



THE IMPACT INVESTING LANDSCAPE IN BRAZIL

TRENDS 2016 & 2017

October 2018

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Letter from the Diamond Sponsor

Despite Brazil being the country with the richest biodiversity in the world, impact investments targeting environmental conservation are limited. The three editions of “The Impact Investing Landscape in Latin America” reveal few investments in businesses that generate positive impact on the conservation of our natural heritage. Additionally, the complexity of the topic makes it difficult for it to be more effectively incorporated. It is therefore essential to showcase examples that generate positive impact in biodiversity conservation, so that the topic gains relevance in the strategic agenda of impact investors.

Since its creation in 1990, *Boticario Group Foundation* has contributed to knowledge generation and to preserving natural environments that are essential to quality of life and to the economy. The organization has already supported more than 1,500 actions and research projects across Brazil, and protects 11,000 hectares of Atlantic rainforest and savannah by way of two private nature reserves. The Foundation works to make nature an inspiration that can be part of the solution to diverse problems in society. Since working in defence of natural heritage is a significant challenge, the organization also looks to involve other sectors and players in the cause, so that nature conservation is prioritized in public policy and in business. Collaborating with this study is another important step for the Foundation in transforming Brazil’s biodiversity into a fundamental asset for socio-environmental businesses in the country.

Boticario Group Foundation

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INTRODUCTION

1

Introduction

It is a pleasure to share with you the 2018 edition of “The Impact Investing Landscape in Brazil”. In 2014 ANDE began the exercise of studying the industry in the country. The impact investing sector was growing and needed data to better inform specialists and interested parties. In 2016, in partnership with LAVCA, we broadened our scope to Latin America, but Brazil continued to be of great relevance to the industry, justifying a specific report on the country’s impact investing activity. In the third edition, this continues to be the case.

Since the first publication in 2014, much has changed in impact investing globally. Recent research suggests that the global market for impact investment continues to expand and mature, with increases seen in the value of assets under management, number of deals and total amount invested each yearⁱ.

The industry has also grown and matured in Brazil, with new local investors emerging, more organizations interested in getting involved in the topic, more entrepreneurs aligned with impact theses, and strengthening dialog with traditional investors, government and civil society.

Despite recent political and economic crises, Brazil seems to have consolidated its impact investing industry. The volume of assets under management, amount of capital invested and number of deals in the country have all increased when compared to previous editions of this study.

Brazil also has a significant number of local investors, which demonstrates the maturity and scale potential of the industry.

The need and the opportunity for impact investing in Brazil remain extremely relevant. The country has stagnated on the ranking of the UN’s Human Development Indexⁱⁱ, falling behind several Latin American neighbours. It also appears among the world’s ten most unequal countriesⁱⁱⁱ. Social indicators in areas such as education^{iv} and health^v have been below expected levels in recent years. Challenges exist in all spheres, whether mobility, financial inclusion, agriculture, biodiversity conservation or energy. At the same time, however, these numbers present a vast array of opportunities for entrepreneurs and investors to work on designing and investing in solutions that can positively change the country’s development over the coming years.

This new report provides data on impact investors active in Brazil, on impact investing activity in the country during 2016 and 2017 and on investors' expectations for 2018 and 2019. The study also presents a brief comparison among a subgroup of investors that responded to the research in this edition and the previous one. In this way we can highlight some interesting trends.

We are very pleased to see that Brazilian investors continue to play an important role in advancing the industry in the country. We also see the increasing interest and involvement of individuals, foundations, family offices, traditional PE/VC fund managers and institutional investors as reasons for optimism. We foresee that impact investing in the country will continue to grow, and we are



EXECUTIVE SUMMARY

2

Executive Summary

The highlights of this study include:

- Of the 33 respondents that have made impact investments in Brazil, 29 are currently active in the country¹. Of these, 12 have their headquarters in Brazil and 17 are international.
- Ten of the local investors reported the value of their assets under management (AUM) dedicated to impact investing, totaling \$343M.
- Debt (mostly convertible debt and traditional loans) and equity (mostly traditional equity) are the most used investment instruments among respondents.
- Seven investors made their first impact investments in Brazil during the 2016-2017 period. Four of these are based in Brazil.

- Based on deal data provided by 22 firms, 69 impact investment deals were made in 2016-2017, totaling \$131M, with a median ticket size of \$0.4M.
- Forty-nine percent of deals had a ticket size below \$0.25M, and 40% above \$1M.
- Two-thirds of the investments went to companies in the expansion/growth stage, while one third went to early stage companies. There were no investments reported for seed or incubator stage companies.
- Most active investors reported making co-investments as part of their investment strategy. Most commonly, they co-invest with impact investing funds.

33 RESPONDENTS THAT HAVE MADE IMPACT INVESTMENTS IN BRAZIL

29 ACTIVE IN THE COUNTRY

INFORMATION & COMMUNICATION TECHNOLOGY



HIGHEST NUMBER OF INVESTMENTS



1. See pg.14 for the definition of 'active' used in this study.

- Investors reported deals in 15 different sectors. The information and communication technology (ICT) sector received the highest number of investments and the greatest total value of capital invested. Education, health and biodiversity conservation were the next most frequent in terms of number of deals.
- Twenty of the 29 active investors have stated that they align their investment strategies with the Sustainable Development Goals. There is a clear concern for equality and climate change issues.
- There were eight exits reported by the study participants in 2016-2017. Exits were reported across six sectors, with housing and capacity development seeing the most (2 exits each). No exits were reported in Brazil in the previous edition of the study.
- Total fundraising expectations for 2018 and 2019 are \$190M (reported by 8 investors), and investors expect to make 176 impact investments in this time frame (reported by 15 investors).

HIGH NUMBER OF INVESTMENTS



EDUCATION



HEALTH



BIODIVERSITY
CONSERVATION

2018
2019

FUNDRAISING
EXPECTATIONS
ARE US\$ 190M

INVESTORS
EXPECT TO
MAKE 176 IMPACT
INVESTMENTS



METHODOLOGY

3

Methodology

The data used in this study was collected through a survey, designed by ANDE and LAVCA and distributed by LAVCA, between February and May 2018. The survey targeted impact investors active in Latin America, including investors based in the region and global investors. The survey focused on general investing practices, as well as transactions that took place specifically in 2016 and 2017.

For the purposes of this report, impact investors are defined as those who:²

- Make direct investments in companies and/or projects
- Have positive social or environmental impact as an explicit objective
- Have an expectation of a financial return
- Invest using any instrument, including debt, equity, quasi-equity, guarantees, or other

The criteria applied in this report deliberately exclude certain investments, narrowing the focus on specific segments of the impact investing industry. Project finance such as green bonds and direct investments made by Development Finance Institutions (DFIs) were excluded from this study. DFIs play a critical role in impact investing in the region, primarily through investments into funds, but the relatively large size of their direct deals would make it difficult to understand the segments that are the focus of this report.

The investors who participated in the survey are nonetheless diverse and include PE/VC fund managers, family offices, foundations, and non-profit organizations. While microfinance institutions (MFIs) themselves are excluded from the sample, fund managers who invest in MFIs are included.

2. This definition matches the definition that was used in the 2016 study, with one change: the removal of the minimum investment amount (previously \$25,000), so as to fully capture the diversity of ticket sizes present in impact investing activity in the region.

Defining the Brazilian Sample

Thirty-three of the investors that responded to the regional survey have made impact investments in Brazil at some point, and the analyses in this report draw on different sub-sets of these respondents as shown in the box below:

Throughout the report, the specific sample being used in each section is clearly indicated.

Where appropriate, the report also makes comparisons between the data for the Brazilian sample and that for the Latin American region as a whole.

29

Active investors

29 investors that made impact investments in Brazil in the period 2014-2017 and/or declared interest in making impact investments in Brazil in 2018-2019.



12

Local investors

12 active investors with headquarters in Brazil.



22

Deal data

22 investors that made impact investments in the period 2016-2017.



15

Comparison deal data

15 investors that provided deal data for the 2014-2015 and 2016-2017 reports and made an investment into Brazil in at least one of those years.



DATA ANALYSIS

4.1 Overview of Investors

4.2 Fundraising

4.3 Capital Deployed

Investments by sector

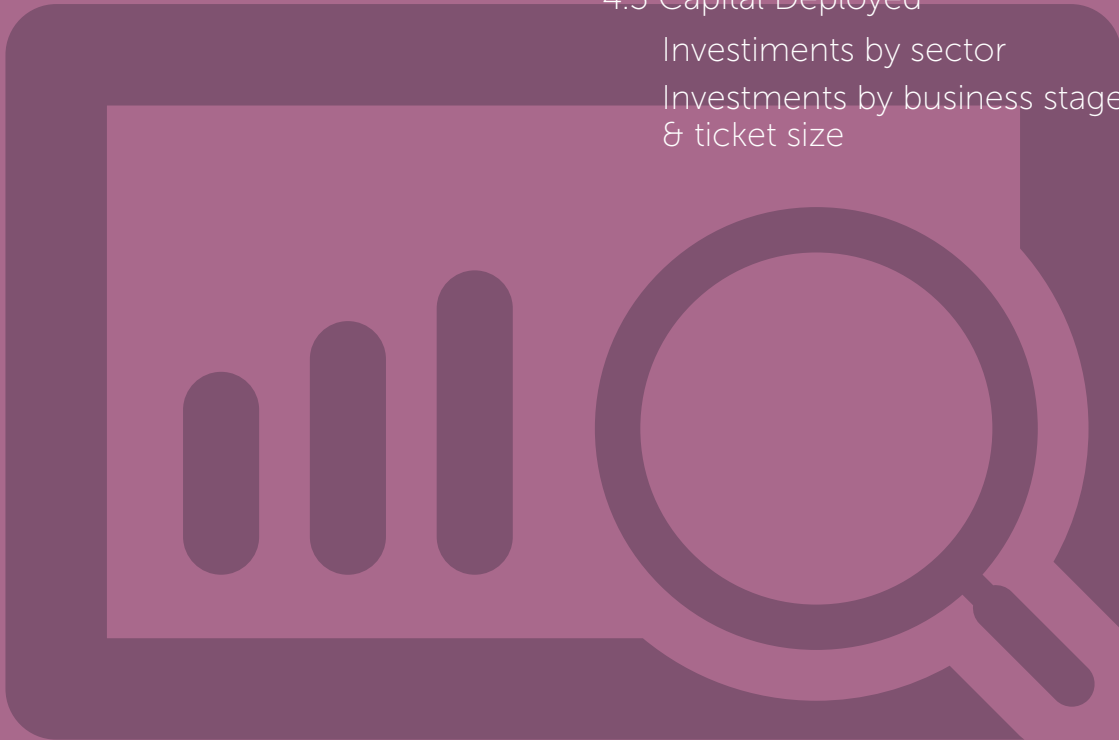
Investments by business stage
& ticket size

4.4 Exits

4.5 Impact Measurement

Sustainable Development Goals

4.6 Challenges & Expectations



4.1 Overview of Investors

Of the 29 active investors, 12 are headquartered in Brazil and three in other countries in Latin America. Beyond the region, eight are headquartered in North America and six in Europe.

Figure 1 • Headquarter Countries (where n >1)

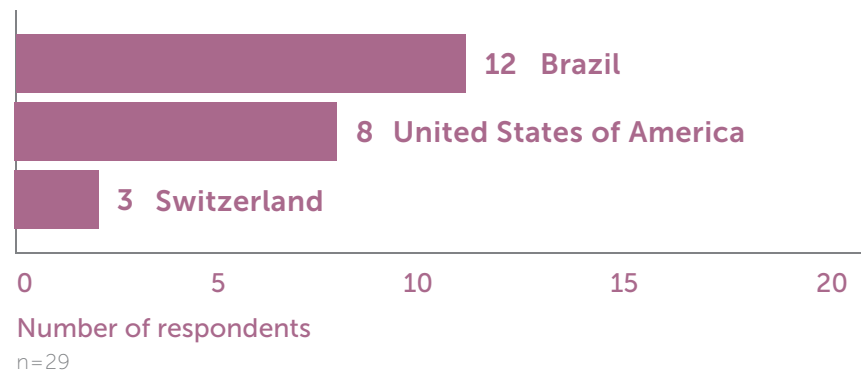


Table 1 shows that the majority of the survey participants consider themselves as impact investors and only about a third as private equity/venture capital fund managers. Six firms describe themselves only as impact investors.

Table 1 • Organization Self-Identification

Organization type	Number of Firms	% of sample
Impact Investor	21	72%
VC/PE Fund Manager	9	31%
Other	3	10%
Foundation	3	10%
Family Office	2	7%
Business Incubator / Accelerator	2	7%

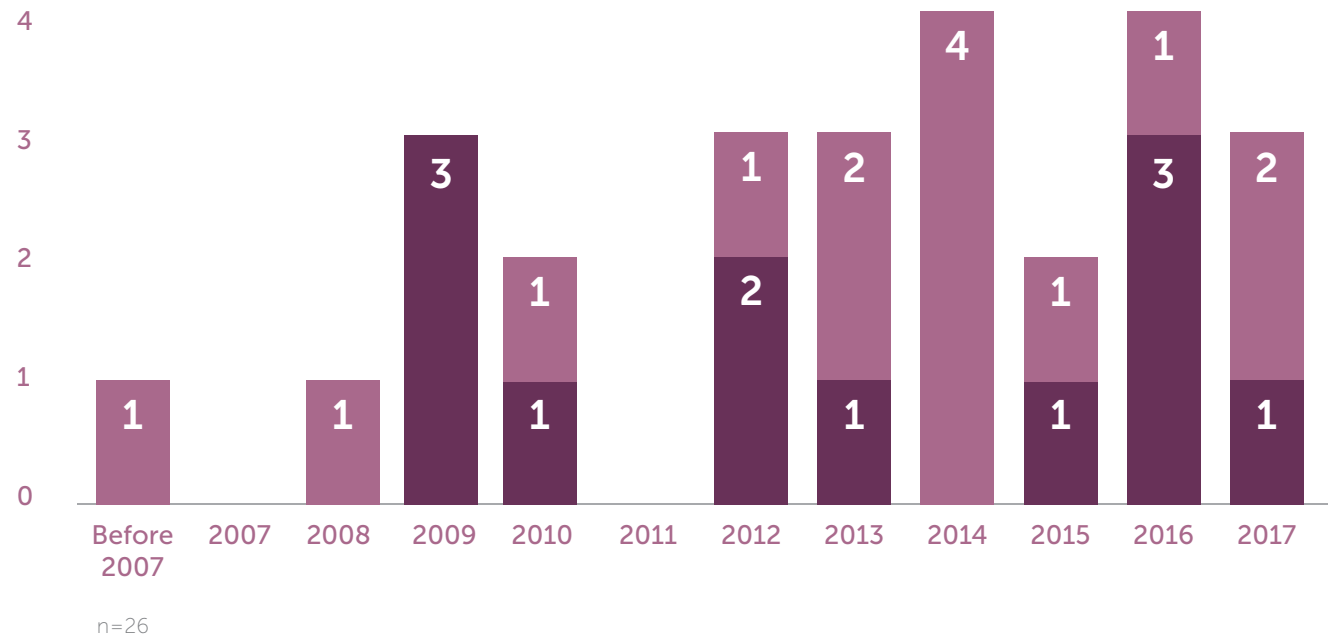
n=29

Note: 10 respondents selected more than one type

Almost all respondents made their first impact investment in Brazil after 2007, when the term “impact investing” was coined. The pace of new firms making impact investments has remained fairly consistent since 2012, ranging from two to four new entrants per year.

Figure 2 • Year of First Impact Investment in Brazil, by Headquarters Location

- Brazil
- Outside Brazil



Local investors reported total AUM for impact investing of \$343M, with a median value of \$15M. This total represents approximately 25% of the total AUM reported for impact investing by investors based in all of Latin America (\$1.4Bn).

In addition to the AUM of local investors, 14 international investors active in Brazil reported total AUM for impact investing in Latin America of \$2.1B. While this total relates to the whole region, we can reasonably expect that a part of this amount would be available for investment in Brazil.

Almost all investors who invest in Brazil do not focus on investing in MFIs³. In the regional data, when MFI investors are excluded, Brazil is one of the top three countries in terms of AUM for impact investing in Latin America.

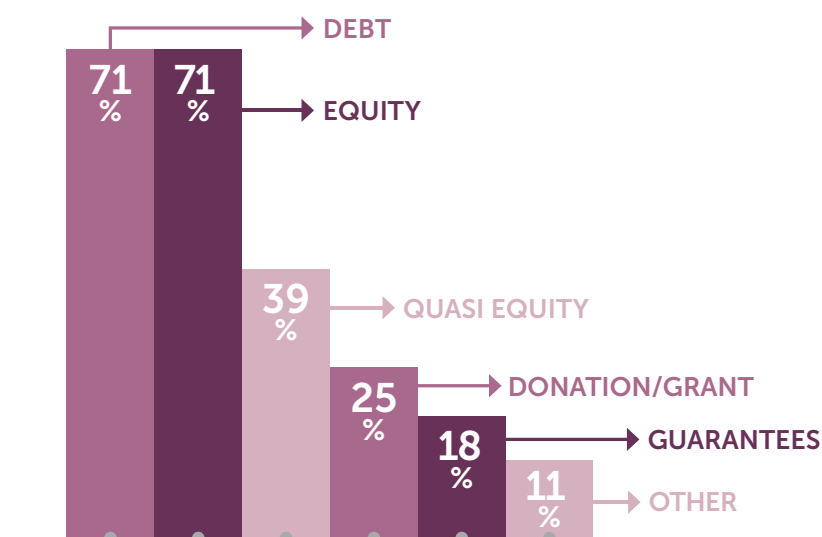
3. Investors who focus on microfinance institutions (MFIs) manage more capital and invest with bigger ticket sizes - including some deals larger than \$100M - than investors that do not focus on MFIs, in part because the microfinance industry globally took off earlier than the sector for impact investing more generally. In the Latin America regional report, we separated the data for non-MFI investments, allowing for a clearer picture of what is happening in other sectors.

Financial Instruments

When asked about the type of equity and debt instruments used, over 70% of investors active in Brazil reported using debt and/or equity, followed by 39% using quasi-equity.

Most investors make use of a combination of instruments, and 25% also use donations to complement their investing activity.

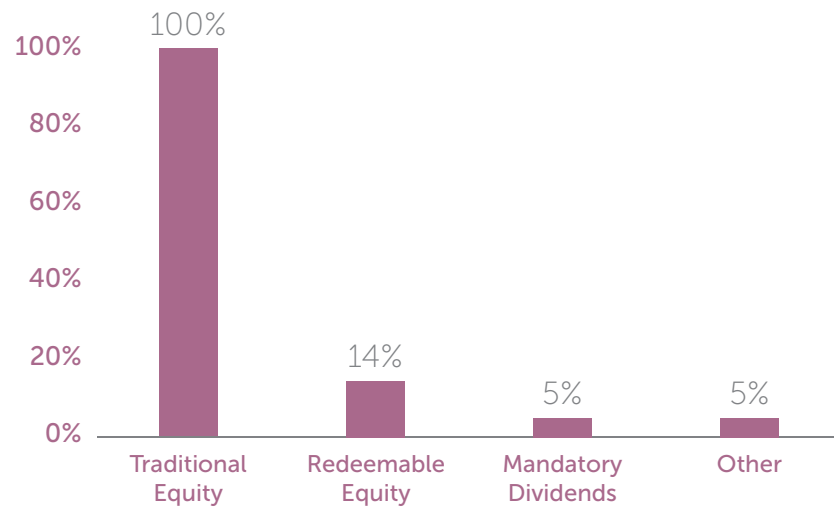
Figure 3 • Instruments Used



n=28

The graph below shows that among equity investment options, there is a clear preference for traditional equity (used by 100% of firms that make equity investments), followed by redeemable equity (used by just over 10%).

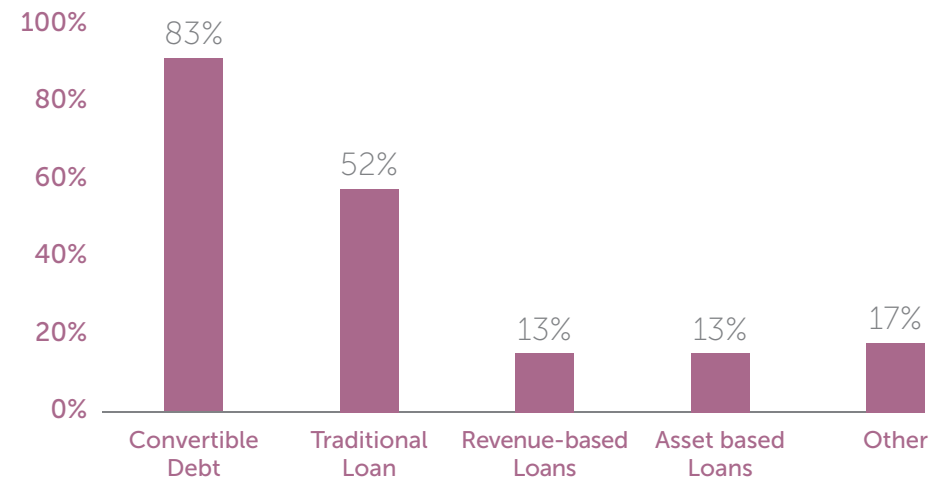
Figure 4 • Types of Equity



n=21
(Respondents were able to select more than one type)

When debt was chosen, two types stand out: convertible debt (83%) and traditional loans (52%) are the most used loan types for impact investing in Brazil.

Figure 5 • Types of Debt



n=23
(Respondents were able to select more than one type)

4.2 Fundraising

A majority of investors (20 of 24 that responded to the question) reported that they make co-investments. Of those, about half typically co-invest with impact investing funds and just under half co-invest with VC/PE funds (Tab.2).

Table 2 • Types of Co-Investors

Who do you typically co-invest with?	Number of Firms	% of total
Impact Investing Funds	11	55%
VC/PE Funds	9	45%
Family Offices	8	40%
Foundations	7	35%
DFIs	6	30%
Other	5	25%

N=20 (12 respondents selected more than one type)

Looking at the types of capital raised by local investors, nearly all received capital from investors that expect financial returns and roughly half use their own resources for investment. Only two received philanthropic capital with no expectation of financial returns.

Table 3 • Types of Capital Raised

Type of capital	Number of Firms
Invested resources (expectation of financial returns)	10
Own resources	5
Donated/philanthropic resources (no expectation of financial returns)	2

n=11

Looking at the kinds of invested resources reported by local firms, the most common were high net-worth individuals (HNWI) / family offices (7 of 10 respondents) and DFIs (3). Additionally, two reported receiving capital from foundations and one from banks.

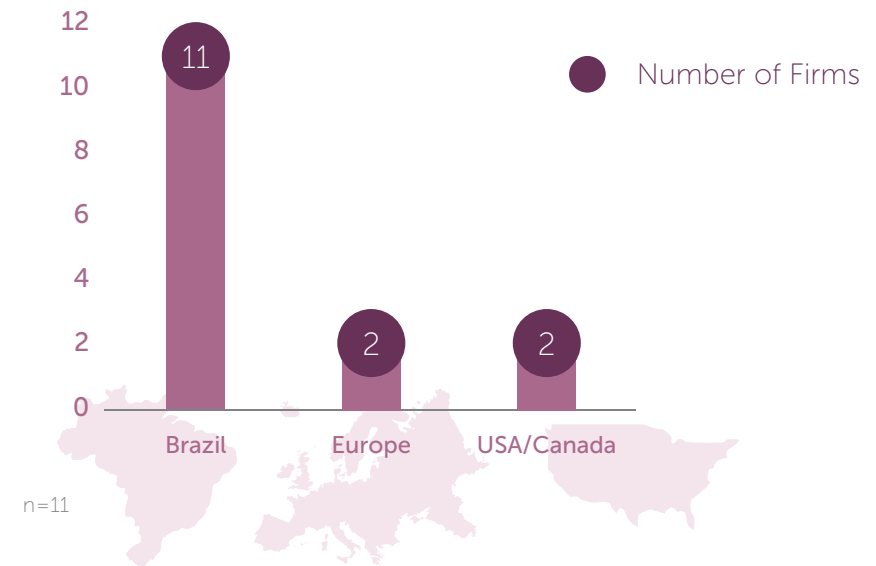
Table 4 • Sources of Invested Resources

Source	Número de empresas
HNWI/Family Offices	7
DFI	3
Foundations	2
Banks	1
Other	4

n=10

Of the 11 local investors that reported the geographic origin of their capital, all received capital from Brazil. Two investors received capital from Europe, and the same number from the USA/Canada. This is quite different from the Latin American regional data, where at least half of investors received capital from the USA/Canada and/or Europe.

Figure 6 • Geographic Origin of Capital Raised



4.3 Capital Deployed

Capital deployed by respondents in 2016 and 2017 totaled \$131M in 69 deals. The median reported deal size was \$0.38M.

















Investments by sector

The sector that saw the most deals was information and communication technology (ICT), with 23% of all deals, followed by education (14%) and health (10%). Looking at the total amount invested, ICT again appears in first place with \$54M, followed by sustainable livelihoods (\$26m) and financial inclusion and energy (\$10m each).

The prevalence of ICT also appeared in the data for Latin America, but the other sectors that received most investment in the broader region (agriculture and microfinance) do not show the same prevalence in Brazil.

Investments in Brazil were made in 15 out of the 16 sectors specified in the study, making it the jointly most diverse country in Latin America in terms of investment sectors, level with Mexico.

Table 5 • Number of Deals and Total Invested by Impact Sector

Sector	Total Invested (US\$ M)	Number of Deals
 ICT	\$54	16
 Education	\$7	10
 Health	\$4	7
 Biodiversity Conservation	<\$1	6
 Sustainable Livelihoods	\$26	5
 Housing	\$2	5
 Financial Inclusion	\$10	3
 Agriculture	\$9	3
 Renewable Energy	\$6	3
 Energy	\$10	1
 Water and Sanitation	\$2	1
 Forestry	<\$1	1
 Pollution Prevention & Waste Management	<\$1	1
 Technical Assistance Services	<\$1	1
 Community Development	<\$1	1
 Others / Undisclosed	\$2	5
TOTAL	\$131	69

While investments into MFIs accounted for 54% of the total amount invested in the Latin American region, no such deals were reported in Brazil. When MFI deals are excluded from the regional data, Brazil appears in second place in the region, behind only Mexico, in terms of capital deployed and number of deals.

Investments by Business Stage & Ticket Size

Investors reported that 70% of the investments were made into companies in the expansion or growth stage, compared to 30% in early-stage companies. No investment deals were reported in the seed/incubator stage. The median investment size in expansion or growth stage businesses (\$1.4M) is six times higher than that in early-stage businesses (\$0.2M).

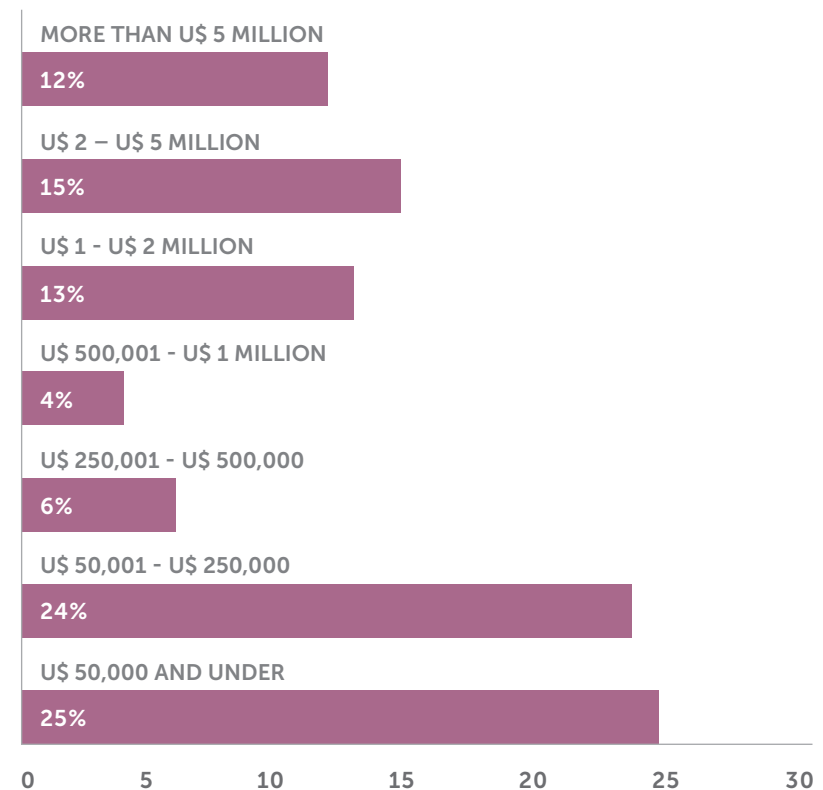
Table 6 • Number of Deals and Total Invested by Business Stage

Stage	Total Invested (US\$ M)	Number of Deals
Expansion/Growth Stage	\$123	48
Early Stage	\$8	21
Incubator/Seed Stage	\$0	0
Total	\$131	69

The survey participants reported that the median ticket size was \$0.4M. Figure 7 shows the distribution of ticket sizes. Forty percent of deals were above \$1M, followed by deals between \$50,000 and \$250,000 and deals less than \$50,000 (each making up 25% of all deal sizes).

The figure shows a gap in the impact investing market for deals ranging between \$250,000 and \$1M, which is also seen in the private investment market. This gap does not appear in the Latin American market, where the majority of deals were between \$250,000 and \$1M.

Figure 7 • Ticket Size Distribution



2016-2017 vs 2014-2015 Comparison

Based on the subsample of 15 investors that provided investment data for 2014-2015 and 2016-2017, and made an investment into Brazil in at least one of those years, the following trends were identified:

01



The total number of deals **increased by 42%**. **Half of the investors reported making more deals in 2016-2017**, with 14% reporting fewer deals.

02



The aggregate amount invested **increased by 56%**. **Half of the investors reported a higher total amount invested in 2016-2017**, with the other half reporting a lower total amount.

03



The proportion of deals in the expansion/growth stage **increased from 25% to 67%**.

4.4 Exits

Unlike in previous years, when no exits were reported, Brazil had 8 exits between 2016 and 2017, which resulted in total proceeds of \$0.6M.

Table 7 • Exit Data Summary

 **TOTAL EXITS**
2016-2017 | **8**

TOTAL PROCEEDS
FROM EXITS | **\$ 0.6M** 







Overall, investors reported exits in six different sectors in 2016-2017. The sectors with the most reported exits were housing and capacity building, each with two.

The most common exit mechanism was debt repayment, accounting for six of the exits.

Table 8 • Exit Mechanisms

Exit Mechanism	Number of Exits
Debt repayment	6
Strategic Sale	1
Other	1
Total	8

Table 9 • Exit Data by Sector

Sector	Number of Exits
 Housing	2
 Capacity Building	2
 Biodiversity Conservation	1
 Education	1
 Community Development	1
 Health	1

4.5 Impact Measurement

Ninety-six percent of respondents said their organizations measure social/environmental impact of investees (20 out of 21 that responded to the question), although the methods and period of measurement vary. There is a clear preference for proprietary tools at all stages of the investment process.

Table 10 • Impact Measurement Tools Used per Stage of Investment Process

	Due Diligence	Investment Period	Post-Investment Period
IRIS	3	4	4
GIIRS	3	6	5
Proprietary	17	18	12
Other	1	0	0

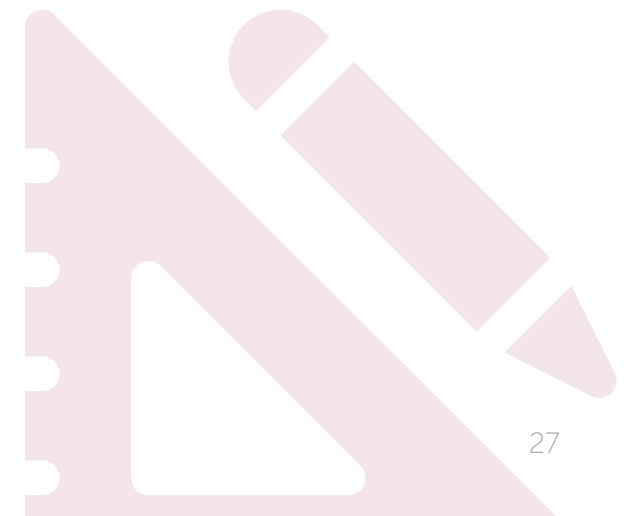
n=20

In most of the cases, impact measurement and reporting are paid for by the fund manager, although in some cases the entrepreneurs or investors pay.

Table 11 • Paying for Impact Measurement

	Number of Firms
Fund Manager	13
Investor	4
Entrepreneur	4
Other	4

n=19



Sustainable Development Goals

Out of 24 respondents to this question, 20 have aligned their impact investing strategy with the Sustainable Development Goals (SDGs).

The alignment with the SDGs “No Poverty”, “Reduced Inequalities”, “Decent Work and Economic Growth”, “Quality Education” and “Gender Equality”, which all appeared among the top 10, is evidence of investors’ concern with equality.

In addition, there is interest in working with climate issues, with the SDGs “Affordable and Clean Energy”, “Climate Action” and “Responsible Consumption and Production” also appearing frequently.

Both trends are also seen in the data for the Latin American respondents.

Table 12 • Investors Aligned to each SDG

SDG	% of sample
SDG 1 • No Poverty	58%
SDG 10 • Reduced Inequality	58%
SDG 8 • Decent Work and Economic Growth	54%
SDG 7 • Affordable and Clean Energy	50%
SDG 13 • Climate Action	50%
SDG 4 • Quality Education	42%
SDG 5 • Gender Equality	42%
SDG 9 • Industry, Innovation and Infrastructure	42%
SDG 12 • Responsible Consumption and Production	42%
SDG 6 • Clean Water and Sanitation	33%
SDG 11 • Sustainable Cities and Communities	33%
SDG 17 • Partnerships to achieve the Goal	33%
SDG 3 • Good Health	29%
SDG 16 • Peace and Justice Strong Institutions	25%
SDG 2 • Zero Hunger	17%
SDG 15 • Life on Land	17%
SDG 14 • Life Below Water	8%

n=24

4.5 Challenges & Expectations

Among the 16 respondents who shared their current challenges, the most commonly cited were “Fundraising/Availability of Capital” and “Development of ecosystem players” (6 mentions each), followed by “Appropriate investment vehicle” (4). The same three challenges were the most commonly selected by investors for the Latin American region as a whole.

Eight local investors are planning to fundraise in 2018 and twelve in 2019, totaling \$190M.

Based on responses from 14 investors, total investment expectations for 2018-2019 are \$213m. This would represent a considerable increase from the total invested in 2016-2017.

Figure 8 • Top Challenges









n=16

Table 13 • Expected Investments in 2018-2019 by Headquarters Location

	Number of responses	HQ in Brazil	HQ Outside Brazil	TOTAL
Amount of capital to be invested (US\$M)	14	\$ 143	\$ 71	\$ 213
Number of investments	15	91	85	176

The sectors that most respondents plan to prioritize in 2018 are financial inclusion (55%), agriculture (38%), education (34%), renewable energy (34%), and health (31%).

Table 14 • Top 6 Priority Sectors for 2018

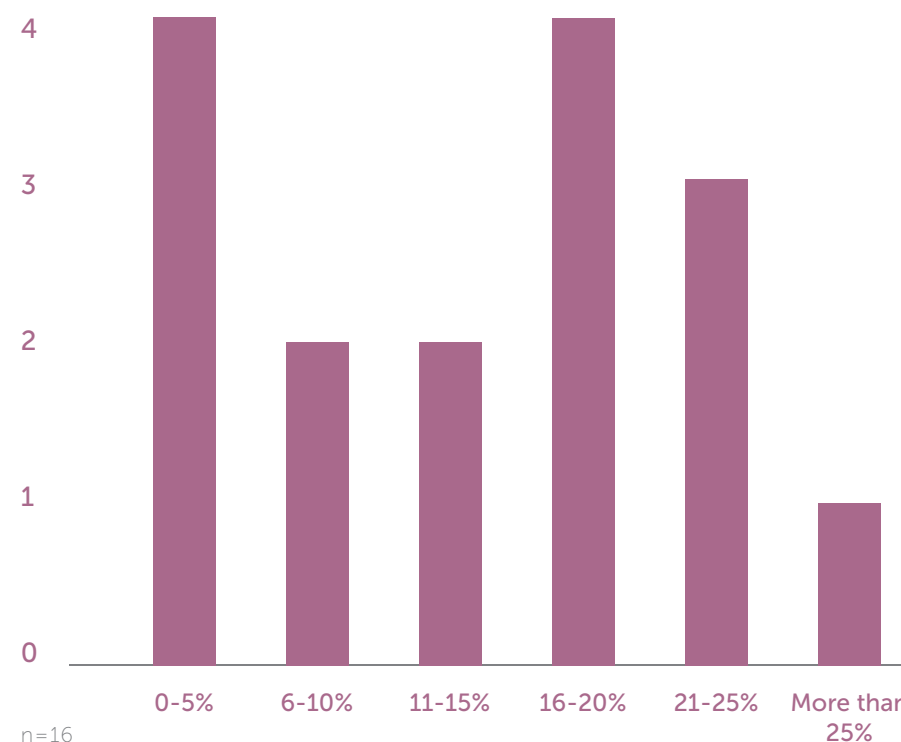
What investment sectors will be given priority in the next 12 months?	Number of Firms	% of sample
 Financial Inclusion	16	55%
 Agriculture	11	38%
 Education	10	34%
 Renewable Energy	10	34%
 Health	9	31%
 Energy	7	24%


n=29

4. At the time of publishing, the central bank base rate in Brazil is 6.4%, and the annual inflation rate 4.4%

Among the 16 investors that reported annual return expectations specifically for impact investments in Brazil, responses were diverse. One-quarter expect net annual returns within the range of 0-5%, while 50% expect returns above 16%⁴.

Figure 9 • Net Annual Return Expectations





CONCLUSIONS & RECOMMENDATIONS

5

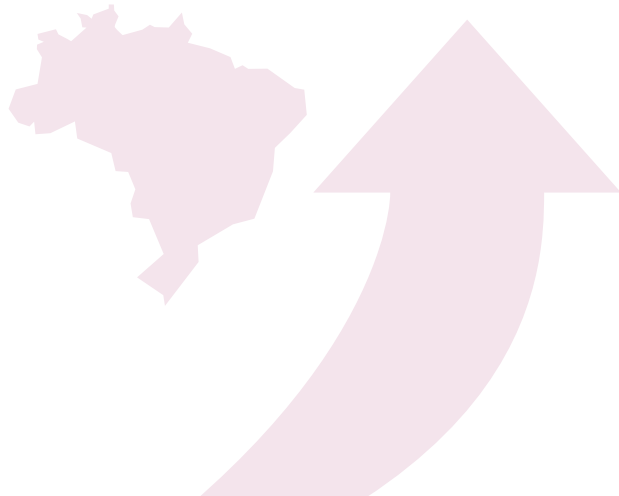
Conclusions & Recommendations

In spite of the challenging economic and political situation in Brazil in 2016-2017, impact investing in the country appears to have been fairly resilient, based on the following data:

- Seven investors made their first impact investment in Brazil during 2016-2017, with four of these being Brazil-based.
- Investors that reported deals in both 2014-2015 and 2016-2017 invested more capital in more deals than in the previous period.

Impact investing is also relatively diverse in Brazil, with a large number of sectors receiving investments in 2016-2017.

On the other hand, impact investing still represents a small part of the Brazilian capital markets. The total invested in private equity & venture capital in Brazil in 2016-2017 was \$6.8B, across 332 deals, according to industry research¹. The size of the overall PE/VC market and the relatively high levels of socioeconomic inequality in Brazil suggest that there is considerable scope for impact investing in the country to grow further. However, for the sector to realize this potential, significant challenges remain. The challenges most commonly cited by investors relate to fundraising, ecosystem players and appropriate investment vehicles. Additionally, the high concentration of deals with ticket sizes below \$250,000 and above \$1m risks leaving those start-up impact businesses looking for resources in between these extremes and lacking access to capital.



1. <https://exame.abril.com.br/economia/abvcap-investimento-do-setor-de-private-equity-somou-r-152-bi-em-2017/>(exchange rate used: US\$1 = R\$3,90)

Given this scenario, and the tentative signs of a recovery in the general macroeconomic situation in Brazil, investors and those that support the field may consider the following recommendations for action:



Increased outreach and dialogue with more traditional investors in the financial markets, to open up new possibilities for fundraising and co-investing. As the more mature funds start to see exits from their equity investments, this dialogue should become easier, making the potential for financial gains clearer to more commercially-minded investors.



Increased outreach and dialogue with philanthropic investors. There is growing recognition globally that philanthropic capital can be a useful resource in impact investing, with philanthropic investors often (though not always) willing to accept a combination of more risk, lower returns and/or longer payback periods. Among the investors active in Brazil mapped by this study, only three identify themselves as a “foundation”, and only one of these is local. A small number of foundations and institutes in Brazil have begun experimenting with making impact investments directly into start-ups, complemented by research and discussion on the legal, financial and operational aspects. Expanding these pilots could make an important contribution to increasing the flow of capital to seed- and early-stage businesses. Philanthropic investors should also be encouraged to consider investing in impact investing funds to help diversify the sources of capital available to fund managers.



Exploring and testing new fund models using more diverse financial instruments and combining different investor profiles. As an example, collaborations are emerging between specialist credit analysts and impact investors to create funds of receivables. New legislation governing platforms for crowd-equity and crowd-lending provides opportunities for experimenting with these tools as a way to complement existing resources available for impact investing. These initiatives will require spaces for dialogue and co-creation between organizations from different sectors with different perspectives on impact, risk, liquidity and timespan.

PARTICIPATING INVESTORS



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The following list shows those investors that participated in this survey and that agreed to having their name published in this report.

Accion Venture Lab

Avina

Bamboo Finance

Bemtevi Investimento social

Creation Investments Capital Management, LLC

Din4mo

Ecoenterprises Fund

GAG Investimentos

Kaeté Investimentos

LGT Impact

Media Development Investment Fund

Moringa Partnership

MOV Investimentos

NESsT

Oikocredit

Omidyar Network

Performa Investimentos

Positive Ventures

Provence Capital

Quona Capital

Rise Ventures

SITAWI

TriLInc global LLC

Vox Capital

WTT - World transforming technologies

Yunus Social Business

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