



# MAPPING THE IMPACT INVESTING SECTOR IN BRAZIL

Summary of findings  
May 2014

Execution



LGT Venture Philanthropy



Collaboration



## LGT Venture Philanthropy

Established in 2007, LGT Venture Philanthropy (LGT VP) is a global impact investor supporting organizations with outstanding social and environmental impact. Headquartered in Zurich with local teams in Latin America, Africa, Europe, India, Southeast Asia, and China, LGT VP is committed to improving the quality of life of less advantaged people in developing and emerging countries. LGT VP supports portfolio organizations through financial capital in the form of grants, debt and equity, transfer of business and management know-how, and access to relevant networks. To date, LGT VP has invested and donated more than USD 32 million into 39 organizations that have improved the lives of over five million less advantaged people. The organization works with institutional and individual clients that benefit from the experience, systems, processes and networks built by implementing the philanthropic engagement of LGT VP's founder, the Princely Family of Liechtenstein/LGT Group.

## Quintessa Partners

Quintessa Partners was founded by financial market professionals with the purpose of incorporating the natural, social, human, manufactured capital and governance (ESG – Environmental, Social and Governance) into investment analysis methodologies (Risks, Opportunities and Impacts). QP believes that experiences related to human and social capital will be able to promote a positive impact on society, redefining the word investing.

## Aspen Network of Development Entrepreneurs (ANDE)

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits. Ultimately, we believe that SGBs can help lift countries out of poverty.

Members of ANDE include both for and nonprofit investment funds, capacity development providers, research and academic institutions, development finance institutions and corporations from around the world. Launched with 34 members in 2009, ANDE now comprises over 200 members who collectively operate in more than 150 countries.

## University of St. Gallen Hub São Paulo

Established in July 2010 in São Paulo, the hub office of the University of St. Gallen (Switzerland) for Latin America aims at strengthening the ties and promoting knowledge exchange between the University and its partner organizations in the region. This is done through study trips, professors and students exchange, joint research, as well as executive education. Moreover, the University of St. Gallen Hub São Paulo has the goal to promote grass-roots research and case studies in the areas of Impact Investing, Inclusive Business and Intercultural Management, and is incubating the research knowledge platform IILA (Impact Investing Latin America). Finally, the Hub Office supports the development of the entrepreneurial behaviour and a better understanding of the different business cultures, through a number of practically oriented student traineeships in SMEs in Latin America.

# TABLE OF CONTENTS

- 1 Executive Summary
- 2 Introduction
- 3 Overview of the study
- 4 Organizations that participated in the research
- 5 Analytical notes
- 6 The impact investing market in Brazil: Results of the market study
  - a. Overview of players in Brazil
  - b. Market (assets under management) and capital invested
  - c. Investment landscape
- 7 Main learnings: impact investing in Brazil today
- 8 The future of impact investing in Brazil
- 9 Forecast scenario for the next five years
- 10 Limitations and recommendations
- 11 Acknowledgments
- 12 Research team and contact information
- 13 Annex A: impact investing map

1

Executive Summary

2

Introduction

3

Overview of the study

4

Organizations that participated in the research

5

Analytical notes

6

The impact investing market in Brazil: Results of the market study

**a.** Overview of players in Brazil

**b.** Market (assets under management) and capital invested

**c.** Investment landscape

# 1. Executive Summary

During the past 10 years of impact investing in Brazil, we have observed a significant development in the impact investing space. Five years ago, only a few players identified themselves as impact investors, very few organizations in the social sector were investor-ready, and there were almost no co-investment opportunities. A steep increase in the number of investors and amount of capital, greater coordination among players, and a more professional workforce active in the industry today have facilitated the development of impact investing. This market study of the impact investing sector in Brazil reveals significant market growth. Nineteen of Brazil's largest impact investors, including fund managers, banks, foundations, family offices and others surveyed expect to commit 40% to 50% more capital to impact investments in 2014 compared to 2013.

Among the key highlights of this study are:

- **Entry of 15 new impact investors between 2012 and 2013 indicates a significant and growing interest in the market.**
- **Ambitious fundraising target of USD 150m is projected among fund managers in 2014/15 versus a total of USD 177m raised in the past 10 years.**
- **Expected commitments between USD 89m and USD 127m in 2014.**
- **Number of deals is expected to increase by 100% from 68 to 136 deals in 2014.**
- **Priority focus areas include: education, financial inclusion and health sectors, followed by housing, pollution prevention, waste management and renewable energy.**
- **Many investors are interested in expanding their geographical reach within Brazil, particularly to the Northeast.**
- **Financial return expectation varies between 10% - 35%.**
- **90% of respondents reported that they use metrics to measure the social and/or environmental impact of their investments.**
- **100% of the respondents reported that they chose their investment based on its social impact, followed by management (60%) and financial sustainability (55%).**

This report has found a consensus among impact investors that the market will continue to grow and that there are many reasons to be optimistic about the future. For one, the Brazilian market itself is a great opportunity: not only has the middle class increased by 45 million people over the past 10 years, but there is also an unmet market demand for services and products offered to the base-of-the-pyramid (BOP). However, the ability to prove that social and financial returns can be combined is a key factor that will determine the pace of market development. These successful examples have the potential to attract talented entrepreneurs, and subsequently bring in mainstream investors and additional potential entrepreneurs in a virtuous cycle.



## 2. Introduction

Continuous economic growth during the last decade has equipped Brazil with better conditions to confront social challenges. Though important progress has been made to reduce poverty and increase income distribution, social inequality in Brazil remains one of the highest in the world. Today, Brazil ranks among the 15 most unequal economies in the world (OECD, 2012), making social equality a priority for Brazil's long-term development. Complex challenges encountered include the following:

- **80% of the population belongs to low-income class levels earning less than USD 9/day<sup>1</sup>.**
- **Social indicators show that, out of 13.3m children between the ages of 11 and 14 years, only 3.5m will continue to attend school, which equals a school drop out rate of 73.1%. In other words, only one out of five young persons will reach tertiary education (i.e. university or college). As a point of comparison, in 2007 the US school drop out rate was 8.7% and in Europe the average rate was 14.8%.**
- **75% of the population does not have private insurance and relies primarily on the public healthcare system<sup>2</sup>, which is inefficiently managed, underfunded, and incapable of providing quality healthcare services. In addition, waiting times for health exams can be as long as 8 months.**

- **Over 64% of the population does not have access to banking services<sup>3</sup>.**

Reducing inequalities in income, improving public-service delivery, as well as promoting the diversification of economies beyond primary-product exports are necessary to lead Brazil to the next level of social and economic development. Impact investing has the potential to address these issues by supporting market-based, scalable and measurable solutions that create social and environmental impact while generating positive financial returns.

In Brazil, impact investing is still a nascent market with limited information available around its market size and trends. For the sake of deepening knowledge in this sector and creating more awareness, LGT Venture Philanthropy, the Aspen Network of Development Entrepreneurs (ANDE), Quintessa Partners and the University of St. Gallen decided to conduct a study of the Brazilian impact investing market. This study is the first report that aims to present an analysis of the impact investing market in Brazil. This analysis is based on quantitative and qualitative data gathered from a comprehensive group of national and international impact investors active in Brazil.

<sup>1</sup> PNAD, IBGE, 2011.

<sup>2</sup> Data SUS, 2012.

<sup>3</sup> INEP, 2012.

## 3. Overview of the study

### 🎯 Objectives

The aim of this market study is to map the impact investing sector in Brazil. Thus, its objective are to analyze the size of the market, understand the types of investments, and provide information about key players and future market trends. This study was informed by a combination of quantitative and qualitative research. The quantitative research is composed of a questionnaire with 40 questions and the qualitative dimension includes semi-structured interviews conducted with 13 key stakeholders who collectively deepen the understanding of how the sector will evolve over the coming years.

### 🎯 Scope

The information presented herein relates to active national and international organizations in Brazil that invest directly into impact businesses. Fund of Funds (FoF) or second floor investments have not been considered. Furthermore, this study focuses on investors who aim to receive financial returns while generating a positive social impact. As a result, conventional foundations and other grant-giving investors with no financial return expectations have not been included. Participants of this study have been selected on the basis of the following three factors:

1

Invest with the aim of creating social and/or environmental impact

2

Minimum ticket sizes of USD 25,000 per investment

3

Expect a financial return within a certain time period



## Approach

This market study was conducted in three phases:

### PHASE I

#### Identifying key players

During the screening phase to identify potential impact investors in Brazil, a total of 28 national and international investors were invited to participate in this study. The selection was derived from ANDE's and LGT VP's databases, with the support of referrals from network partners and other participants.

### PHASE II

#### Questionnaire

Out of the 28 that met the selection criteria, 22 (79%), replied to a questionnaire containing 40 open and closed questions about investment trends, assets under management and capital allocation, as well as open questions about the challenges and opportunities of the sector.

### PHASE III

#### Open interviews

The qualitative analysis is based on semi-structured interviews conducted with 13 qualified investors and ecosystem participants. Questions focused on key challenges and trends for the impact investing industry in Brazil.

## 4. Investors that participated in the research

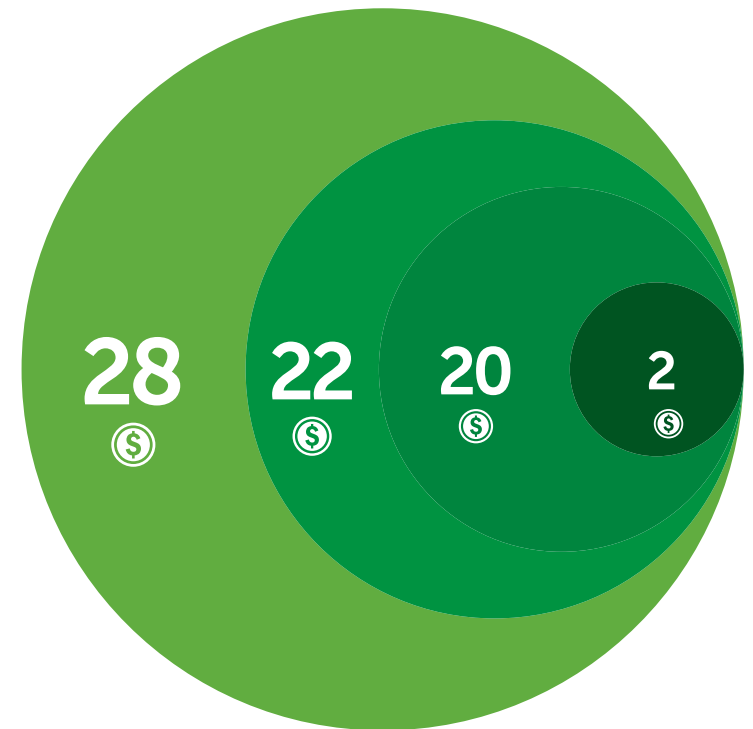


## 5. Analytical notes

This study identified a wide variety of potential impact investors, of which 28 met the selection criteria. Out of these, 22 took part in this market study, which correspond a 79% response rate.

Not all questionnaire questions were answered by the 22 participants that took part in the market study. The majority of quantitative analysis was conducted with 19 respondents, 86.4% of the total.

The International Finance Corporation (IFC), through its Inclusive Business Models Group, is included in the count of players in Brazil, where it has been active since 2005, as well as in the impact map (Annex A). However, due to the nature and large volume of its investments in Brazil, it has not been considered in the quantitative analysis.



### investors<sup>4</sup>

- 28: Investors met the criteria
- 22: Investors participated in the study
- 20: Investors are already operating
- 2: Investors will start operations in 2014

<sup>4</sup>Note that the number of respondents varies throughout the study because not all of the questions were answered by each of the 22 impact investors interviewed.

## 6. The impact investing market in Brazil: Key data points

### A. OVERVIEW OF INVESTORS IN BRAZIL

This market study identified 22 investors in the Brazilian impact investing landscape. Out of these, 20 investors were active by December 2013 and two players are planning to enter the market in 2014.

The three main insights from this inquiry are:

#### **Between 2003 and 2009 the sector developed gradually with seven main players in the market**

In 2003, Oikocredit, a microfinance fund headquartered in the Netherlands, was the first impact fund manager to enter the Brazilian market. The International Finance Corporation (IFC) initiated investments into social businesses in 2005 through its Inclusive Business Models Group. It was followed by the Inter-American Development Bank (IDB), with its program Opportunities for the Majority, in 2007, bringing a strong focus on businesses for the base of the pyramid. SITAWI Finanças do Bem and MOV Investimentos (formerly PRAGMA), both national investors, started exploring impact investing opportunities in 2008. Only in 2009, Vox Capital launched the first national closed-end impact investing fund followed by LGT Venture Philanthropy, an international foundation and impact investor based in Switzerland.

#### **Since 2012 the market has been rapidly evolving with a significant number of new investors entering the market**

Between 2012 and 2013 the number of new investors tripled from 7 investors to 20 by December 2013. The market is growing significantly, however the industry is still nascent with an average track record of two-to-three years or less.

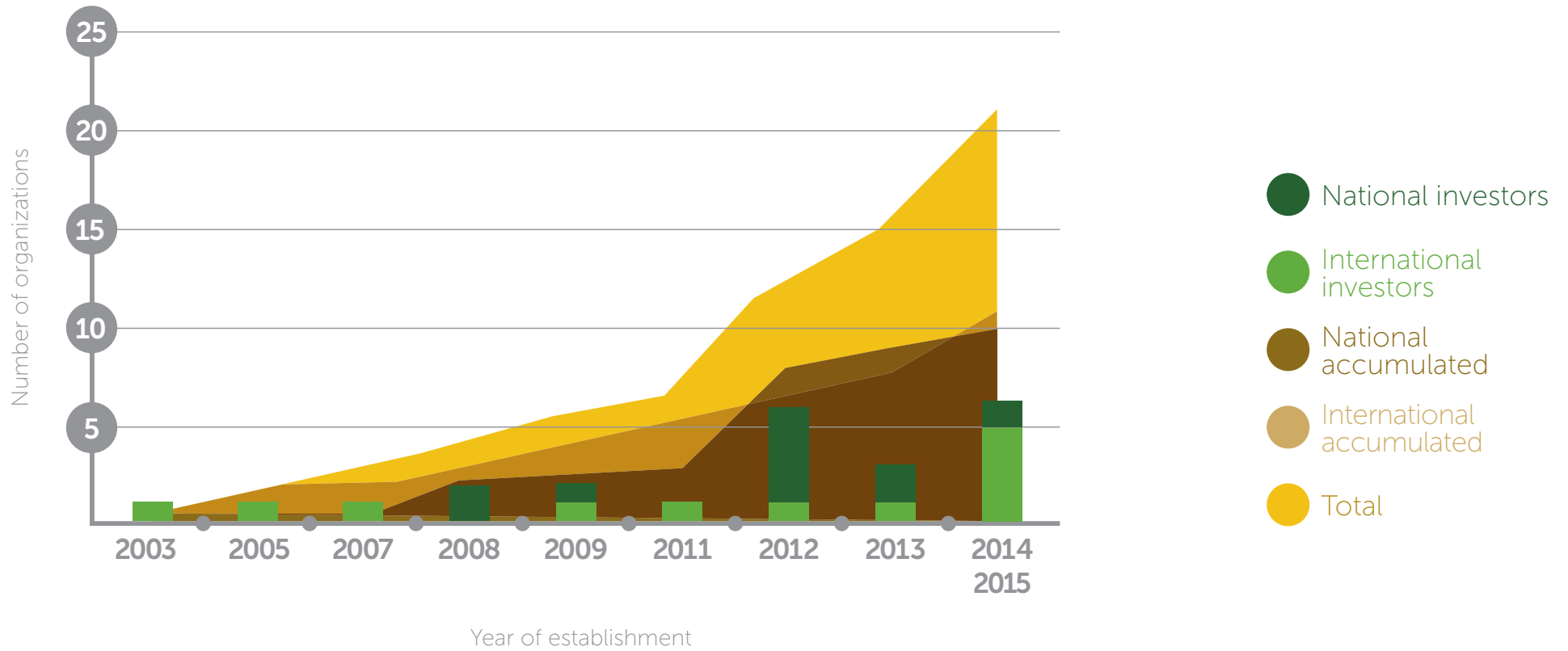
#### **Equal division between international and national impact investors**

Out of the 20 investors active in Brazil today, 11 are international and 9 are national, resulting in a balanced landscape between foreign and local players. The interest of international impact investors and foundations in Brazil is illustrative of the attractiveness of this market in relation to other emerging markets. Six out of eleven international investors have offices with local representatives, which shows the importance that these players place on local representation. Figure 1 shows the evolution of impact investors in Brazil, displaying both national and international investors.

# A. OVERVIEW OF INVESTORS IN BRAZIL



## YEAR OF ESTABLISHMENT OF INVESTORS IN BRAZIL



### TYPES OF INVESTORS IDENTIFIED

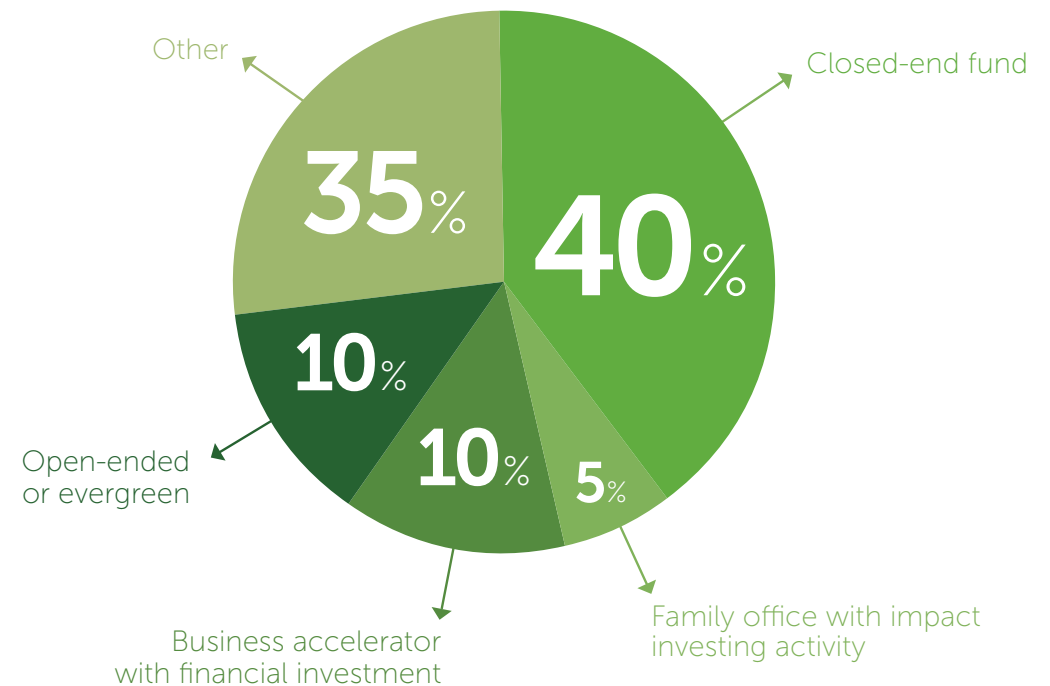
#### 40% of the investors are closed-end funds

In this analysis, the investor's categories have been established according to the methodology employed by the Aspen Network of Development Entrepreneurs (ANDE). According to it, the majority of investors are closed-end funds (40%), followed by business accelerators with financial investments (10%), open-ended or evergreen<sup>5</sup> organizations (10%), and family offices (5%). The remaining 35% are divided into different categories such as philanthropic investment firms, foundations, business incubators, open-ended funds with non-profit organizations or development banks.

The number of family offices doing impact investing exclusively is still small. However, interviews indicate there is an increasing number that are considering impact investing as part of their portfolio in the next 3-5 years.

<sup>5</sup>Organizations continuously fundraising, e.g. with no cap limit.

TYPE OF ORGANIZATION



### MARKET SIZE

## The eight Brazilian based funds manage approximately USD 177m<sup>6</sup>

This represents less than 0.4% of the global impact investing assets under management estimated at a value of USD 46B<sup>7</sup>. However, this amount needs to be carefully considered, as it does not include the estimated USD 3b in funds managed by the other eleven international investors active in Brazil. While it cannot be specified how much of the international capital is allocated specifically to Brazil, it would increase assets significantly.



<sup>6</sup> As of December 2013, composed of six closed-end funds and two other national investors.

<sup>7</sup> GIIN, JPMorgan, 2014.

### FUNDRAISING EXPECTATION OF NATIONAL INVESTORS

Increasing fundraising target among fund managers: total USD 150m estimated for 2014/15 versus USD 177m raised in the past 10 years

Five out of the nine national investors responded that for 2014 they estimate fundraising up to USD 150m in Brazil and abroad. This would represent an increase of assets of 45% from USD 177m to USD 327m by 2015.





### CAPITAL INVESTED SINCE 2003

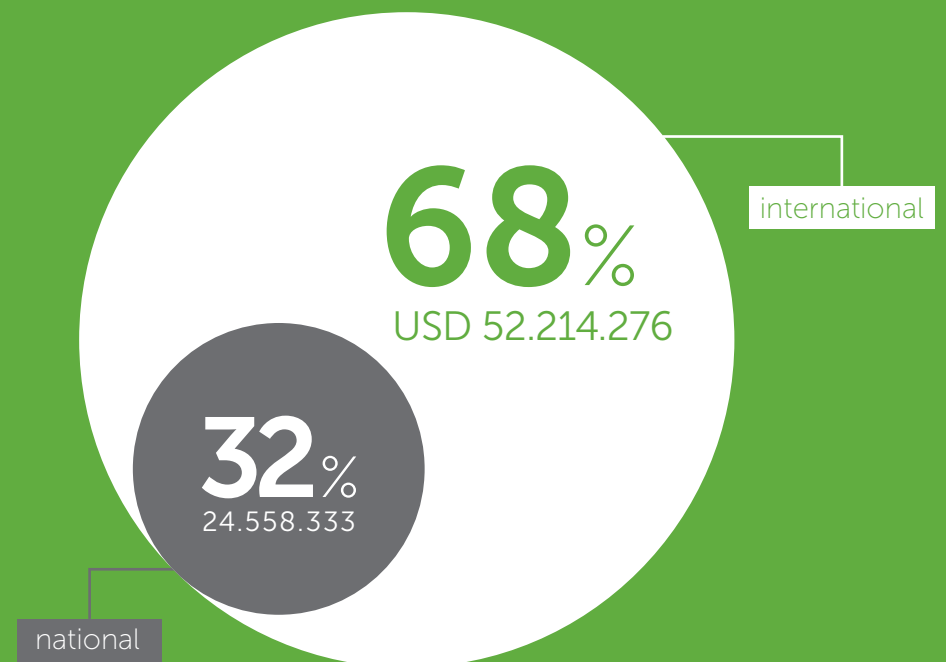
Since 2003 a total of USD 76.4m has been invested in 68 impact businesses<sup>8</sup>

According to our research, the average ticket size in impact investing was ~USD 1.1M. It is interesting to note that average ticket sizes in impact investing are half of what they are in Venture Capital (VC). From 2008, 50 players completed 153 transactions equivalent to USD 229m in the VC market.

68% of these investments have been executed by international investors. Oikocredit and Opportunities for the Majority/IDB are leading the total amount invested as they account for 58% or USD 44.3m of the investments deployed in the past 10 years. The total capital invested in Brazil by the investors, surveyed until 2013, was USD 76.7m.

Out of the 68 investments, 37 (55%) come from national investors and 31 (45%) from international investors suggesting that national investors invest in a higher number of companies but at a smaller ticket size.

### SOURCE OF CAPITAL ALLOCATED TO IMPACT BUSINESS IN BRAZIL



<sup>8</sup> The IFC's Inclusive Business Models Group has been excluded of the quantitative analysis as this would distort the market due to its impact investments of USD 894m into 32 businesses since 2005.

### CAPITAL INVESTED SINCE 2003

#### 2014 is likely to see a big increase in capital allocation

The 19 respondents have declared that they are planning to invest between USD 89m and 127m in 2014. Readiness of investors in extending their portfolio has been perceived as a result of increasing fundraising targets and strong confidence in pipeline are driving this strategy. Four respondents stated that they are planning to deploy their first investment in 2014. However, it is still unclear whether sufficient investment opportunities will be available to absorb this capital.



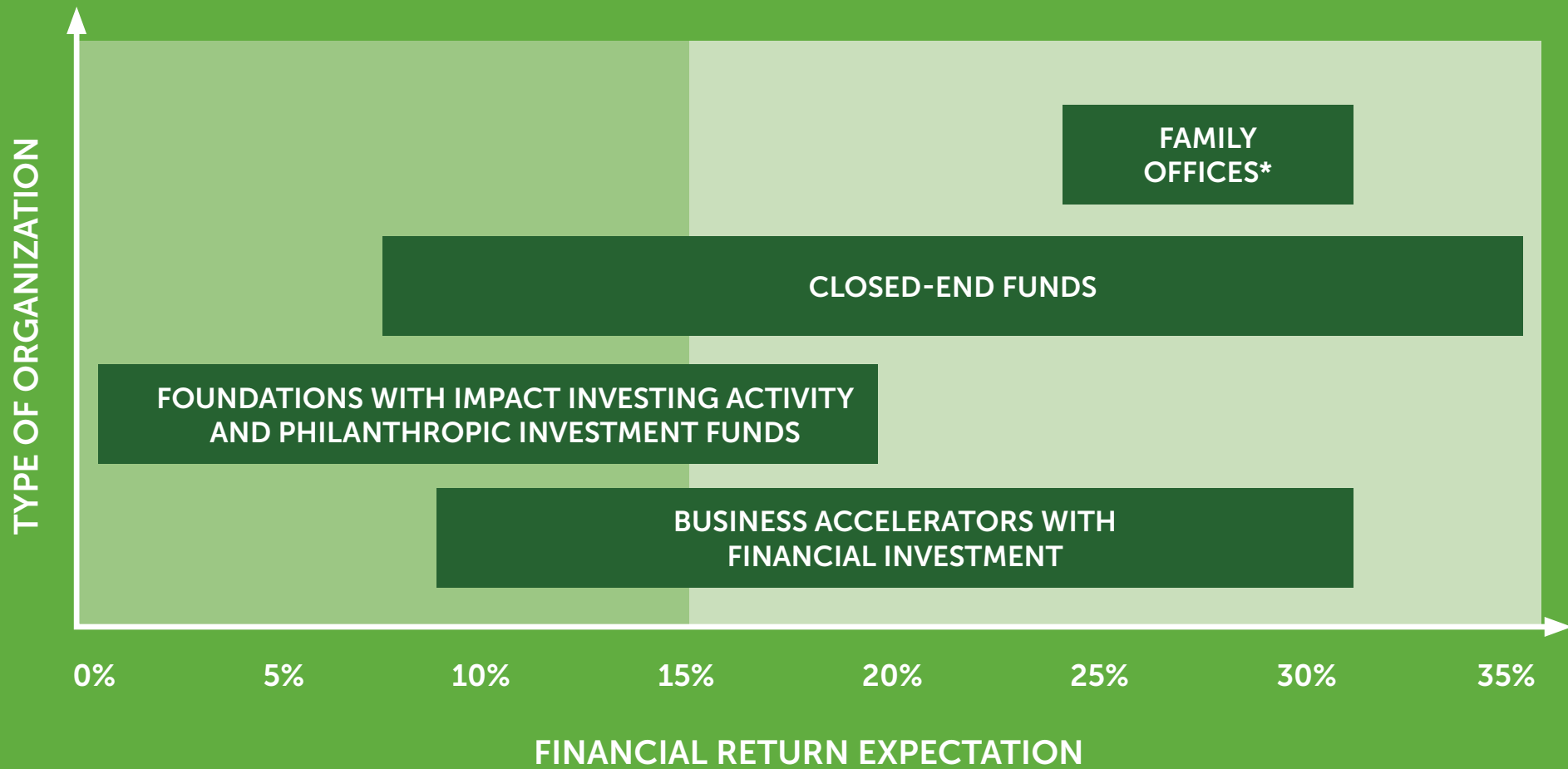
### EXPECTATION OF FINANCIAL RETURN

Financial return expectations can be as high as those expected in the traditional Private Equity and Venture Capital industries. Lower return expectations are observed for investors with a stronger social mission or philanthropic approach

Financial return expectations vary between 0 to 35%. As shown on Figure 4, the upper level, closed-end funds target financial returns ranging between 10% and 35%. Fifty-six percent of national investors strive for financial returns comparable to conventional Private Equity and Venture Capital returns that range between 20% and 35%.

In the lower level of the figure, foundations responded that they have rather moderate financial expectations ranging between 0% and 20%. This is consistent with their predominantly social or philanthropic approach. Forty-four percent of national closed-end funds also expect financial returns below 20%.

## FINANCIAL RETURN EXPECTATION



\*This data is based on the responses, but we have an expectation that this return should be higher

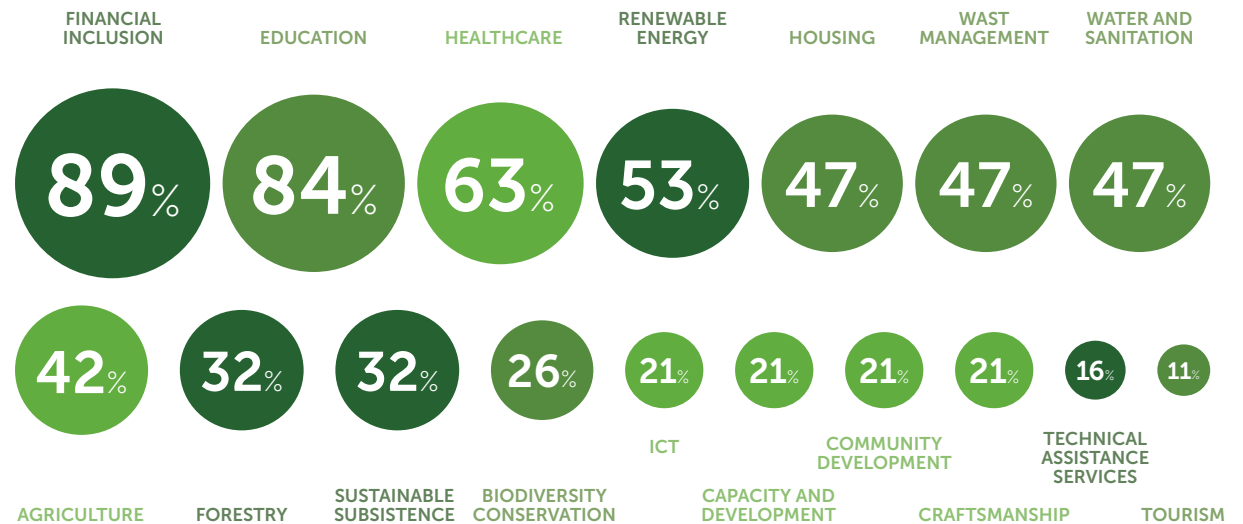
## SECTOR FOCUS

Top areas of sector focus are: education, financial inclusion and healthcare

Education, financial inclusion and healthcare are the sectors where investors<sup>9</sup> focus the most in Brazil. This coincides with the areas where Brazil is currently facing the greatest challenges and still has enormous improvement potential in terms of products and services for lower income segments.

As shown in Figure 5, there are many other areas of considerable interest for investment opportunities such as renewable energy (53%), housing (47%), waste management (47%), water and sanitation (47%), as well as agriculture (42%).

### TARGET SECTOR FOCUS



<sup>9</sup> 19 respondents

### REGIONAL GEOGRAPHIC FOCUS

## The impact investing landscape is strongly concentrated in the Southeast region of Brazil

However, an increasing number of investors plan to increase the percentage of their portfolios invested in the northeastern area of Brazil.

Although 95% of investors<sup>10</sup> have no specific geographical investment preference, 45% have not yet made any investments outside of the Southeast, in part due to a more developed pipeline of opportunities in that region. There seems to be a high interest and growing tendency to seek investment opportunities throughout Brazil despite challenges to source pipeline outside the major urban centers. As identified, there is only one national investor with a regional focus in the Amazon region.

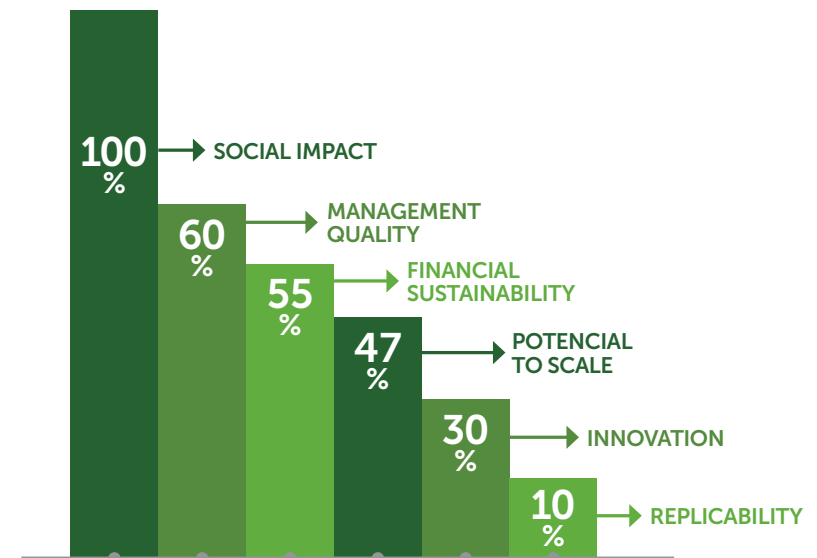
<sup>10</sup> 19 respondents

## INVESTMENT CRITERIA<sup>11</sup>

100% of the respondents reported that their investment decisions are guided first by impact, followed by management (60%) and financial sustainability (55%)

Social impact is the key investment criteria selected by all 19 investors surveyed, followed by management quality with 60%, financial sustainability with 55% and only 30% selected innovation. Innovation seems to be a particularly interesting choice for business accelerators but not for closed-end funds.

### MAIN CRITERIAS CONSIDERED IN INVESTMENT SELECTION



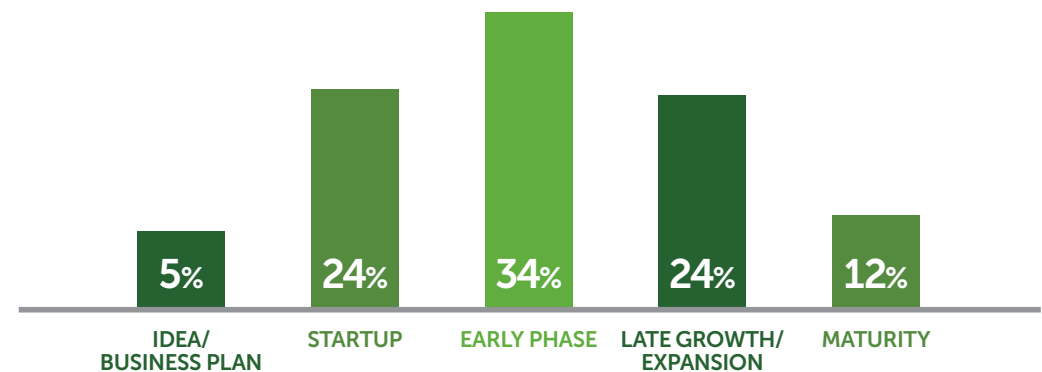
<sup>11</sup> The investment criteria emerged out of an open-ended question whereby investors listed different factors which are considered in an investment decision. Only criteria that were repeated by several investors are presented.

## ENTERPRISE DEVELOPMENT STAGE

Due to the lack of growth-stage businesses<sup>12</sup>, early - stage investments comprise 82% of all transactions closed by impact investors in Brazil

The evolution of the startup ecosystem over the next few years will ensure pipeline opportunities for later-stage investments. As shown in Figure 7, the majority of impact investors look for businesses in the early phase. Startups and late-growth businesses attract an equal number of investors. It is observed that the Brazilian entrepreneurial ecosystem is nascent with a limited number of investment opportunities in the late-growth stage. The positioning of individual investors according to segment focus and average investment ticket size is visualized in ANNEX A.

BUSINESS STAGE OF INVESTMENTS



<sup>12</sup> Growth stage business is defined as a business with 3-5 years market experience, a proven business model that is scale ready.

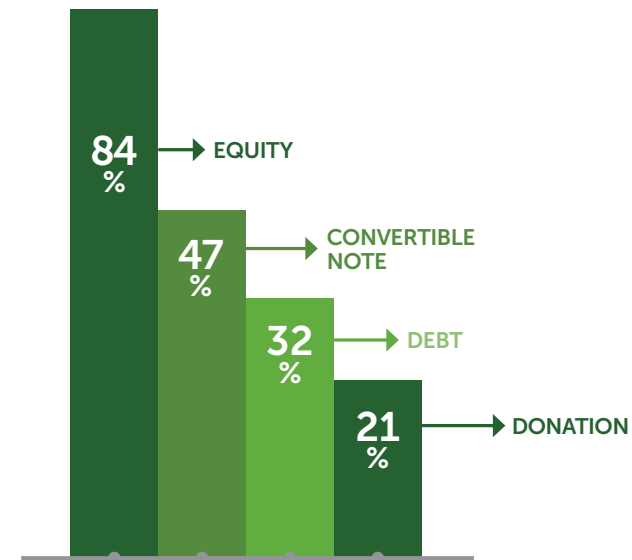


## FINANCIAL INSTRUMENT

Equity is the dominant investment vehicle utilized by 84% of the investors followed by convertible loan facilities utilized by 47% of investors (n=19)

Business accelerators use both convertible notes and equity. Open-ended investors, philanthropic investment firms and foundations also offer donations in addition to other financial instruments with the expectation of financial return.

## INVESTMENT INSTRUMENTS



### IMPACT REPORTING

**75% of respondents reported that they use metrics to measure the social and/or environmental impact of their investments**

Fifteen out of 20 respondent investors measure and report social impact regularly. Out of the five investors that do not measure impact, three are developing their own measuring system and two are not measuring social impact at all.

Today, only three investors use GIIRS or the IRIS taxonomy. Five investors have developed their own proprietary measuring system while others report social impact through periodic managerial reports, combining operational and social metrics.

### FUTURE INVESTMENTS

## Financial inclusion, education and healthcare will continue to dominate the investment landscape in 2014

In total, 68 investments are forecasted for 2014<sup>13</sup>. This means that on average, most impact investors plan to invest in one to three impact businesses each. However, it should be noted that business accelerators have adopted a Silicon-Valley approach and invest in up to ten businesses per year.

In terms of sector focus, 89% of investors will continue to focus on financial inclusion, followed by 84% on education and 63% on health. Investors are less focused on Tourism, as illustrate in page 20.

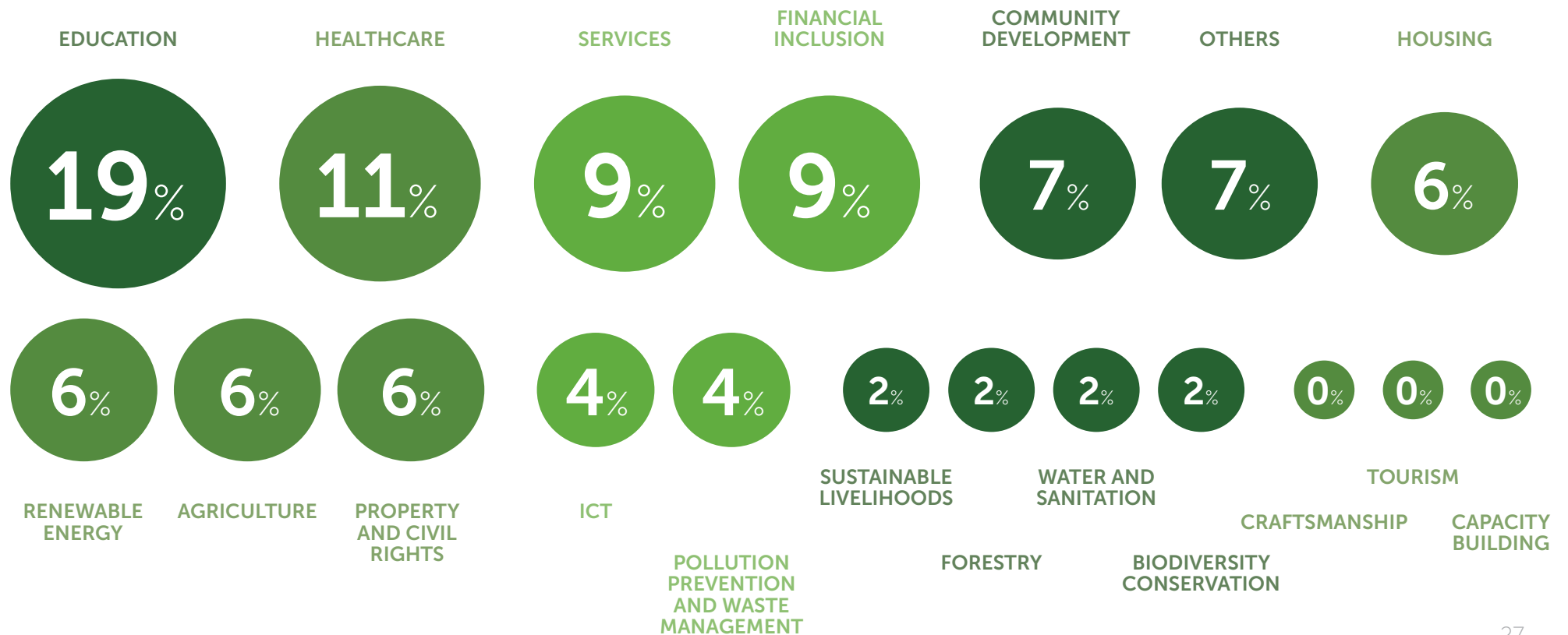
<sup>13</sup> 19 respondents

## C. INVESTMENT LANDSCAPE



In Brazil, reflecting investors general preferences, investors have invested in multiple sectors, but as a reflection of the major focus sector, 19% invested in the education sector, followed by health with 11% and financial inclusion with 9%. Investments in culture, entrepreneurial ecosystems and some diversified projects were classified as "Others". None of the investors surveyed have invested in tourism, craftsmanship or capacity building yet.

### CURRENT INVESTMENT FOCUS IN BRAZIL



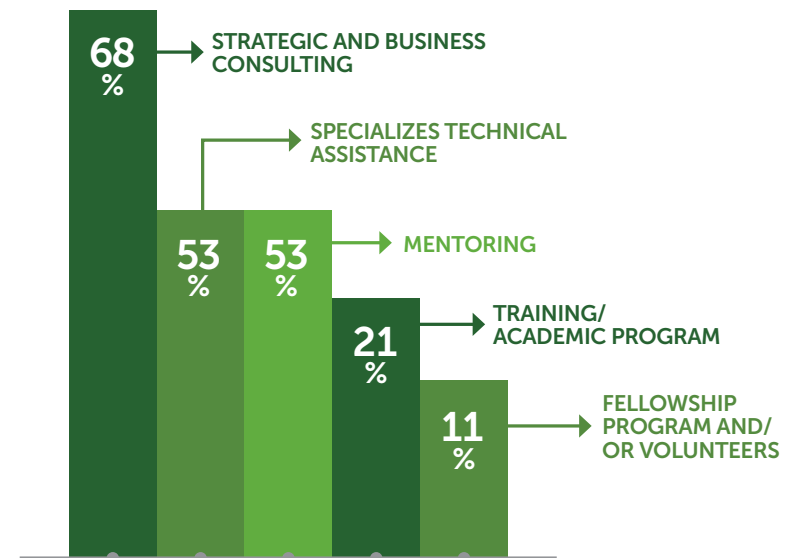
## TECHNICAL ASSISTANCE PROVIDED

Impact investing often requires a true collaborative partnership where mentoring to senior management, strategic business consulting or specialized technical assistance is welcomed and valued

Thirteen investors offer intellectual capital in the form of strategic business consulting services. Mentoring and specialized technical assistance are offered by 10 out of the 20 investors already active in Brazil<sup>14</sup>. Fellowship programs, volunteers and other training programs are not common and are most commonly reported by larger international investors.

On-the-ground support seems also to be an effective way to mitigate risks in critical situations mainly for early stage companies. To leverage intellectual capital, investors spend time on the ground during the post-investment phase. In addition, difficulties with team management and financial reporting are the most common challenges mentioned.

TECHNICAL ASSISTANCE PROVIDED TO INVESTEE COMPANIES



<sup>14</sup> Intermediaries such as Ashoka, Avina and Endeavor that provide technical assistance or coaching programs have not mapped here

- 7 Main learnings: impact investing in Brazil today
- 8 The future of impact investing in Brazil
- 9 Forecast scenario for the next five years
- 10 Limitations and recommendations

## 7. Main learnings: impact investing in Brazil today

The findings of this market study shed light on a nascent but rapidly evolving impact investing industry. A steep increase in the number of investors and committed capital, greater coordination among players, and a more professional work force active in the industry today have facilitated the development of the impact investing space.

A historic overview of the number of investors engaged in impact investing in Brazil illustrates the rapid pace of development of this industry. In 2009, six players were active in the landscape. By December 2013, 20 investors were actively looking for impact investment opportunities in Brazil. Growing investor interest is exemplified by international impact investors that recently started operations in Brazil, such as Bamboo Finance and Omidyar Network, multilateral organizations becoming active in the field (i.e. IFC, IDB) and an increasing number of High Net Worth Individuals active in philanthropy that have expressed interest in combining social mission with financial returns.

The Brazilian impact investing market remains modest in relation to other capital markets, such as the traditional PE/VC industry that currently manages approximately USD 44bn in assets<sup>15</sup>. The size

of the national market (based on accounts of 8 out of 9 national investors) is estimated to be USD 177m in assets under management (AUM). This excludes assets managed by international investors. As discussed in the findings, 97% of these resources are managed by national closed-end funds.

This market study points to an incredibly diverse set of players. The heterogeneous landscape of impact investors includes business accelerators doing financial investments, family offices, open-ended or evergreen investors, closed-end funds, business incubators with financial investment, foundations, multilateral development banks and a philanthropic investment fund. These investors are characterized by different team sizes, investment focus and AUM. Most importantly, each investor brings a different experience as most national investors were established recently, there is a disparity between national and international investors in terms of track record. For the Brazilian impact investing ecosystem as a whole, this diversity is positive as it brings different types of expertise to the table. This has been praised by some stakeholders as one of the reasons why this has become a more collaborative industry for co-investment opportunities.

<sup>15</sup> KPMG, ABVCap, 2014.

# 1. Investors bring a limited track record in Brazil

Despite the rapid growth of the number of players in recent years, the volume and number of transactions remains relatively low. Since 2003, only 68 transactions were completed in Brazil, representing USD 76.4m in allocated capital, reminding observers that impact investing is still a nascent industry. However, investors remain optimistic, declaring their intention to invest in 68 deals in 2014, allocating an estimated USD 89m to USD 127m to impact businesses this year .



## 2. Investors see impact investing as an intermediate solution between philanthropy and venture capital

According to key stakeholders consulted, the origin of most impact investing capital is still strongly correlated with philanthropy. With impact investing seen by many investors as a solution between philanthropy and traditional VC, stakeholders observe that the concept of impact investing and its differentiation from philanthropy is still not clear to many investors. In practice, investors do not yet see impact investing as a portfolio diversification strategy and prefer to focus on the promise of social returns over financial ones.

Early adopters of the impact investing value proposition in Brazil are mainly wealthy individuals and families with a tradition of philanthropy. Many individual investors that choose to invest in impact investing are tired of the traditional way of doing philanthropy (lack of professionalism, absence of reporting, low growth and scale perspectives). This proposition is appealing particularly to younger generations and successful business executives looking for results-oriented impact models to support.

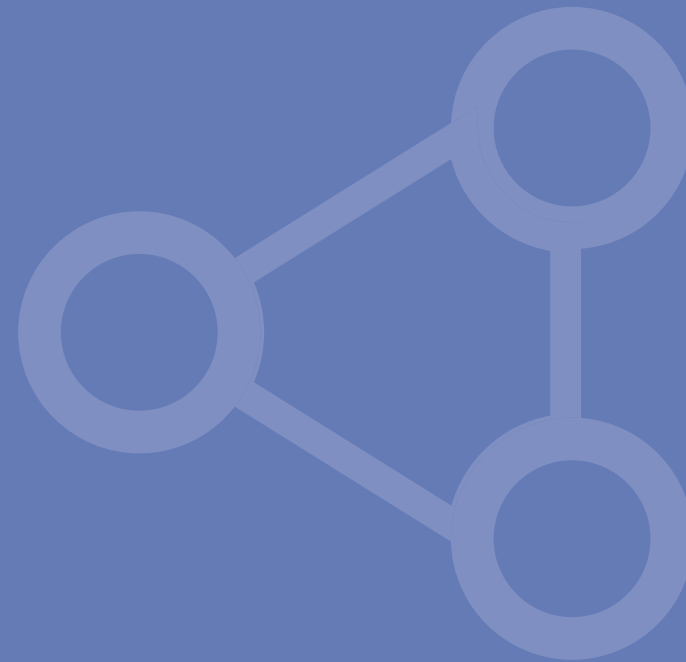
### 3. Investments are being made in a diverse set of enterprises that bring some positive impact to the community or the environment

The absence of a clear definition of an “impact business” means that investors are investing in a great variety of businesses that provide some sort of social and/or environmental impact. The idea of “social impact” generally focuses on organizations providing products and services for the Bottom of the Pyramid (BoP), poverty alleviation, or promoting measures that reduce poverty. Some investors are focusing more on potentially disruptive and innovative businesses catering to the general population, while others are focused more exclusively on businesses providing services to the BoP.



## 4. Brazil's continental scale presents a challenge to pipeline sourcing

Pipeline sourcing in Brazil remains a challenge, with investors having difficulty identifying potential investee companies that fulfill their investment criteria. Investments are allocated to a great variety of sectors, however, they are primarily concentrated in three areas: education, health and financial inclusion. Pipeline sourcing remains largely focused on a few states where entrepreneurship is more developed such as Sao Paulo, Rio de Janeiro, Minas Gerais. Frontier regions in the Northeast are starting to be explored, with a few accelerators establishing offices in this region.



## 5. Access to seed funding is scarce

The majority of investors focus on companies in the early stage or expansion phase. Given these circumstances, access to seed capital is still difficult for entrepreneurs, with few players allocating capital to startups and to businesses in the idea and business plan phase. However, this gap in funding has been noted and at least two investors are developing debt or convertible note-like instruments for early stage enterprises by 2014. Access to seed capital is a key challenge to developing the social entrepreneurship environment and ensuring a growing pipeline of more mature businesses for investment.



## 8. The future of impact investing in Brazil

To better understand how this industry will continue to evolve, we asked key ecosystem stakeholders “where will the industry be five years from now”? The responses varied significantly, with some stakeholders demonstrating more optimism about the industry than others. Yet, there was a consensus that the industry will continue growing. The industry has been receiving considerable attention from potential investors and entrepreneurs, and if sufficient success cases are brought to the table within the next five years, the number of players is likely to increase, with capital coming from a wider range of sources. The following opportunities have been identified:

### Growth of Brazil’s Bottom of the Pyramid (BoP) market

In the past decade, Brazil has experienced strong economic growth supported by income distribution, which has resulted in a surging middle class of 45 million people. Further, low-income consumers continue to demand products and services which are unmet by the public sector, such as education and healthcare. Improved efficiency, professionalism, and transparency of public administration are crucial preconditions to achieve sustainable development. The government has highlighted key priority areas for investment, which include education and health. Government adoption of innovative technologies and solutions offers an opportunity for social entrepreneurs to engage in these markets.

### Increase in number of investors

Growing investor interest, both international and national, is a reason to be optimistic about this industry. The Brazilian landscape has experienced a rapid growth in the number of players since 2012. From 2014 and onwards, multiple players have shown interest in doing business in the country, including those focused on seed-stage funding where a funding gap has been identified.

### Mainstreaming

The government (i.e. National Bank for Social and Economic Development, BNDES) is demonstrating a growing interest in impact investing. More traditional investors are beginning to be interested both in the financial and social return on investments. In addition, impact investors has also noticed more engagement of local corporations and universities on the topic.

## Booming entrepreneurship environment

A growing interest in social entrepreneurship has been identified. This involves both experienced and talented entrepreneurs looking to shift their career focus and a young generation increasingly interested in entrepreneurship overall. A growing number of university courses focused on social or impact businesses have also been contributing to this “critical mass” of potential entrepreneurs. The work of foundations investing in intermediaries to foster social entrepreneurship of social entrepreneurship is also contributing to this ecosystem.

In parallel, some stakeholders presented arguments that reveal a more cautious outlook for the future of the impact investing industry. These arguments are presented below:

### 1. Social entrepreneurs are not ready for investment

Despite increasing interest in social entrepreneurship and the relative improvement in the quality of entrepreneurs, it is still difficult to find high-quality investment opportunities. A majority of entrepreneurs are not ready to receive investment. Many entrepreneurs fear dealing with debt-like transactions, which makes it difficult to invest in very early stage companies where the preferred financial instruments offered by investors are debt and convertible notes.

### 2. Brazil still lacks great local success cases that can prove the impact investing thesis

Currently, the absence of success stories of impact businesses generating both financial returns to investors and significant social impact – that is, businesses that managed to achieve scale and provide an attractive exit to their investors – is challenging the evolution of this industry. Yet, stakeholders are optimistic that within five years there will be such examples in the market, thus attracting new investors and players to invest. Most importantly, such examples would prove that it is possible to unite financial and social returns in investments.

### 3. Industry isolation

Stakeholders observed that the impact investing sector in Brazil acts in relative isolation from other markets (i.e. third sector and the traditional VC market). This isolation is fueled mainly by a tendency to use terms specific to the impact thesis rather than a reluctance to collaborate with other players. This is seen as a disadvantage as traditional VC players invest in quality businesses that also have impact on society.

## 9. Forecast scenario for the next five years

Based on interviews with key stakeholders, we anticipate a steady but modest growth over the next five years with new players entering the market and an overall improvement of the business environment. A growing number of business accelerators and intellectual capital support initiatives can be observed and are responsible for the strengthening of the business environment. Furthermore, a number of key events and active investor networks and platforms facilitate broader coordination and transference of lessons learned among stakeholders.

The existence of success cases should attract a diverse range of investors and diversify the origin of capital impact investing will continue to be a portfolio option for long-term patient capital. Despite an observed increase in the quantity of pipeline for investment, identifying quality high-potential deals will continue to be as difficult as it is today.

## 10. Limitations and Recommendations

This study is intended to be a first analysis on the impact investing ecosystem from the lens of capital supply. This market study has explored a relatively small number of topics and future mapping efforts could explore in-depth other aspects of impact investing, such as the following:

- Capital allocation according to type of business, financial instruments, enterprise development stage, sector and geography
- Detailed origin of capital
- Real versus expected financial returns
- Social return on investments
- Main challenges faced along the investment phase
- Attitudes of institutional investors towards impact investing

In addition to these, further efforts could be conducted to identify the social entrepreneurship landscape, accelerators, and other intermediaries in order to provide a more comprehensive view of the impact investing ecosystem.

We recommend that this database be updated regularly to accompany the development of the sector in Brazil and welcome initiatives to take this exercise to a deeper level of understanding of the impact investing ecosystem in Brazil.



**11** Acknowledgments

**12** Research team and contact information

# 11. Acknowledgments

We thank all investors that have taken part in this market study.

Accion  
AMP  
ARTEMISIA  
Bamboo Finance  
Developing World Markets  
First Impact  
GAG Investimentos  
Grid Investments  
Opportunities for the Majority/IDB  
International Finance Corporation (IFC)  
Kaeté Investimentos  
LGT Venture Philanthropy  
Mov Investimentos  
Oiko Credit  
Omidyar Network  
Pipa  
SITAWI Finance for Good  
Village Capital  
Virtuose  
Vox Capital  
World Transforming Technologies (WTT)  
Yunus Social Business

In addition to them, we kindly thank the following stakeholders that have provided valuable inputs to this report.

Antônio Ermírio de Moraes Neto, Vox Capital  
Beto Scretas, ICE  
Carolina Aranha, Impactix  
Célia Cruz, ICE  
Daniel Izzo, Vox Capital  
Dhaval Chadha, Pipa  
Eduardo Grytz, Performa Investimentos / ABVCap  
Leonardo Letelier, SITAWI  
Marcela Zingerevitz, Mov Investimentos  
Renato Kyiama, ARTEMISIA  
Vivianne Naigeborin, Potencia Ventures

## 12. Research team and contact

Andrea Piazza

Frederic Kuonen, University of St. Gallen

Gustavo Alves

Johannes Boch, University of St. Gallen

Juan Carlos Moreno, LGT Venture Philanthropy

Rebeca Rocha, Aspen Network of Development

Entrepreneurs

Contact information for inquiries and comments

Rebeca Rocha: [rebeca.rocha@aspennet.org](mailto:rebeca.rocha@aspennet.org)

Juan Carlos Moreno: [juancarlos.moreno@lgtvp.com](mailto:juancarlos.moreno@lgtvp.com)

**13**

Annex A: impact investing map

# • IMPACT INVESTING IN BRAZIL: MAP •

Investments that aim to create impact beyond financial return

ENTERPRISE DEVELOPMENT STAGE

IDEA/BUSINESS PLAN

STARTUP

EARLY PHASE

EXPANSION

MATURITY

Investment Ticket Size (USD '000)

\*Conversion rate = R\$2.40

0

25

50

100

200

300






















500

1.000

2.000

5.000

10.000

	Artemisia Active in Brazil since 2013 1 impact investment in Brazil Domicile country: Brazil	
	Village Capital Active in Brazil since 2011 0 impact investments in Brazil Domicile country: USA	
	GAG Investments Active in Brazil since 2013 2 impact investments in Brazil Domicile country: Brazil	
	Pipa Active in Brazil since 2013 0 impact investments in Brazil Domicile country: Brazil	
	Accion International Venture Lab Active in Brazil since 2014 0 impact investments in Brazil Domicile country: USA	
	Grid Investments Active in Brazil since 2012 0 impact investments in Brazil Domicile country: Brazil	
	World Transforming Technologies Active in Brazil since 2013 1 impact investment in Brazil Domicile country: Panama ★	
	Vox Capital Active in Brazil since 2009 12 impact investments in Brazil Domicile country: Brazil	 
	MOV Investimentos Active in Brazil since 2008 5 impact investments in Brazil Domicile country: Brazil	
	Kaeté Investimentos Active in Brazil since 2013 1 impact investment in Brazil Domicile country: Brazil	














## LEGEND

### FINANCIAL INSTRUMENTS

- Debt
- Equity
- Donation
- With preview to start investments in 2014

★ International organizations with office in Brazil

### SECTOR FOCUS

-  Agriculture
-  Renewable energy
-  Education
-  Housing
-  Health
-  Water and sanitation
-  Financial inclusion
-  Technical assistance services
-  Community development
-  Artisanal
-  Forestry
-  Biodiversity conservation
-  ICT
-  Sustainable livelihoods
-  Capacity building
-  Pollution prevention and waste management
-  Tourism
-  Sustainability softwares
-  All sectors

INVESTMENTS WITH EXPECTATION OF FINANCIAL RETURN

# • IMPACT INVESTING IN BRAZIL: MAP •

Investments that aim to create impact beyond financial return

ENTERPRISE DEVELOPMENT STAGE

IDEA/BUSINESS PLAN

STARTUP

EARLY PHASE

EXPANSION

MATURITY

Investment Ticket Size (USD '000)

\*Conversion rate = R\$2,40

0

25

50

100

200

300

500

1.000

2.000

5.000

10.000

**OMIDYAR NETWORK™**

Omidyar Network  
Active in Brazil since 2012  
3 impact investments in Brazil  
Domicile country: USA



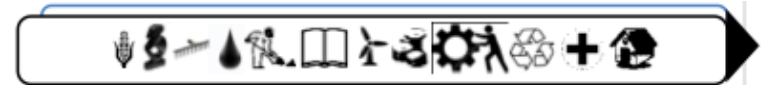
**LGT Venture Philanthropy**

LGT Venture Philanthropy  
Active in Brazil since 2009  
2 impact investments in Brazil  
Domicile country: Switzerland ★



**OIKO CREDIT**  
Investing in people

Oikocredit  
Active in Brazil since 2001  
21 impact investments in Brazil  
Domicile country: Netherlands ★



**IFC International Finance Corporation**  
World Bank Group

Inclusive Business Models Group (IFC)  
Active in Brazil since 2005  
32 impact investments in Brazil  
Domicile country: USA ★



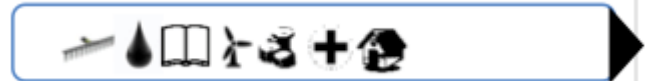
**DEVELOPING WORLD MARKETS**

Developing World Markets  
Active in Brazil since 2010  
2 impact investments in Brazil  
Domicile country: USA



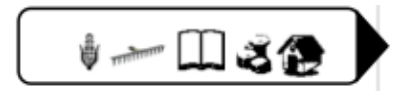
**BAMBOO FINANCE**

Bamboo Finance  
Active in Brazil since 2012  
1 impact investment in Brazil  
Domicile country: Switzerland



**IDB Opportunities for the Majority**

Opportunities for the Majority (IDB)  
Active in Brazil since 2010  
4 impact investments in Brazil  
Domicile country: USA ★



**FIRST**  
Impact Investing

FIRST  
Active in Brazil since 2014  
0 impact investments in Brazil  
Domicile country: Brazil



**SITAWI**  
FINANÇAS do BEM

SITAWI  
Active in Brazil since 2009  
15 impact investments in Brazil  
Domicile country: Brazil



**YUNUS socialbusiness**  
GLOBAL INITIATIVES

Yunus Social Business  
Active in Brazil since 2014  
0 impact investments in Brazil  
Domicile country: Germany ★



## LEGEND

### FINANCIAL INSTRUMENTS

- Debt
- Equity
- Donation
- With preview to start investments in 2014

★ International organizations with office in Brazil

### SECTOR FOCUS

- Agriculture
- Renewable energy
- Education
- Housing
- Health
- Water and sanitation
- Financial inclusion
- Technical assistance services
- Community development
- Artisanal
- Forestry
- Biodiversity conservation
- ICT
- Sustainable livelihoods
- Capacity building
- Pollution prevention and waste management
- Tourism
- Sustainability softwares
- All sectors

INVESTMENTS WITH EXPECTATION OF FINANCIAL RETURN

INVESTMENTS WITH EXPECTATION OF RECOVERING INVESTED CAPITAL

Produced by the Aspen Network of Development  
Entrepreneurs, LGT Venture Philanthropy, Quintessa  
Partners and University of St. Gallen © 2014.