



## Issue Briefing: Innovative Finance in Colombia

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Latin America, like the rest of the world, will require innovative financing to close the anticipated \$2.5 trillion funding gap required for the United Nations' Global 2030 Agenda. Alongside other global goals, Colombia requires an estimated \$60 billion to enact its Peace Accord (SDG 16: Peace, Justice, and Strong Institutions). The 2018 Concordia Americas Summit (July 16-17, Bogotá) had a programmatic focus on regional financing challenges through concentrated programming debating financing availability and efficiencies of funding, and introduced the soft launch of the Concordia Innovative Financing Coalition, with a country focus on Colombia.

Innovative financing -- or the deployment of new funding sources, the enhancement of efficiency in financial flows, the introduction of integrated thinking to reduce risk, and the creation of results-oriented financial instruments -- will be critical for Colombia to continue its positive growth. There are a number of uniquely-Colombian variables compounding the importance of innovative financing towards the Sustainable Development Goals (SDGs): having joined the OECD in early 2018, Colombia no longer qualifies for official development assistance (ODA) funds. Simultaneously, the global economic crisis and peace consolidation process will constrict other international assistance from traditional public and nonstate donors. With conventional funding sources drying up and a new set of challenges facing the incoming administration, now is the opportunity to pursue alternative streams.

The existing approach to a sustainable peace process, and the SDGs overall, presumes that a multitude of entities addressing some part of the greater challenge will, without appropriate incentives and mechanisms, self-organize themselves into effective, efficient, and scalable solutions. The likelihood of this is slim. Luckily, there are a number of strong efforts and institutions already underway in Colombia and the region that the incoming Duque Government can strengthen and scale. In an effort to coordinate key stakeholders and support the strategy process of the incoming government, the 2018 Concordia Americas Summit (July 16-17, Bogotá) brought Colombian and regional experts together as part of Concordia's Innovative Financing Coalition to articulate priorities and challenges in the innovative financing space, chart financing initiatives already underway, and generate recommendations for the incoming government to enact in Colombia.

The following summarizes key findings stemming from the Concordia Americas Summit and subsequent discussions.

### **Availability vs Efficiency**

Stakeholders around the world debate whether the global SDG funding gap is the result of inadequate funding, or non-bankable projects. Recognizing validity to either argument, innovative financing serves as a bridge to this debate. The Americas Summit clearly illustrated that there is a strong "pipeline" of investment-ready impact initiatives and clear examples of successful impact investing/social impact bonds



(SIBs) (Image 1.); the challenge lies in linking the two through efficiencies in the enabling environment and attracting additional investment.

A major source of efficiency can be found in more clearly articulating the connection between positive impact and bottom-line profit. Capital seekers must stop approaching financing as charity and appeal to profitability. One strategy was to invest in early-stage companies and prevent negative cash flow (“Valley of Death”) through debt and equity. This financing structure subsequently motivates the adoption of solid business practices and strong impact metrics, which has positive implications for attracting future financing. A second strategy was to create nation-wide metrics that signal to potential financiers what can (or should) be expected from a social standpoint. This codification of standards within a national framework will signal to external investors that impact is being tracked and evaluated.

Efficiencies can also be found by “going local”. Too often, donors and governments focus on risk avoidance rather than context-specific risk management. A local partner’s knowledge of social tissue, decision-making structure, technical capacities, and other operational or cultural elements of a project will all facilitate deal flow. For Colombia, following a 20-year civil war, this is uniquely valuable towards structuring investments that take into account fiduciary and reputational risks while also proactively mitigating risks of state failure and return to conflict.

Co-lending and enhanced collaboration can also unlock additional investment or scale impact while reducing risk. Donors, and implementing partners, have struggled to understand how different aid instruments can be used in parallel to support rapid and sustainable delivery. Their aid instrument designs are often based on specific institutional mandates and operating procedures rather than on effective delivery approaches. This has resulted in both a duplication and fragmentation of efforts, preventing strategic linking of different instruments to a coherent delivery strategy. To that end, collective action was broadly called for throughout the Americas Summit.

### **Assessing Investment in Colombia**

As of 2016, international investors have dominated the impact investing ecosystem in Colombia, with 91% of investors coming from overseas.<sup>1</sup> In addition, the three domestic investors -- of the 32 total investors in Colombia in 2016 -- only managed a total \$52 million of a total \$6.7 billion in total Assets under Management.<sup>2</sup> Yet these figures, according to the coalition of Aspen Network of Development Entrepreneurs (ANDE), Latin American Private Equity & Venture Capital Association (LAVCA), and LGT Impact Ventures, are all prior to the ratification of the Peace Accords. Therefore, there is a strong need to reassess the landscape of the Colombian impact investing ecosystem, given the drastic changes that have occurred over the past two years in Colombia.

It is within this context that the Summit’s roundtable participants emphasized a real desire to increase the number of domestic funds in the investment landscape, with a particular attention to Pay-for-Success bonds and blended finance instruments. To achieve this, the government must build innovative finance into the

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<sup>1</sup>Dumont, K., et al. (2016). The Impact Investing Landscape in Latin America. <http://www.academiab.info/handle/123456789/4>

<sup>2</sup>Ibid.



national development plan process, and all stakeholders must collectively strengthen the capabilities of local potential partners while further socializing the concept of impact investing in the region.

Throughout the Americas Summit, a number of underway initiatives were raised. A short summary of existing or soon-to-be launched funds represented in the discussion include:

- Inter American Peacebuilding Fund: A \$600,000.00 fund for grassroots development and community-led initiatives dedicated to peace and reconciliation. The Fund is currently looking for partners to double its impact.
- Overseas Private Investment Corporation: OPIC has committed nearly \$700 million to infrastructure, housing, energy, and other projects in Colombia, and recently launched its 2X Americas Initiative to mobilize financing for women across Latin America.
- Conservation International ‘Verde Ventures’: A \$14 million blended finance fund to seed early stage companies that deliver environmental, socioeconomic, and financial benefits. The fund has invested heavily alongside corporate partners like Starbucks in Colombia’s coffee industry.
- Corona Foundation: A \$3 million SIB that seeks to employ 3 million people, and is looking to scale in Cali.
- Financial Alliance for Sustainable Trade: Developed and implemented a platform ([AXIIS](#)) that connects entrepreneurs to various financial service providers with a total of more than \$6 billion in available funding.
- Odiseo acts as the vehicle (fund) in Colombia for Capria Ventures LLC. Capria’s networks of investment targets initial investment ticket sizes of \$500k to \$3m as risk capital — typically venture equity, revenue-based financing, or mezzanine debt.
- Coca-Cola and private sector leaders spoke to investment priorities linked to their corporate supply chain and social impact efforts. Coca-Cola FEMSA is committed to investing \$1 million in the Tocancipá area, to include: water sustainability across the region through its Replenish Project, which focuses on provision of safe water and improved sanitation (particularly for rural areas), protecting watersheds, and providing water for productive use; sustainable packaging; and entrepreneurship training for women and girls, with a focus on conflict victims.

### **Recommendations for the Duque Administration:**

Participants at the Americas Summit agree that the financing challenge associated with the peace consolidation process, the Venezuela crisis, and infrastructures requires a new and blended approach to investments. The following recommendations reflect presented ideas by the convened experts:

1. Address legal hurdles preventing the establishment of contracts that are based on long-term results, potentially through the establishment of a Private Secretariat on Innovative Finance to oversee the entirety of these processes. Two primary functions of said Secretariat could be to 1) collaborate with the Coalition to present a series of position papers (or proposal) to effectively leverage innovative finance mechanisms in support of the peace process, agriculture, small infrastructures, education, and the orange economy initiatives; and 2) create the necessary mechanisms to better track and assess the trajectory of domestic and international funds, particularly post-Peace Accords. There is precedence



for this recommendation based on learnings stemming from El Consejo Nacional de Política Económica y Social (CONPES).

2. Invest in human capital; by building up potential recipients of investment, supporting accelerators, and structuring more social impact bonds, additional funds will be made available for a more robust pipeline of bankable projects.
3. Prioritize partnerships that increase transparency and information sharing across and intra government; not only will this lead to better quality and availability of information and, presumably, synergistic investment, it will help generate a repository of successful examples that can be used to deepen and scale investment.
4. Leverage public policy to signal Colombia's openness to foreign direct investment; consider creating national frameworks on specific SDGs (e.g. SDG 4: Education) to standardize impact metrics based on local context, or exploring the multidimensional nature of the SDGs to shape foreign direct investment (FDI) opportunities linked to the 2030 Agenda. This is imperative, given that three-fourths of all Impact Investors report tracking their investment performance to the SDGs or plan to do so in the future.<sup>3</sup>
5. Work with academia to offer tertiary education to public and private sector professionals as well as civil society organizations to educate them on innovative financial mechanisms. Help create the next generation of leaders in innovative finance.

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<sup>3</sup> Mudaliar, Abhilash, Rachel Bass and Hannah Dithrich (2018). 2018 Annual Impact Investor Survey. Global Impact Investing Network. <https://bit.ly/2sEDQbD>