

Market Overview

Colombia's economy is recovering from the oil terms of trade shock of 2016. The economy is becoming attractive for investment again, with inflation slowly getting back to normal and programs of trade liberalization bringing corporate income taxes down to 25%¹. The country also benefits from a very dynamic entrepreneurial ecosystem. According to Colombia's Ministry of Commerce, Industry and Tourism, there are more than 700 organizations that support entrepreneurship across the country. The private equity industry in the country is still in its early stages, but is developing at a good pace. Additionally, market analysts have also started to incorporate sustainability matters when evaluating companies. However, environmental aspects are weighed in their recommendations only when they can directly impact the businesses of the firms being analyzed (e.g. oil and gas).

IMPACT INVESTMENTS HIGHLIGHTS

Supply of Impact Capital

- ▲ Multilateral institutions such as IADB and multinational agencies such as International Finance Corporation (IFC) are investing in impact funds as well as in social enterprises directly.
- ▲ In January 2019, IADB Invest, the private sector institution of IADB, provided a loan in Colombian pesos for USD 20mn to Banco Mundo Mujer, the leading private microfinance bank in Colombia. The funds will be used to finance micro and small entrepreneurs².
- ▲ According to a recent survey conducted by the National Association of Private Companies (Asociación Nacional de Industriales, ANDI) 77% of large and medium companies are implementing Corporate Social Responsibility strategies.
- ▲ With USD 70.6 billion of assets under management (AUM), Colombian public and private pension funds are the country's largest institutional investors³.

Intermediation of Impact Capital⁴

- ▲ International funds are the main actors of the impact investing ecosystem, while only three local firms are focused exclusively on the Colombian market.
- ▲ Between 2016 and 2017, Colombia saw 14 active investors deploying USD 86mn invested in 42 deals. These investors made direct investments in companies and/or projects having a positive social or environmental impact as explicit objective. Financial instruments included debt, equity, quasi equity, guarantees or others.

Demand for Impact Capital⁵

- ▲ Colombia is recognized as one of the most active countries in the region in terms of social entrepreneurship and social innovation, with active intermediaries, government support and a proactive social impact investment scene. In many cases it is the first place where other countries replicate social innovation models. It is the case of Socialab, Sistema B, Instiglio, Acumen, Root Capital and Avina. The decentralized nature of social innovation (i.e. outside only Bogotá), especially in Medellín and Cali, is a sign of maturity of the sector.
- ▲ The country is still facing post-conflict social, economic and environmental challenges. In these areas there are hundreds of potential opportunities for social enterprises especially for those aimed at enhancing financial inclusion, gender parity, education, agricultural and sustainable development⁶.

Government and Regulation⁷

- ▲ The Societies of Benefit and Common Interest (BIC) Law was approved in 2018, it recognizes the creation of companies that, beyond their profit purpose, have a focus on common benefit;

It means that, in addition to being a profitable business for their shareholders, they seek the well-being of communities, workers, and the environment where they are based.

- ▲ As part of the strategy to overcome extreme poverty in Colombia, the Social Innovation Directorate (known as the Center for Social Innovation, in Spanish CIS), is responsible for designing and implementing a national strategy for social innovation. Additionally, CIS promotes the establishment of networks with national and international collaboration to generate knowledge on practices, products and/or innovative models.
- ▲ The Colombian government has centralized its social mobility platforms in the Department of Social Prosperity (DSP), declaring support to impact investing initiatives. Additionally, non-productive assets confiscated to drug cartel leaders could be leveraged to foster social initiatives.

Market Builders⁸

- ▲ Colombia has a strong civil society and a range of organizations promoting social entrepreneurship and social innovation in many different ways. The vibrant Colombian social economy includes: large international organizations and network such as AVINA and Impact Hub; incubators such as Ventures; accelerator programs such as Emprende País, Connect Bogotá, Créame, and Destapa Futuro; specialist organizations such as Somos Más, focused on mapping social innovation across the country, or Compartamos con Colombia specialized in capacity building for social investors and entrepreneur.

Indicators^A

GDP total (2011 PPP \$ billion)	650.4
Total Population (millions)	49.1
GINI Index	50.8
HDI	0.747
MPI	2.1%
EPI	65.22

KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
SURA	Acumen Latam	Aulas Amigas
Bancolombia	Elevor Equity	Suyo
FundacionBolivar Davivienda	Inversor	TriCiclos
Bancoldex	Bamboo Capital Partners	Lumni
IFC	Ashmore MC	Banco WWB
IDB	RootCapital	Fruandes

SPOTLIGHT DEALS^B

Company	Total Funding	Investor	Sector
Gigante Central	\$500k	Acumen	Agriculture
Acceso Colombia	\$1M	Acumen	Agriculture
Sustainable Construction Co	\$1.3M	Inversor	Construction
TPaga	\$5.1M	Y Combinator, IN VX, Hack VC	Inclusive Fintech
Transambiental	\$105M	IFC, Ashmore	Mobility

The ABC of the Colombian Impact Economy^C

An impact economy is a just and equitable economic system in which positive impact is embedded alongside risk and return. In an Impact Economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sections of the society into the mainstream alongside consideration for our planet and its environment.

The following table shows actions undertaken by different stakeholders in Colombia for the adoption of strategies that **A**void harm, **B**enefit all stakeholders, and **C**ontribute to solutions. Impact investment has been flourishing in Colombia since the creation of the first social investment fund, Investor, in 2011 and through the government's leadership to promote social innovation.

	Avoid Harm	Benefit all stakeholders	
			Contribute to Solutions
IMPACT IN BUSINESS	<ul style="list-style-type: none"> ▲ Currently in Colombia, one bank is a member of the Equator Principles, seven banks have signed up to the UNEP-FI Principles for Responsible Banking, one is a signatory of Principles for Responsible Investment (PRI), one is a signatory of The Natural Capital Declaration, eight banks are signatories of the United Nations Global Compact, and four of them were invited to join the Dow Jones Sustainability Index⁹. 	<ul style="list-style-type: none"> ▲ The green protocol initiative created in 2012, which engages Colombian banks in promoting better environmental and social practices in lending, was expanded to include the promotion of responsible investment¹⁰. ▲ There are more than 50 B Corps (<i>Sistema B</i>) in Colombia. 	<ul style="list-style-type: none"> ▲ <i>Compartamos con Colombia</i> has played a key role as broker of social innovation in Colombia. It was founded in 2001 as a not-for-profit Corporation formed by 16 firms in consulting, investment banking, auditing and law who channeled pro bono services to strengthen civil society organizations.
IMPACT IN INVESTMENT	<ul style="list-style-type: none"> ▲ Around half of the banks operating in Colombia have adopted the Global Reporting Initiative (GRI) standard, a reporting framework that enables organizations to measure, understand, and communicate information in four key areas: economic, environmental, social, and governance. Further, some leading banks have already upgraded to the latest version (G4), which implies a more robust sustainability strategy and management approach. 	<ul style="list-style-type: none"> ▲ Bancóldex issued their first green bond for USD 200mn. The 5-year tenor will fund projects that help reduce the negative consequences of climate change and help Colombia meet its Intended Nationally Determined Contribution (INDC) targets. This is the third green bond from Colombia and the first issuance to be available to local investors through the Colombian Stock Exchange (BVC). Bancóldex's 'bono verde' was structured with technical cooperation from the Inter-American Development Bank (IDB) with resources from the Secretariat of State for Economic Affairs of Switzerland (SECO) and supported by the Climate Bonds Initiative¹¹. 	<ul style="list-style-type: none"> ▲ Between 2016 and 2017 impact investment amounted to USD 86mn in Colombia, a considerable increase from USD 32.7mn between 2014 and 2015¹². ▲ Impact investing is growing with the private equity industry, but according to an ANDE-LAVCA 2016 study, 46% of those surveyed who had undertaken impact investment in LATAM did not consider themselves as impact investors, but rather as private equity, venture capital, foundations, or family offices^{13, 14}.
IMPACT IN POLICY	<ul style="list-style-type: none"> ▲ In 2016 the Colombian government introduced a tax on fossil fuels of USD 5 per ton of carbon dioxide, payable by producers and importers of said fuels¹⁵. 	<ul style="list-style-type: none"> ▲ In 2008 the Colombian government launched the Citizen's Visible Audits (CVA) program. Its aim was to encourage citizen engagement in scrutinizing local public works, such as sanitation, water, and school-building projects. CVA were created to foster impactful public investing and keep at bay mishandling of public funds from mineral royalties¹⁶. 	<ul style="list-style-type: none"> ▲ Public authorities in Colombia also support the creation and functioning of specialized capacity-building intermediaries, such as iNNpulsa. Set up by the Business Growth unit of the government in 2012, iNNpulsa aims to support impactful entrepreneurship in the country. During its first four years, iNNpulsa channeled USD 161.6mn into support for entrepreneurship and innovation¹⁷. ▲ The new 2014-2018 development plan focuses on social innovation also as an instrument to reduce extreme poverty but with an increasing focus on information technologies and peace building¹⁸.

SDG Dashboard and Trends

CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges
 ■ Significant challenges
 ■ Challenges remain
 ■ SDG achieved
 ■ Information unavailable

SDG TRENDS



↓ Decreasing
 → Stagnating
 ↗ Moderately improving
 → Maintaining
 ↑ On track
 ●● Information unavailable

Key Initiatives

Social Impact Bonds

In March 2017, Corporacion Inversor, a social asset manager, along with Fundación Corona and in cooperation with Prosperidad Social (a Colombian government entity), Swiss Agency for Development and Cooperation (SDC), the Multilateral Fund of the Inter-American Development Bank (IADB), and other stakeholders implemented the first social impact bond (SIB) in a developing country. The SIB aims at increasing the employability of vulnerable population groups and victims of armed conflict in the country.

Focus on Financial Inclusion

IFC strengthened its support to Colombia's small and medium sized enterprises (SMEs) with a new USD 80 mn loan to Banco Pichincha, a bank that strives to boost its lending to Colombian SMEs and low-income students¹⁹.

Investing to Empower Local Communities in Post-Conflict Colombia

Transform Finance and Acumen Latin America aim to address how impact capital can target issues of territorial inequality in post-conflict areas by increasing the power, rights, and access to resources of historically marginalized groups. Recommendations will be geared toward both mitigating the risk of increased

inequality that can accompany new investments and creating novel ways for capital to contribute equitably to the process. The project is supported by the Ford Foundation's Andean Region program²⁰. Another post-conflict impact initiative in Colombia has been Fondo Emprender, a seed funding program run by the National Apprenticeship Service, and the Cultural Entrepreneurship and Innovation Program for vulnerable target groups, including victims of the armed conflict²¹.

GRI Focal point in Colombia

In 2014, the GRI established a new Focal Point in Colombia with the ultimate objective of serving as a regional hub to stimulate sustainability reporting in Spanish-speaking countries of Latin America²².

Specific Legal Form: BIC Companies

The National Government through the decree 2046 of 2019, has recognized the Commercial Companies of Benefit and Collective Interest (BIC). This was the result of joint work between the Ministry of Commerce, Industry and Tourism and the Superintendence of Companies²³.

Road to Impact Economy

PATH TO TIPPING POINT 2020

Develop equity ownership

As with other Latin American countries, Colombia's supply of impact capital is heavily reliant on development finance institutions from abroad. While domestic funds are emerging, international funds dominate the impact investing ecosystem, with only three local firms focused solely on the domestic market²⁴. Developing local equity ownership by encouraging local investors such as high net-worth individuals, foundations, pension funds, and others to invest locally, Colombia could strengthen and encourage the local impact economy.

Expand the use of quasi-equity instruments

Use of quasi-equity instruments by impact investors can be increased. There is precedent for this sort of instruments being used in Colombia (Gigante Central Wet Mill investment by Acumen) and the model could be replicated with other cooperatives and organizations in need of equity-like capital.

Awareness for Financial Potential of Impact Investing

Development of case studies of successful impact investors in the country can help illustrate the financial potential of impact investing, thus attracting more financially-oriented investors. This can also ensure availability of capital along the risk-return spectrum.

Early alignment with impact measurement and management

Since impact investing in the country is still in its early stages, aligning with international best practices of impact measurement and management, such as The Impact Management Project, can foster greater transparency, thus increasing investor confidence.

TRANSITION TO IMPACT ECONOMY 2030

Colombia is very active in Latin America in terms of social entrepreneurship and social innovation, with active intermediaries, good government support and a proactive social impact investment scene. The foundations of the impact economy have been laid in Colombia and need to be strengthened in order to be able to provide innovative solutions for peace building, poverty alleviation and climate change resilience.

- ▲ Conducting or increasing research related to sustainable consumption in Colombia could provide a better overview of the potentialities for impact investing market.
- ▲ In Colombia, the gap between rich and poor is among the largest in Latin America and in the world. Inequality is the major cause of conflict and poverty. Inclusion of marginalized population groups will be a key driver for the impact economy.
- ▲ Climate change is also becoming a serious challenge for the country given that its population has settled in areas prone to flooding and in unstable lands in the high sierras²⁵.

Footnotes:

^A **Environmental Performance Index** Available at: <https://epi.envirocenter.yale.edu/>; All other **indicators** available at: <http://hdr.undp.org/en/countries>

^B Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, "Total Funding" refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.

^C The **ABC** of the **Colombian Impact Economy** table is adapted from the IMP framework.

Sources:

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