

**· DESIGN OF A HABITAT IMPACT INVESTMENT
INSTRUMENT AND DEVELOPMENT OF A ROADMAP FOR
ITS IMPLEMENTATION IN COLOMBIA.**
Executive Summary



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CATALIZANDO LA INVERSIÓN DE IMPACTO

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Executive Summary



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I. Introduction

This document is the executive summary of the project "Design of a Habitat Impact Investment Instrument and Development of a Roadmap for its Implementation in Colombia". This project was carried out in 4 phases, which will be presented below. The project represents a significant step towards the implementation of an investment vehicle that will positively impact the housing sector in Colombia.

II. Summary of previous phases of the project

The project "Design of a Habitat Impact Investment Instrument and Development of a Roadmap for its Implementation in Colombia" developed over four phases, and this document focuses on the current phase. To provide a full context for the implementation roadmap presented in this report, a concise summary of the previous three phases of the project is provided below. This will allow for a comprehensive understanding of the evolution and scope of the project as a whole.

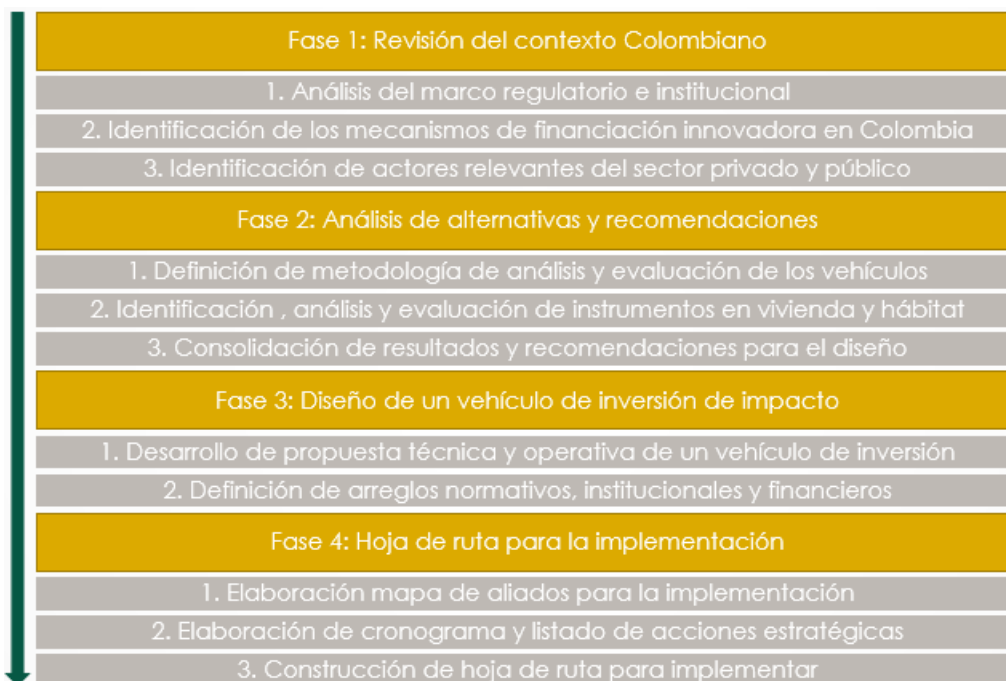


Figure 1: Phases and activities carried out during the project

Phase 1: Review of the Colombian context

Objective



During the first phase of the project, the Colombian context was reviewed with the aim of providing relevant information for the following phases of the project. In order to design an effective impact investment vehicle for the housing and habitat sector, it is essential to first understand the context in which it will be implemented. Colombia, like other Latin American countries, faces significant housing and urban development challenges, especially in informal neighbourhoods. By examining the social, economic and political factors of this environment, we were able to better understand the needs and opportunities for intervention in this sector.

Activities undertaken

The following activities were carried out during this phase:

- Desk research and literature review: During this phase a variety of relevant literature sources were reviewed. These correspond to nationally relevant documents such as the National Development Plan 2022-2026 and its related investment plan, national and international research related to the habitat sector, research and studies on impact investment and different innovative financing mechanisms.
- Interviews with relevant stakeholders: During this phase, conversations were held with 7 relevant actors in the sector through semi-structured interviews with the objective of gaining a better understanding of the sector and its potential to mobilise private capital under the impact investment approach. These stakeholders included impact investment experts, real estate private equity funds, trade associations and stakeholders involved in research and policy advocacy.
- Analysis and synthesis of information: An analysis and synthesis of the information collected through the other activities of the stage was carried out. This included an analysis of the regulatory and institutional framework for impact investment in Colombia, highlighting barriers and opportunities, identification of innovative financing mechanisms in Colombia and identification of relevant private and public sector actors related to impact investment, with an emphasis on housing and habitat in informal neighbourhoods. This analysis was captured in a written deliverable and a stakeholder database.

Conclusions

During this phase, the housing deficit problem in Colombia and the possible value levers to be used to implement an investment vehicle were analysed. As input for the design of the vehicle it was concluded that:

- Build on existing infrastructure: In the country, specialised infrastructure in the construction of Social Interest Housing (Vivienda de Interés Social - VIS) has been developed. To increase the feasibility of implementing the vehicle, it is advisable to work with stakeholders who



already carry out interventions in this space. Rather than focusing on creating new capacity, the vehicle should build on existing installed capacity. This will ensure greater efficiency in implementation and reduce associated costs.

- Involvement of stakeholders from design: When designing innovative vehicles that involve stakeholders from different sectors, it is crucial to involve them from the start. One of the biggest challenges lies in the lack of agreement among stakeholders on the fundamentals of the vehicle. Therefore, the success of such a vehicle will be directly related to the early and active involvement of the different types of actors that will be part of the project. This will allow aligning interests, establishing common goals and avoiding potential conflicts at later stages.
- Learn from successful experiences: Working with national and international actors who have been successful in operating similar vehicles in the past can significantly accelerate the structuring and implementation of the new vehicle. These organisations can provide knowledge, best practices and lessons learned that will help avoid common mistakes and optimise the implementation process. Collaboration with experts in the field will also provide credibility to the project and increase the confidence of investors and other stakeholders.
- Start with a pilot: In innovative finance, it is not common to start with large-scale equity interventions. To mobilise private capital, it is necessary to build investor confidence and appetite. It is recommended to start with smaller designs to prepare the market and demonstrate the viability of the vehicle. These pilot projects will generate a track record of successful operations and success stories, which will serve as a solid basis for attracting larger investments in the future. As positive results are obtained and social and financial impact is demonstrated, the scale of interventions can be gradually increased.
- Design a catalytic capital structure: It is crucial to consider the importance of designing a capital structure that has a catalytic approach for the vehicle to be pursued. This implies reducing risk by assuming first losses, generating guarantees or being concessional in the terms at which it is lent. This strategy will make it possible to generate facilitated access to housing for the beneficiaries of the vehicle.

Three issues and their respective investment vehicles to be analysed in phase two were also defined. These were:

- A vehicle to provide access to credit for the purchase of social housing as a financial mechanism that aims to facilitate access to mortgage loans for low-income individuals or families who wish to purchase social housing. A vehicle designed to offer special, more flexible and favourable conditions, adapted to the needs and financial capacities of this segment of the population.



- A vehicle to provide access to credit for home improvement to people living in informal settlements as a financial mechanism specifically designed to offer affordable and accessible financing to slum dwellers, enabling them to make improvements and repairs to their homes in a formal and secure manner. This vehicle seeks to improve the housing conditions of families and promote the transformation and progressive regularisation of informal settlements.
- A financial vehicle for the purchase and rental of social housing for people currently living in informal settlements. This alternative eliminates the complexity of credit risk analysis. Although some related pilots have been carried out in Colombia, this approach has not yet been developed for this housing segment.

Phase 2: Analysis of alternatives and recommendations

Objective

During the second phase of the project, we analysed the possible vehicle alternatives within those identified in phase 1. This analysis was crucial because it allowed us to identify and evaluate different options for the design of the investment vehicle, taking into account the specific context of Colombia and the needs and priorities of communities in informal neighbourhoods.

Activities undertaken

The following activities were carried out during this phase:

- Desk research and literature review: During this phase, desk research was carried out on the three issues identified in the previous phase of the project. We gathered relevant and existing information on these through various literature sources, reports, studies and data available online. This research provided us with a solid knowledge base to make informed decisions during the development of the vehicle design.
- Interviews with relevant stakeholders: During this phase, conversations were held with relevant actors in the sector through semi-structured interviews in order to gain a better understanding of the three possible vehicles to be structured. These stakeholders included impact investment experts, real estate private equity funds, trade associations and stakeholders involved in research and policy advocacy.
- Definition and application of the analysis framework: Based on the information collected through the research and interviews, a framework for the analysis and evaluation of potential



investment vehicles was defined. This framework is composed of 5 criteria with different weightings.

- Presentation and validation workshop with experts: We held a presentation and validation workshop with 9 experts in the sectors of impact investment, habitat interventions and construction. In this workshop, we presented the issues so far identified and validated the way forward for the next phase of the project.

Conclusions

During this phase, the possible investment vehicles to be designed, together with their problems and opportunities, were analysed. As an input for the design of the vehicle it was determined that:

- The social housing rent-to-own approach represents a real innovation in the sector. This proposal provides a novel and attractive solution for the vulnerable population, allowing them to access decent housing without the full financial burden from the outset. The possibility of acquiring the property over time provides an additional incentive for families, promoting a sense of belonging and rootedness in the community.
- The social housing rent-to-own approach has great potential to mobilise private capital. The option to purchase provides greater security for investors and promotes the participation of private sector actors interested in investing in projects with significant social impact. This mobilisation of additional resources can increase the scale and reach of the vehicle, making it possible to serve a larger number of vulnerable people.
- The social housing rent-to-own approach has the potential to generate a transformative social impact. By providing more affordable access to decent housing, it improves the living conditions of informal housing communities and promotes the reduction of the housing deficit. This, in turn, has positive effects on the stability and development of these communities, contributing to economic growth and overall social well-being.

Phase 3: Design of an impact investment vehicle

Objective

During the third phase of the project, the impact investment vehicle identified and selected in phase 2 was designed. This involved developing a financing structure that balances financial return with social impact, as well as identifying the main stakeholders involved in the investment vehicle and defining their roles and responsibilities.

Activities undertaken



The following activities were carried out during this phase:

- **Desk research:** Desk research was carried out on the target population of the vehicle. We collected relevant and existing information about them through various literature sources, reports, studies and data available online. This research allowed us to define the specific characteristics of the target population, as well as to determine their ability to pay.
- **Interviews with relevant stakeholders:** During this phase, conversations were held with different relevant actors in the sector through semi-structured interviews in order to gain a better understanding of the vehicle being structured. These stakeholders included experts in impact investment, real estate private equity funds, associations and actors related to research and public policy advocacy.
- **Diseño del vehículo de inversión de impacto:** Design of the impact investment vehicle: The design of the impact investment vehicle was carried out. This includes the design of the business model and operational structure. Objectives, funding sources, investment mechanisms, expected returns and partner structure were also defined.
- **Financial modelling of the impact investment vehicle:** Based on the designed structure and the information collected through our research, we conducted a financial modelling of the vehicle. This model allows us to analyse the sensitivity of the vehicle to different scenarios and to project expected returns.
- **Presentation webinar:** A webinar was held to present the design of the impact investment vehicle. Among the materials presented were the investment thesis and operating model. This webinar was offered to the community at large in order to raise awareness of the project and generate future conversations for implementation.

Conclusions

During this phase the impact investment vehicle was designed. The following table provides an executive summary of the vehicle design.

"ProVivienda" Trust	
Name of the vehicle	Fideicomiso "ProVivienda" ("ProVivienda" Trust)
Management	TBD



Objectives and closures of capital commitments	COP \$40.000 million, with a first closure of \$5.000 million and a maximum fund size of COP \$50.000 million.
Term	Between 5 and 23 years.
Investment period	3 years from the initial closure date.
Minimum investment	COP \$2.500 million.
Management fees	1.0% of the committed capital of the fund annually for the first 3 years and then 1.0% of the value of the investment portfolio annually.
<i>Carry (Carried Interest Rate)</i>	10.0% returns once a minimum return equivalent to a 3.0% APR of interest is met for catalytic and private investors.
Return target	Equivalent to an interest rate of 8.0% APR for private investors at the end of the investment term. Equivalent to an interest rate of 3.0% APR for catalytic investors at the end of the investment term.
Investment sector	Social interest housing
Shares of capital	45.0% private equity 24.1% catalytic capital 30.9% non-reimbursable resources
Investment	331 social or priority housing units built or under construction in urban areas.
Investment limitations	Without the written approval of the Investment Committee, the vehicle may not invest: <ul style="list-style-type: none"> 1. In homes that do not meet the defined habitability criteria. 2. In homes that do not have property rights or have any process related to freedom and tradition. 3. In homes outside Colombian territory.
Investment size	Average house unit cost of COP \$105 million.



Distribution Waterfall	<p>First: 100% of the returns to catalytic and private investors until they obtain a minimum return equivalent to an interest rate of 3.0% APR. The distribution of returns will be made in proportion to the capital contributed by each investor.</p> <p>Second: Once the minimum return is generated, 90% of the excess returns will be distributed to the private investor and the remaining 10% as Carry to the vehicle manager.</p>
Costs	<p>Operating expenditure budget:</p> <ul style="list-style-type: none"> - Accompaniment programme - Real estate administration - Trustee administration - Management fees <p>Set expenses for a maximum of COP \$6,000 million during the investment term.</p>
Reinvestment	The Fund may make re-investments, subject to the approval of the investment committee.
Capital calls	The Manager may make a written request, at any time and from time to time, (a "Capital Call") to each Limited Partner to contribute capital (pari passu) when it reasonably anticipates that the Fund requires such additional capital. The Manager may make a Capital Call for the purpose of funding investment opportunities, paying Fund Expenses, paying Management Fees or meeting any obligations of the Fund, including, without limitation, any commitment, debt or other liability, or to set aside anticipated funds that may be required for such purpose.
Key stakeholders	<p>Fund Manager: TBD</p> <p>Trustee Administration: TBD</p> <p>Real Estate Operator: TBD</p>
Advisory Committee	This committee will be constituted for the purpose of advising the Manager on specific issues during the lifetime of the Fund, including conflicts of interest and material changes to



	the Fund's governing documents (e.g., fund strategy, investment criteria, increase in Fund Size, etc.) where consent or approval is required. The Manager may also consult selectively with its Advisory Committee to obtain opinions on operational or investment-related matters.
Investment Committee	This committee shall be composed of 5 members appointed by the Manager. At least 60% of the members must be external and independent. The responsibilities of this body include: (i) evaluating each potential investment; (ii) recommending further analysis; (iii) approving or rejecting an investment; and (iv) determining the terms and conditions applicable to investments. A percentage of the interest earned by the manager (5%) will be set aside to pay the external members of the committee.

Phase 4: Implementation roadmap

Objective

During the fourth phase of the project, the implementation roadmap for the planned impact investment vehicle was designed. This involved the identification of potential partners and implementers, as well as the structuring of a preliminary budget and timeline. The project was also brought to a close by capturing the learnings from the other phases in final considerations and an applied and feasible roadmap.

Activities undertaken

The following activities were carried out during this phase:

- Implementation partners mapping: using as input all the information collected during the previous phases of the project, potential partners were selected to fulfil the different roles in the implementation process. The construction of this partner map was based on the principle of relevance and feasibility, in order to build a roadmap to ensure the implementation of the vehicle.



- Elaboration of preliminary implementation schedule and budget: An implementation schedule and budget were drawn up. These are divided between the different phases required to ensure the correct implementation of the vehicle. These are also preliminary developments that may change at the time of implementation.
- Roadmap design: The roadmap comprising this deliverable was completed. This roadmap includes a summary of the project phases, the partner map for implementation and the preliminary timeline and budget for implementation.
- Results webinar: A webinar was held with the objective of presenting the results of the project to the community. The webinar was attended by the consultant team and the project co-financiers, and fulfilled the objective of starting to generate discussion about impact investment in housing and habitat in Colombia.

Conclusions

During this phase, the implementation roadmap for the impact investment vehicle was designed. The general conclusions of this roadmap are as follows:

- The partners chosen will be critical to the successful implementation of the vehicle. They should have a specific mix of experience and skills that encompass real estate, impact and investment asset management. These actors should be articulated by a manager with the support of an advisory committee.
- The implementation of the investment vehicle will take an estimated 12 months. At the end of these 12 months, the implementation schedule presented as part of the vehicle design will begin. The budget for the implementation phase is estimated at COP 250 million.
- The first phase of vehicle implementation should be supported by a promoter. This champion will be the agent in charge of connecting the necessary partners, even before the vehicle manager is selected. Although the role of the champion will become less relevant as the vehicle team is structured, at the beginning of the process it will be a key role as it will be in charge of starting the implementation.

