https://www.infobae.com/opinion/2022/01/03/el-mercado-de-capitales-al-servicio-de-la-economia-popular/>

¹⁶ Monferran, J. (2022). Qué es el blending finance, el concepto que utiliza una ONG para multiplicar la filantropía. In Cronista.com/negocios. Accessed at: <https://www.cronista.com/negocios/que-es-el-blending-finance-el-concepto-que-utiliza-una-ong-para-multiplicar-la-filantropia/>