FIIMP

Our learning journey in Social Finance and Impact Business

For foundations and institutes that want to learn about, support and invest in this new ecosystem

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PROMOTION
FIIMP – Foundations & Institutes for Impact

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OUR JOURNEY

1.

THE FIRST STEPS

How can foundations and institutes invest in social and environmental impact businesses? What paths are available and what precautions must we take? How can we monitor the social impact of the investments? Inspired by the Brazilian Social Finance Task Force, we brought together 22 foundations and institutes – corporate, family-led and independent – to answer these and other questions and to learn together, thus creating the FIIMP – Foundations & Institutes for Impact.

Moving from theory to practice throughout 2017 and continuing into 2018, together we have made investments in impact businesses with the support of 3 intermediaries, experiencing every stage of the process. This experience has brought us two important discoveries. Firstly, there is a world of possibilities for those who, like us, wish to navigate towards the future of impact business. Secondly, an ecosystem is being created with the belief that business can help to solve social and environmental problems through market mechanisms, using sustainable products and services and – we hope – achieving financial returns.

To share our learning, this publication shows the steps of the process through which the organizations participating in the FIIMP passed in 2017, and answers many questions that can support your journey as an impact investor.

We want to tell this story so that other foundations and institutes understand the subject in a practical and pragmatic way, clarifying the main doubts so that you may securely add impact investments to your existing allocation of funds.

We invite you to embark on this journey with us and to deep dive into the topics addressed by accessing the links for more information throughout the text. We have also provided a list of suggested further reading, as there is a vast array of literature about how foundations and institutes can put impact investing into practice.

> "By working together, we gained more confidence to take risks relating to the investment process, and we have been able to show our boards that investing in impact business is possible, that the process is objective and that it can be committed to social impact and financial success."
>
> ***Ana Maria Drummond***
> ***(Childhood Brasil)***

Mapping out the route

Our goals with this experience were:

— Encouraging foundations and institutes to direct a percentage of their investments and donations to the development of social financial and impact business, increasing the amount of capital available.

— Trying out the application of different social finance mechanisms in a practical and collaborative way.

— Tracking and systematizing the experience, to ensure the learning of the group.

— Testing financial mechanisms that are appropriate in the context of Brazilian foundations and institutes.

— Experimenting with support strategies for social and environmental projects using returnable funds.

— Increasing the knowledge of philanthropic organizations with little background in impact investing.

— Promoting and working with experienced intermediary organizations that could accelerate the group's learning.

— Expanding the range of approaches used by foundations and institutes, above all in attracting other investors to businesses that solve social problems.

— Strengthening the pipeline of impact businesses in Brazil.

2.

OUR

JOURNEY

Coming together to learn, tracking and understanding the results of investments in impact businesses, trying out different financial instruments – these were the objectives of the group formed by 22 foundations and institutes to create the FIIMP (Foundations and Institutes for Impact) in 2016, inspired by the **Brazilian Social Finance Task Force's**[1] Innovation Lab.

Financial investment in impact businesses is a **new concept** to the managers of foundations and institutes, and there are many questions about the topic. In Brazil there is no specific legal or tax structure to determine what an impact business is. The Social Finance Task Force therefore published a Charter of Principles in 2015, defining four criteria that aim to clarify the concept and establish parameters for what **impact businesses** are. According to this definition, an impact business has an explicit purpose to **generate positive social and/or environmental impact**, uses market logic that allows it to generate its **own revenue**, has a **governance** structure that considers the interests of investors, clients and the community, and regularly measures and **evaluates its impact.**

Impact investing consists of directing public or private capital – loans, hiring, investment – via financial instruments to businesses that are committed to generating social or environmental impact and financial returns.

Learning how to make better impact investments, what is and is not allowed by the statutes of institutes and foundations and how to obtain financial returns and social impact were some of our group's goals throughout this journey, which is still in progress! Although we have completed one year of investment, we intend to keep following the progress of the invested businesses, learning more and more about the subject every day.

1 The Social Finance Task Force – A movement created to identify, connect and support organizations and strategic agendas to strengthen the field of social finance and impact business in Brazil. In October 2015 the Task Force launched 15 recommendations to advance the field, with goals for the year 2020. Click to find out more (in Portuguese): <**forcatarefafinancassociais.org.br**>

HOW TO INVEST IN IMPACT BUSINESS

There are many ways institutes and foundations can support businesses: as donors to intermediary organizations or early-stage businesses, as investors, partners, capacity developers or disseminators of opportunities for impact business. There are also diverse financial instruments that can be chosen to invest in impact business, such as equity (shareholder participation), debt, guarantees, social impact bonds, as well as fixed income bonds, government bonds, venture capital or real assets.

Furthermore, investments can be made either **directly in social businesses** or **indirectly, via intermediaries**. When making investments directly, the designated capital is allocated in full to the business – increasing financial capacity – and there may be greater proximity to the entrepreneur and the possibility of closer involvement in the business, in addition to the possibility of negotiating clauses for monitoring results that are tailor-made to your organization. On the other hand, the organization making the investment will need internal structures with the competencies, skills, expertise and time to manage the whole investment process.

Where investment is made via intermediaries there is expertise and specific knowledge in supporting impact businesses, increasing the capacity for generating positive impact. There is a complete approach to the needs of the business, increasing profitability and return on investment, and lower costs for monitoring results. On the other hand there are the fees charged by the intermediary, impacting the final amount received by the businesses themselves, and it is still necessary to evaluate the investment product being offered and the organization and people managing it.

OUR INVESTMENTS AND LEARNING

Through the FIIMP we have tried four models of investment, one being direct investment and the other three (representing the majority of the capital) via indirect approaches. This is because, by promoting these intermediaries, we believe that we are also contributing to **strengthening more players in the ecosystem**. Among the many available options, we tried three different financial instruments, with three intermediaries: SITAWI Finance for Good, Bemtevi and Din4mo Ventures.

In the first case, with SITAWI as the intermediary, the impact business chosen works in the **Education sector**[2] and the instrument chosen is a loan guarantee. Through the FIIMP donation, SITAWI **aimed to structure the first Social-Environmental Loan Guarantee** for an impact business in Brazil. In the second case the intermediary was Din4mo, and the business from the health sector received investment in the form of an instrument known as convertible debt, via the Broota platform. In the third case the investment was made directly into the business (from the housing sector), also through convertible debt using the Broota platform. In the fourth case, the intermediary was Bemtevi, investing in several business through debt instruments.

2 Given that the investment had not been finalized at the time of publication, we were asked not to mention the name of the business.

> “The FIIMP arrived just as we were adjusting our strategy to expand our social innovation work. Trying out an impact investment was what we needed, but we didn't feel ready to take such a big leap alone. We believe that this collaboratively designed path has strengthened us, brought us knowledge of other instruments and other players, and made it easier to map the legal boundaries that come with this innovation for those who want to work in the social finance and impact business ecosystem. Together, we can do so much more!”
>
> ***Flávia Vianna***
> ***(Oi Futuro)***

All of these cases have been detailed in the section **Embarking on The Journey: The FIIMP investments.**

Although the FIIMP is still a work in progress, many questions have been answered – and others have appeared – along our journey. We discovered, for example, that before making any impact investment, an institute or foundation must pay attention to the relevant legal matters, starting by reading its own statutes to understand what is permitted. Where there are gaps, these must be discussed with legal departments or attorney offices that specialize in these matters. We have also learnt that choosing which financial instrument to use is a question of balance between risk, financial return and desired social/environmental impact, which may vary from one institution to another. In addition, the desired maturity of supported businesses and the purpose of the usage of funds may also be key elements when choosing the right instrument.

At the end of this journey in 2018, we will be able to evaluate the results of each investment more precisely, both the financial and impact components. However we want to share what we have learnt up to this point, so that more foundations and institutes can join us and contribute to solving the most serious social and environmental challenges in our country. **We invite you and your organization to come aboard with us for this journey!**

> “Taking part in the FIIMP has given us the opportunity to invest using instruments that we were not ready to undertake by ourselves. It has been an opportunity to learn by exchanging experiences with organizations that are very different, but share the same willingness to learn”
>
> ***Mariana Hermanny***
> ***(Instituto Ayrton Senna)***

3.

BEGINNING THE JOURNEY

Investing in impact business has the potential to support foundations and institutes in pursuit of their mission. Impact investments can serve as an additional way for individual donors, families, foundations and other institutions to mobilize more capital – philanthropic and otherwise – to leverage social welfare or environmental conservation outcomes.

Impact investing is thus a way for institutions and foundations of all sizes to help for-profit and non- profit organizations to obtain the necessary capital to innovate, grow and scale up existing solutions or launch new operating models.

This leverage, together with the belief that certain business models can solve social and environmental problems with scalable solutions, is not a silver bullet. It does however offer a complementary (and perhaps necessary) strategy for addressing the complex social and environmental challenges that our society faces, in addition to donations to civil society organizations.

For example, a foundation that works to improve health systems could invest in new diagnosis solutions, while an organization that tackles climate change and its causes my invest in new solutions or technologies in renewable energy. Through such investments, a philanthropic organization contributes to social transformation and potentially can attract additional investors beyond philanthropists, governments and individuals.

When we refer to "impact investing" we mean the financing of impact businesses through instruments such as loans or purchasing shareholder equity, in such a way that the entrepreneur(s) of the business, in return for receiving this resource, is expected to present results to the investors, whether financial return or increased shareholding value, without losing sight of the expected social or environmental results.

What is an impact business?

In Brazil there is currently no exclusive legal or tax structure that determines what an impact business is. In 2015, the Social Finance Task Force therefore published a Charter of Principles[3] in which it defined four criteria that help to establish parameters for the concept of impact businesses.

An impact business can thus be defined as follows:

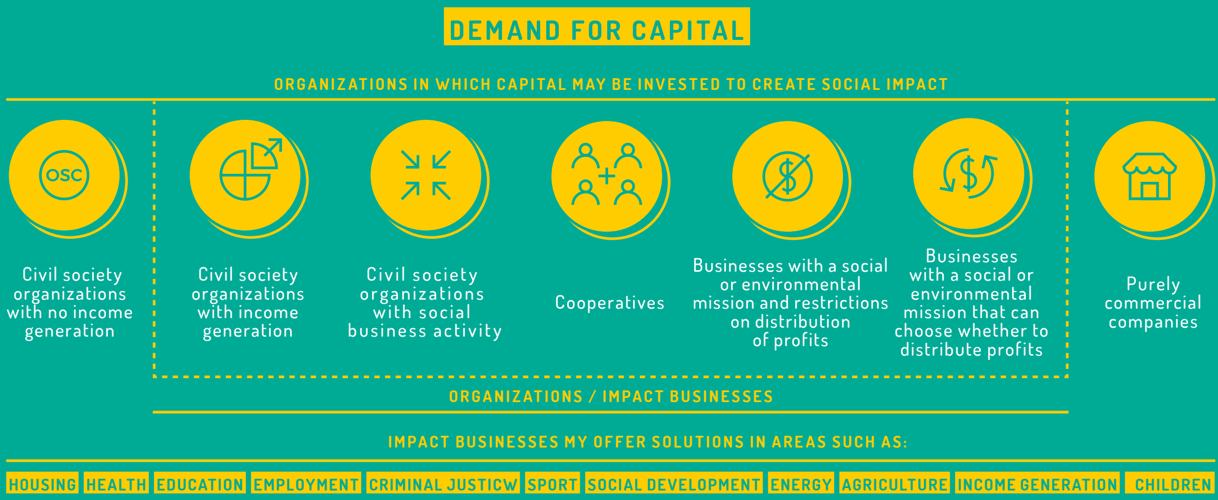
1. Having an explicit purpose to create and scale-up positive social and/or environmental impact.

2. Using market mechanisms, offering products or services to generate its own revenue and financial sustainability.

3. Having governance structures and processes that simultaneously take into account the interests of investors, customers and community.

4. Understanding, measuring and regularly evaluating its impact.

In this way, impact investments can be made in different types of organization, as shown in the box below. Throughout this guide, when talking about impact businesses we are referring to all of these organization types.



Fonte: ICE – Organizations in which capital may be invested to create social impact. The image illustrates and shows examples of organization types and solution areas.

3 (In Portuguese) http://forcatarefafinancassociais.org.br/wp-content/uploads/2015/10/Carta_Principios.pdf

WHAT ACTUALLY IS AN IMPACT INVESTMENT?

Impact investing consists of directing public or private capital to be allocated in impact businesses with a commitment to creating social/environmental impact and **financial performance**[4], using financial instruments such as loans, procurement or investments. It differs from philanthropy and traditional financing (donations) by combining a **commitment to social/environmental impact and the monitoring and measurement of this impact, with an expectation for financial returns.**

Financial return is often expected from this type of investment, as well as measurement of social and environmental transformation on the target groups of the invested businesses – referred to simply as "impact".

An impact investment thus offers capital to finance solutions provided by businesses to tackle challenges faced by society across a variety of sectors, such as access to basic services, housing, health, education, sustainable agriculture, renewable energy, environmental conservation, access to credit, data and voice connections, **etc.**[5].

This potential for financial return to the investor, in turn, opens up the possibility of generating more resources for the field of impact business / social business itself.

Capital committed to social/environmental impact: governments, individuals and private sector motivated to invest in or hire business models that strive to improve quality of life or the environment, while guaranteeing financial returns (which may be reinvested in the business or returned to investors).

Impact monitoring and measurement: the actions undertaken must regularly prove their impact on social and/or environmental indicators.

"Money alone is not enough, entrepreneurs also need technical assistance and market access to pass the 'valley of death'."

Cristieni Castilhos
(Fundação Lemann)

4 Concept based on "Social Finance: Solutions for social and environmental challenges" – October 2015, published by the Social Finance Task Force. Independently of the organization's legal constitution (whether an association with income generation, association with business activities where revenue is reinvested or a company), they differ from civil society organizations that depend only on donations and from traditional companies that only seek profit..

5 The social & environmental impact business mapping carried out by Pipe Social shows a variety of businesses working in different sectors and in some of these challenges facing Brazil. See the mapping at **http://pipe.social/mapa2017**

HOW DID THE FIIMP EMERGE AND WHAT IS OUR PURPOSE?

The Social Finance Task Force has been working intensely since 2014 to strengthen and empower the ecosystem for social finance and impact business in our country. The **FIIMP**, emerged from this movement in 2016 comprising **22 foundations and institutes** who had as their goal "**to come together to learn, monitor and understand the results of impact investments, trying out different financial instruments**". On this journey we sought to develop a broader view of the ecosystem, choosing intermediaries who would support the businesses in management, governance, capital mobilization, impact evaluation and networking.

To structure the group and plan our actions, we organized a workshop in October 2016 with the support of BMW Foundation: ***Venture Philanthropy and Impact Investing – A BMW Foundation Workshop for Brazilian Foundations and Institutes***[6].

Since then we have divided ourselves into working groups (nuclei) and organized meetings every three months.

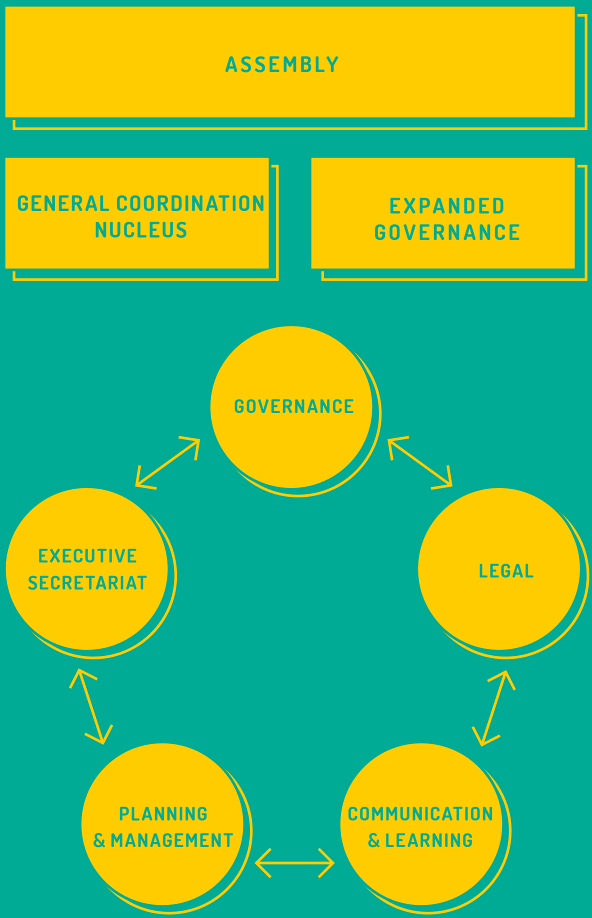
Our governance is organized according to principles of **collaboration and consensus**, having an Assembly (open to any member), a Coordination Nucleus and an Expanded Governance Group. The nuclei are made up of representatives of the organizations involved in the initiative, who share the tasks set previously by the overall group.

"The nuclei have worked well. People grouped themselves by interest, which has helped in accomplishing the tasks. The group found balance quickly. The goal was clear and shared by all of us. At the beginning, organizing everyone demanded a little more from us, but the group self regulates. Increasing democracy has been important in maintaining group cohesion."

Ana Beatriz Lorch Roth
(Fundação Otacílio Coser)

6 https://bmw-foundation.org/wp-content/uploads/2017/06/vpworkshop_brazil2.pdf

How We Are Organised



In addition to the group members, the following organizations have contributed voluntarily to forming the group: SITAWI Finance for Good, AOKA, Phomenta, Escola Mais, Broota and ANDE (Aspen Network of Development Entrepreneurs).

UNITED BY IMPACT

FIIMP – Foundation & Institutes for Impact – began at the Social Financial Innovation Lab organized by the Social Finance Task Force, and was inspired by Task Force recommendation number 2, which refers to leadership in the topic from institutes and foundations. From this moment on, an independent group was formed with its own governance structure. The aforementioned recommendation suggests that foundations and institutes (whether corporate, independent or family-led) donate and invest to support pilot projects and innovative initiatives in the social finance and impact business field.

WHO WE ARE

The 22 Foundations and Institutions that make up the FIIMP are: **Childhood**, **BMW Foundation**, **Fundação Grupo Boticário de Proteção à Natureza**, **Fundação Lemann**, **Fundação Otacílio Coser** (FOCO), **Fundação Raízen**, **Fundação Telefônica Vivo**, **Fundação Tide Setubal**, **Fundo Vale**, **Instituto Ayrton Senna**, **Instituto Coca-Cola**, **Instituto Cyrela**, **Instituto de Cidadania Empresarial** (ICE), **Instituto EDP**, **Instituto Holcim**, **Instituto InterCement**, **Instituto Phi**, **Instituto Sabin**, **Instituto Samuel Klein**, **Instituto Vedacit**, **Instituto Votorantim** and **Oi Futuro**. The group counts on the technical support of **GIFE**, **Phomenta** and **ANDE** (Aspen Network of Development Entrepreneurs).

WHY DID WE DECIDE TO TAKE PART IN THE FIIMP?

Investment in impact business is a new topic for the managers of all of the participating institutions, and the high level of engagement in the FIIMP can be illustrated quotes that follow.

“ We had already been getting to know the social finance and impact business field, but we had never invested directly in businesses, instead making donations and helping entrepreneurs through mentoring. This was a chance to test and learn about this path [investment].”

Fábio Deboni
(Instituto Sabin)

“ At a GIFE meeting, one of the group’s shareholders – who is also our board member – heard about the FIIMP and thought it would be interesting for us to participate. We thought it would be an amazing chance to learn. One of the Foundation’s focuses is developing entrepreneurs, but we had never done that through Impact Investing.”

Ana Beatriz Lorch Roth
(Fundação Otacílio Coser)

“ We had already discussed within the Institute the idea that social impact may be applicable/scalable in the countries where our 40 factory operations are. One of our challenges is that we generate small, one-off actions and couldn’t scale up to reach a higher number of people through supporting social projects. The sustainability of those projects afterwards, and their dependence on our funding, also challenged us. Through support/investment for impact businesses we have seen the possibility to take effective solutions to the 40 locations without unfeasible costs or dependence. For some challenges it is working very well, while for those challenges where business is not a solution, we focus on philanthropic actions.”

Jair Resende
(Instituto InterCement)

“It is important that an institution asks itself: ‘What do impact investments have to do with us?’ ‘What is the difference between us and a Venture Capital fund?’ ‘Will we invest in larger-ticket equity, or do we prefer to work at the valley of death?’ In this way philanthropic organizations will see a lot more returns (in impact!). It may not be healthy to look with the eyes of a traditional investor, otherwise they cease to occupy a financing gap that ventures capitalists and traditional angels will never be able to occupy.”

Cristieni Castilhos
(Fundação Lemann)

“Fundo Vale has a trajectory of working in the Amazon, supporting many production projects focused on the new economy. When we found out about the FIIMP, we were reviewing our strategy with the goal of focusing on supporting social and environmental businesses. It was exactly the right timing as it shortened the learning path that we still had ahead. Today we are sure we can play an important role in the creation of ecosystems for sustainable businesses in the Amazon, having as their focus protection and sustainable use of the forest allied to income generation and improvement of people’s quality of life.”

Patrícia Daros
(Fundo Vale)

SUMMARY

The FIIMP – Foundation & Institutes for Impact – started in 2016, within the Social Finance Task Force, from the desire of 22 foundations and institutes to come together to learn, monitor and understand the results of impact investments, trying out different financial instruments.

Although there is no exclusive legal/tax structure to determine what an impact business is, the Social Finance Task Force considers that impact businesses: have an explicit purpose to generate both positive social and environmental impact in their mission; use market mechanisms, offering products and services that allow them to generate their own revenue and profitability; possess governance structures and processes that simultaneously take into consideration the interests of investors, customers and community; regularly understand, measure and evaluate their impact.

Impact investing consists of directing public or private capital – such as loans, hiring and investment – via financial instruments to impact businesses, with a commitment to generating social or environmental impact and financial profitability.

> “We haven’t yet defined how we are going to continue with this practice, but through the FIIMP I feel more confident to take part in other ways.”
>
> ***Ana Maria Drummond***
> *(Childhood Brasil)*

4.

GETTING TO KNOW THE PATH

There are many ways in which foundations and institutes can support impact business, as shown below. In our experience as a group, we can contribute to all of them.

INVESTORS: investing financial resources to support the growth of impact businesses. According to their investment goals or expectations for financial returns, foundations and institutions may take different roles: direct investor, shareholder in an impact investing fund, seed investor, subordinate investor, senior investor, associate etc.

PARTNERS: connecting financial and non-financial assets to other investors or stakeholders to mobilize different sources of capital that leverage the achievement of common social goals.

CAPACITY DEVELOPERS: by offering donations, technical assistance and/or investments that strengthen impact businesses and intermediaries who can invest in impact for relevant groups, issues or territories.

MOBILIZERS: creating and spreading knowledge about impact businesses and investment, offering opportunities to other donors to get closer to the field, as well as playing an advocacy role for changes in laws.

DISSEMINATORS OF IMPACT BUSINESS OPORTUNITY: employing their knowledge about social needs and the capacity to connect to a large organization, institutions and foundations network may disseminate relevant opportunities and challenges to potential impact investors.

“It was a prototype. The invitation was to set up a prototype quickly and make it work. If we had followed the “right” process, it wouldn’t have got off the ground.”

Fábio Deboni
(Instituto Sabin)

“I realized there is a huge diversity of paths and options to contribute to strengthening the field. I didn’t know about the possibilities and believed there were fewer options.”

Luiza Serpa
(Instituto Phi)

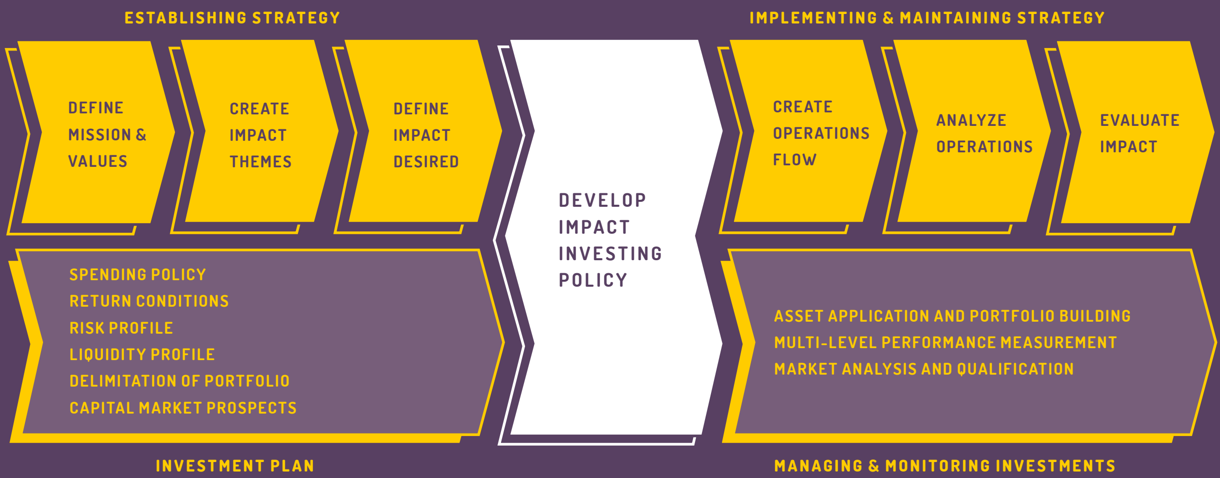
What is the path to selecting an impact investment?

Modern literature recommends that philanthropic organizations deciding to support impact businesses firstly define an investment strategy, followed by their impact investment policy. With this established, they can implement their strategy and monitor the investments to track how it is achieving pre-defined financial and social / environmental results.

The following diagram illustrates this process step by step.

> "It is important to note that the Brazilian social finance ecosystem is growing, and that establishing and developing more intermediary organizations is one of the keys to success for impact business scalability and, consequently, to increasing positive social and environmental impact in Brazil."
>
> ***Célia Cruz***
> *(Instituto de Cidadania Empresarial)*

IMPACT INVESTMENT CYCLE



Source: Solutions for Impact Investors. From Strategy to Implementation, Rockefeller Philantropy Advisors, 2009

In the case of the FIIMP the group decided that, instead of following a single investment thesis or focusing on impact themes (as shown in the "Investment Plan" phase), it would experiment with the **Investment Management and Monitoring** step, with financial instruments that could address market failures. The experience of passing through this process brought learning that participants can apply to the development of their own organization's strategy.

Furthermore the group decided to make investments by way of partnerships with intermediary organizations in the field. By supporting these intermediaries, we have also contributed to strengthening another component in the ecosystem. The intermediaries chosen to receive the funds were: SITAWI, Finance for Good, Bemtevi and Din4mo Ventures, three impact investment funds with very different characteristics, as you will see in the Case Studies presented in this **Guide**[7].

The steps in this process are shown in the following diagram.

FIIMP IMPACT INVESTMENT CYCLE

> "What struck me most about governance is that the group of organizations quickly understood that they were united by their interest in learning. Thus, each participant defends the interests of the FIIMP and not of its own organization."
>
> ***Mariana Hermanny***
> *(Instituto Ayrton Senna)*

7 Recommended reading (in Portuguese): "Rede Temática de Negócios de Impacto Social discute a importância dos Intermediários para o fortalecimento do campo". Maio de 2017. GIFE.

WHAT FINANCIAL INSTRUMENTS EXIST?

Choosing which financial instrument to use is a question of **balancing desired levels of risk, financial returns and social / environmental impact**. Many impact investors diversify their risks and manage their portfolio by allocating their assets to different asset categories.

Many financial instruments are available to invest in impact businesses. The most common in Brazil are equity and debt. However, there are also structured operations such as the innovative Social Impact Bonds, as well as more traditional assets such as fixed income securities, government bonds, venture capital funds and real assets.

As is the case with traditional investments, the spectrum of financial instruments offers differing levels of expected risks and returns. Alongside the expected level of social and environmental impact generated, it is important that foundations and institutes consider risk-adjusted returns when allocating resources to impact investments.

“Right from the beginning I found loan guarantees very interesting. To a foundation that adopts a territorial approach, working to develop organizations and businesses around the location of our operations, I can have a resource that remains available in every financing cycle, as compared to philanthropic resources that are totally spent. The loan that comes back smaller operates more closely to the logic of philanthropy. It makes sense for our mission.”

Ana Beatriz Lorch Roth
(Fundação Otacílio Coser)

> “We have seen that investment through debt and convertible debt can generate profitability and social impact. It could be an investment that would allow our wealth fund to grow financially within its mission, which is social.”
>
> ***Ana Beatriz Lorch Roth***
> *(Fundação Otacílio Coser)*

WHICH ASPECTS SHOULD I CONSIDER WHEN CHOOSING AN INTERMEDIARY INVESTMENT VEHICLE?

Like most traditional investment decisions – as in the case of a large institutional investor or a family office – in order to make an impact investment, the investor must decide whether to invest its resources in a financial product managed by a professional manager (e.g. an Impact Investment Fund), directly in an impact business, or in a structured operation (e.g. Social Impact Bonds).

Each financial instrument and each intermediary has its own way of interacting with the investors. A good investor always keeps up to date with the process, within the limits agreed with the intermediary, as well as assuming the responsibilities agreed with the administrative and operational model of the intermediary, such as taking part in investment committees or board meetings. This engagement allows the investor organization both to verify the progress of the investment and to acquire learning. The choice of intermediary is paramount reducing financial risk and optimizing the social / environmental impact.

The choice of intermediary is paramount reducing financial risk and optimizing the social / environmental impact.

The first step is to identify the different intermediaries and study their proposals, an important stage that must be done cautiously. Some of the questions you can ask are:

1.
Does the intermediary work in specific sectors – education, financial services, environmental conservation, health, etc?

2.
Which services do they offer? Support with management, governance, fundraising, networking?

3.
Which financial instruments do they offer?

4.
What are the conditions for the different possible investments (amount, duration, expected financial return, risk?

5.
How do they monitor the impacts of their investments (outputs and outcomes)?

6.
How big is their portfolio of assets under management?

7.
What is their investment background? How have they evolved over time?

8.
Who are the organization's managers?

9.
How is their governance established?

10.
What are this intermediary's current needs?

11.
What type of contract could my institution use to make an investment with this intermediary?

"We are talking about the business world. Investments may go wrong. By creating a group where all have contributed a little, we have been able to pool a significant amount of resources, whilst also sharing the risks of a possible loss of the capital invested. It is like creating an investment club, but with learning too. We can ask questions in a safe environment, guided by the intermediaries that we have chosen."

Cristieni Castilhos
(Fundação Lemann)

"[to pick the] intermediaries, I trusted in the endorsement of an institution to which we are close. I knew Din4mo and their managers, but I wouldn't have had so much trust [in the process] without this endorsement as I would have had a lot more meetings and the cost of the process would have been a lot higher if each of us had needed to agree to the intermediaries"

Ana Maria Drummond
(Childhood Brasil)

HOW TO CHOOSE THE MOST APPROPRIATE FINANCIAL INSTRUMENT?

Making a low cost loan to schools is different from making a venture capital loan to a digital education startup, even though both may produce positive educational results. The specific context of each market and the needs of each organization give clues as to which instrument should be used to invest.

The following matrix shows some of the most widely used instruments currently in impact investing, opening up opportunities for a variety of possible business and investment opportunities.

There are two ways to use this matrix. One is via the columns, choosing instruments that may support business and leverage impacts by filling gaps in the market in a given context.

The other goes by the rows, helping the investor to choose the instrument that generates a certain risk-return ratio. From there, investment opportunities may be sought within the investor's preferred topics.

> "I started by showing within my organization and to our stakeholders that, while impact investments carry the risk that we may never get our investment back, our donations had a bigger risk because we already knew that beforehand. This way of thinking about impact business has helped to show the potential of this tool within the scope of a philanthropic organization."
>
> ***Jair Resende***
> *(Instituto InterCement)*

CHART ADAPTED BY THE FIIMP FROM SITAWI FINANCE FOR GOOD PRODUCT MATRIX

INSTRUMENT	STRUCTURE	INVESTMENT PERIOD (YRS)	EXPECTED RETURN	RISK	STAGE OF BUSINESSES SERVED	TYPES OF BUSINESSES SERVED	BUSINESS OBJECTIVE
Guarantee	Philanthropic fund	1 to 5	Return on cash balance	Medium (payout in case of non-repayment during the contract period)	Growth and maturity (ideally with stable financial results)	All (NGOs, coopera-tives, associations, traditional businesses, startups	Profundidade e/ou escala
Debt	Simple	1 to 5	Medium (interest rates pre-defined)	Medium (monthly payment of interest and initial loan)	Growth and maturity (ideally with stable financial results or guarantee)	All (NGOs, coopera-tives, associations, traditional businesses, startups	Depth and/or scale
Debt	Crowdloan	1 to 3		Medium (monthly payment of interest and initial loan; risk diluted with other investors)			Depth and/or scale
Debt	Microcredit	1 to 3		Médio (pagamento de juros e principal mensalmente)	Start of oper-ations through to maturity	Microenterprises (usually low-income entrepreneurs)	Depth
Convertible debt	Crowdequity	2 to 5 without conversion	High (result shared in case of success)	Medium to high (depends on business maturity). In case of conversion, returns received at point of exit, risk diluted with other investors	Start of oper-ations through to growth	Only for-profit companies. High-growth profile	Primary focus on scale
Convertible debt	Crowdequity	+ 7 with conversion					
Convertible debt	Direct	2 to 5 without conversion					
Convertible debt	Direct	+ 7 with conversion					
Equity	Seed money Venture Capital Private Equity	7	High (result shared in case of success)	High. (returns received only at point of exit)	Growth	Only for-profit companies. High-growth profile	Primary focus on scale

WHAT ARE THE PROS AND CONS OF DIRECT INVESTMENT VS INVESTMENT VIA INTERMEDIARIES?

Before deciding how to make your impact investments it is important to observe the pros and cons of investing directly into the impact business or financial operation and indirectly through a financial intermediary.

	DIRECT INVESTMENT	INDIRECT INVESTMENT
ADVANTAGES	— The capital invested goes to the business in its entirety, maximizing the financial contribution. — Clauses and agreements relating to the monitoring of financial and impact results can be tailor-made for your organization. — Greater proximity to the entrepreneur and possibility of closer involvement. — Independent expert consultancy can be brought in as needed throughout the whole process (from financials to impact monitoring). — Local reputational gain, with higher recognition for your contribution than when part of a package with other funders.	— Specific expertise in developing impact businesses, increasing the potential of generating positive impacts. — A holistic approach to the needs of the businesses, raising profitability and return on investment. — Supports structuring of more intermediaries, increasing the potential number of impact businesses that can be supported in the future. — Lower costs to monitor the investment. — Greater portfolio diversification, reducing **investment**[8] risks. — Supports the strengthening of the social finance field.
DISADVANTAGES	— Thew organization needs an internal structure with the competencies, skills, expertise and time to manage the entire investment process: prospecting, selection, risk analysis, report elaboration, monitoring and impact evaluation.	— Does not avoid the need for initial evaluation: the manager and the product being offered still need to be evaluated. — The costs of the intermediary impact the final funding amount that reaches the business. — Intermediaries charge administrative fees and costs for products and services (reports, legal mediation, among others.).

8 The document can be read in its entirety (in Portuguese) at:
http://forcatarefafinancassociais.org.br/wp-content/uploads/2015/10/MapeamentoIntermediarios.pdf

The following chart shows other important considerations that may support foundations and institutes beginning their impact investment journey.

	DIRECT INVESTMENT	INDIRECT INVESTMENT
IDENTIFYING INVESTMENT OPPORTUNITIES	The investor needs internal capacity to search for and identify business opportunities that meet expected social / environmental and risk-return criteria.	The intermediary will already have many impact businesses mapped across different impact themes (health, education, finances, etc.) since they are often sought out by the businesses themselves.
INVESTMENT DECISION	The organization will need to analyze whether the business is solid, and whether the requested investment amount is appropriate. It must therefore have, or hire, capacity for business and investment analysis, in order for the investment to be successful.	If the organization doesn't have – or doesn't want to have – these structures internally, the intermediaries will perform this so-called "Due Diligence" and indicate the best deal options.
DEAL STRUCTURING	Once the decision to invest has been made, agreements must be made and contracts signed. It is important that investors understand which obligations are appropriate for the investee, especially in the case of co-investment between philanthropic organizations, to avoid creating a multiplicity of requirements that are not feasible for the business to adopt. Examples of obligations include cash balance to cover extraordinary costs, possible changes in the team, capitalization by the founders, revenue goals, etc.	When choosing to work with an intermediary, it is necessary to identify together which contract options are available for finalizing the investment.
MONITORING FINANCIAL PERFORMANCE	The investor must have time and capability to analyze the financial health of the business and check if the investment is being used as agreed.	Where there is no time or internal expertise, the presence of an intermediary that can guarantee this monitoring becomes fundamental. If agreements are not being honored, the intermediary will have the capacity to work together with the investee solve the problems or explore debt restructuring options.
MONITORING IMPACT	In both cases it is important to agree during the decision process which indicators the investor wants to monitor and how this will happen.	When choosing an intermediary, check carefully if it monitors effectively or requires this from the investees.
PREEMPTING / DEALING WITH CHALLENGES	An important way that the investor can support the investee is by helping with connections to other players that can generate business opportunities and better commercial conditions.	It is common for intermediaries such as investment funds to establish mentorship or leadership development programs for the businesses in their portfolios.

> "If I invest in government bonds, there is almost no risk of not getting the investment back. In an impact business I need to understand who the entrepreneur is, if they really are committed to the impact, if they will know how to manage the business to pay back the investment. I need to be cautious so that the resource is appropriate for the organization. I have to think: 'I am an investor, I take risks', and therefore I need to understand clearly the business opportunity being presented."
>
> ***Jair Resende*** *(Instituto InterCement)*

HOW DOES THE INTERMEDIARY SELECT AND WORK WITH THE BUSINESSES?

Each intermediary will have its own method for finding and selecting impact businesses to be part of its pipeline and receive injections of capital (financial, intellectual, technological), but commonly used tools include Theory of Change or Impact Thesis – a broad description and illustration of how it operates and what impact it wants to make in a particular context. An analysis of macro-data is also carried out, on elements such as annual revenue, team, products and services offered, and stage of maturity. Our experience with the FIIMP was that the intermediaries already had businesses in their pipelines, which provided options as a starting point for the group investment.

After identification of an investment opportunity, the intermediary will perform a careful evaluation, known as "due diligence", on the targeted impact business. This process covers many aspects related to governance structure, integrity of the entrepreneur, directors and board members, business model and management capacity, detailed financial analysis and consultation with the business' network of contacts.

During this process it is very common that the investor has to sign an NDA (non-disclosure agreement) before the business will share strategic information that could compromise its competitiveness if it were to fall into the public domain.

While it isn't common, some intermediaries may allow their investors to take part in or observe the due diligence process.

> "Since our goal was to learn about of the process of choosing a business rather than the business itself, and since there was a diverse set of interests due to the profile of each organization in the FIIMP, the group decided to leave the selection of the businesses to the intermediary organizations and to use their pipeline."
>
> ***Márcia Soares***
> *(Fundo Vale)*

IN SUMMARY

There are many ways Foundations and Institutions can support impact business, such as being investors, partners, capacity developers, mobilizers, advocates or impact business opportunity disseminators. In general when deciding to support impact business, it is suggested that institutions and foundations firstly define an Investment Strategy, then develop their Impact Investment Policy, implement their strategy and monitor the investments.

Choosing which financial tool to use is a matter of balance between risk, financial returns and desired social impact. There are many financial instruments to invest in impact businesses, such as equity, debt instruments and social impact bonds, as well as fixed income securities, government bonds, venture capital funds or real assets.

The investments may be made directly in social business or indirectly, through intermediaries. The FIIMP has made three investments through intermediaries and one direct investment in a business. We believe in the importance of promoting these intermediaries as relevant players in the ecosystem. SITAWI Finance for Good, Bemtevi and Din4mo Ventures were the intermediaries chosen to receive the contributions.

5.

MOVING FORWARD

WHAT CAN AND CAN'T BE DONE IN LEGAL TERMS?

Institutions and foundations must apply careful criteria for allocating their resources, beyond what regulations require. Above all, if philanthropic resources are to be allocated to financial investments, the organization must know if there are legal limits (fiscal or in statutes) to making these **investments**[9].

During our journey there was a panel discussion on legal matters, with two law firms taking part (Mattos Filho and Derraik & Menezes). Both have expertise in impact business and were of utmost importance to the group, as even though many organizations count on internal or even 3rd-party legal support, these were not yet up to date with issues concerning investment by philanthropic organizations in impact businesses.

Our participation in this half-day workshop dedicated to legal questions helped us to understand important points for us to advance with the collective investments with SITAWI, Bemtevi and Din4mo.

The FIIMP members adopted good internal practices related to legal matters, making it possible for us to move forward with the project:

— we have engaged our legal departments or lawyers from the start in the design of the investments;
— a lawyer from InterCement became part of the FIIMP, learning and helping the group with the legal agenda;
— we consulted with law firms that already have expertise in supporting institutes and foundations to make investments in impact businesses;
— some members (ICE, for example) have made changes to their statutes to make this kind of investment possible.

9 Further reading (in Portuguese) about the legal opinion on risks relating to investments by foundations and not-for-profit associations in business stakes (Derraik & Menezes, 2016). Read at: **http://forcatarefafinancassociais.org.br/wp-content/uploads/2018/02/2016_09_06_Parecer-Forca-Tarefa-Derraik-Fundacoes.pdf**

> "An institution's legal department, sometimes a third party, doesn't have a deep understanding of this agenda. We have realized we needed guidance from those who really were operating in this field. The workshops have given us this start. We have seen that with this support we were able gain time. It has helped us, for example, to identify what we needed to change in our statutes."
>
> ***Fábio Deboni***
> ***(Instituto Sabin)***

7 legal points to consider:

1.

Everything starts with **checking the statutes**: each organization must understand the legal limits to investments contained in their statutes, if they are prohibited, if there are limits to the total amount or percentage of financial assets, what kind of investment vehicles are permitted, etc. In case there are no clauses about how the organization should deal with investments in businesses, it will be necessary to call on the person responsible for residual issues (prescribed by the statutes), to evaluate and deliberate on the intended impact business investment. In case there are prohibitions, the statutes can be amended to make such investments possible.

2.

Some non-profit organizations have certifications that guarantee **tax exemption**. The recommendation is to take extra caution to avoid infractions such as "distributing any part of your assets or revenue, for any reason, having as an objective that a possible equity increase be reverted in favor of the institution itself".

3.

The CADE (Administrative Council for Economic Defense), in the context of antitrust law, forbids institutes linked to competitor companies from being shareholders of the same company. This is a warning for organizations from the same sector that may want to support impact business, even though these may be small in comparison to commonly made investments or to overall company assets. **The solution may be the investment via intermediary-run syndicates**, such as the FIIMP investment via Din4mo (see the cases that follow).

4.

Should the investment be permitted, the organization must assume an "**investor's view**" to businesses, **carefully evaluating the risks** involved in the chosen financial operation (risks regarding the financial instrument, the robustness of the investment fund, the health and earnings potential of the business to be invested, the entrepreneur profile, etc.).

5.

For organizations that have incorporated endowment funds, **fiduciary duties** require caution, with board members having a duty to assure maximum return on investments made from the endowment. Since investments in impact businesses are usually characterized as Venture Capital or Private Equity (investments classified as high risk and, therefore, having higher chances of financial loss), we may question if impact investments wouldn't be in detriment to this duty, which would leave possible risks of penalties to the organization and those in charge.

6.

In Brazil, fiduciary duty is monitored by the Public Prosecutor's Office, whose jurisdiction is statewide. Up until now there is no rule that establishes limits or prohibitions about impact investment for organizations that have an endowment. The FIIMP therefore recommends **getting to know your state's public prosecutor** and, in case there is no formal opinion, taking the case to be discussed with him or her. Describe your case clearly, show other foundations and other legal opinions as examples, and explain what investment strategy and impact your organization wants to pursue. Be willing to clarify doubts and build possible roadmaps with the attorney.

7.

Around the world and in Brazil, many foundations have advocated that the **investments made with the endowment must be aligned to their values and mission**. This includes using these assets to generate positive impact via impact investment. Many global foundations say that their real fiduciary duty is loyalty to the mission, not to the financial returns, as an argument to invest in **impact**[10] business.

10 Read more in: "A Guide to the Fiduciary Duties of Foundation Directors Related to Mission Investing" by Tomer Inbar of Patterson Belknap Webb & Tyler LLP, in the appendix. 30 ESSENTIALS of IMPACT INVESTING: A Guide for Small-Staffed Foundations.

“I had some doubts as to wheter the impact would be so well tracked... But I followed the Bemtevi and Sitawi processes and felt more confident. I’m finding them more careful than I had imagined. I can see concern for the impact, which enables me to defend more strongly to my board and my legal and financial departments that it is possible to have an impact, it’s not just a slogan.”

Ana Beatriz Lorch Roth
(Fundação Otacílio Coser)

HOW CAN I MONITOR IF MY INVESTMENTS ARE GOOD BUSINESS AND ARE CREATING IMPACT FOR SOCIETY OR THE ENVIRONMENT?

Social and environmental impact has lasting effects and creates permanent transformation, representing a structural intervention in the life of a group of people or in the environment. This impact may be direct or indirect, positive or negative, intentional or unintentional. The concept of impact should integrate social, environmental and economic indicators to demonstrate such transformations.

When deciding to invest in impact businesses, therefore, investors should be clear about what impact they intend to cause and, consequently, which indicators will be used by the organization that will receive the investment. After the investment is made, they should monitor these indicators to evaluate whether the change intended through the products and services provided are actually happening.

Usually the impact business is responsible for developing and measuring these indicators, but the investor can also use philanthropic resources to support it in refining its Theory of Change or defining its indicators and collection methods. Investors typically include socio-environmental indicators (KPIs) in the investment agreement, on which the investee must report regularly. Examples include outputs for job creation, number of popular houses financed, number of people using a particular financial service, amount of energy generated, or number of cared for, while outcomes may include reduction in youth mortality, school drop-out rates, or criminal re-offending, among others.

Looking now at financial returns, when receiving reports about the performance of a fund or IRR (internal rate of return) from a financial transaction, it is important to analyze how this investment “performed” in relation to the expectation at the time it was made and in relation to other investments of the philanthropic asset portfolio, especially for organizations that invest in impact with the objective of maintaining or increasing their assets, so that the manager can evaluate how to proceed with the impact investing strategy.

Many investors look for greater impact, even at lower rates of return relative to risk-adjusted market returns. In the field of Social Finance, there are investors focused on maximizing profits or preserving their capital, which may even make use of hedging to protect their capital. In the case of Foundations and Institutes, there is no primary objective to maximize profits, but rather to enhance the desired social and environmental impact.

There is no public database on impact investment returns. In order to make performance comparisons, information published by organizations that conduct research with public and private investors is usually used.

The biannual study of the Aspen Network of Development Entrepreneurs (ANDE) offers information about Brazil, and is a point of reference **locally**[11]. According to the most recent study, the most frequently used financial instrument in 2014-2015 was equity (67%), followed by debt (52%), convertible bonds (41%) and other types of investments (22%). In the previous edition of the study investors had stated investments by equity (84%), debt (32%), convertible bonds (47%) and other forms of investment (21%). Furthermore, investors in Brazil made 48 new investments, totaling approximately US$ 70 million.

That number is lower than had been expected by investors (68 new investments, according to the survey), showing that there is still room for many foundations and institutes to enter this field.

11 www.andeglobal.org/resource/resmgr/docs/LatAm_ImpInv_Report_-_Portug.pdf

WHAT IMPACT METRICS SHOULD I USE?

The second year of the FIIMP investment journey (2018) will see the maturing and deepening of our impact monitoring, and our practical learning will be published at the end of our journey. Here we offer general theoretical knowledge, which has passed through group reflection.

A major challenge in the ecosystem is the **qualitative and quantitative evaluation of the social and / or environmental impact generated**, and there are even intermediaries specialized in this. The impact business itself is expected to **monitor its impact**, e a presença de **specialized external evaluators can increase investor confidence** in the results of the investment.

The use of environmental and social indicators is the best method for ascertaining and tracking impact results, and it is important that the investor understands the metrics and the method of evaluation. Periodic reports are a systematic means to monitor impact, and may be accompanied by field observations (visits to beneficiary communities, for example).

One of the biggest challenges is to develop a culture of measuring results and impact, and to find evidence that proves the business' Theory of Change. It is common for businesses to devote a lot of time to their management routine and to leave the task of "measuring impact" in the background, as it generates additional

> "The most interesting and challenging thing is the correlation between impact and invested capital. Finding a metric is not always an easy task, but once it is defined it is a guarantee of attracting more impact investors."
>
> ***Jair Resende***
> ***(Instituto InterCement)***

work. The challenge is precisely to define indicators that are effective in demonstrating impact, whilst not requiring too much time or financial recourse from the business.

Much work has been done to standardize impact metrics in order to promote transparency and comparability and at the same time facilitate the reporting from investee to investor. The Impact Reporting and Investment Standards (IRIS), an initiative of the GIIN, brings together several indicators and is a benchmark, but there are several other benchmark sets of metrics that can be accessed by investors and businesses.

While IRIS is one system of metrics, other references may be used. The following are **examples of organizations** that have built their impact metrics tailored to their business context:

— **CDFI – Community Development Financial Institutions:** Assessment and Ratings System, Aeris, formerly CARS.
— **ANDE – Aspen Network of Development Entrepreneurs:** Small and Growing Business Metrics.
— **B-LAB ("Sistema B" in Brazil):** B Impact Assessment.
— **FAST – Finance Alliance for Sustainable Trade:** Sustainable Agriculture Metrics
— **82 Essentials of Impact Investing:** A Guide for Small-Staffed Foundations.
— **Global Impact Investing Rating System Assessment:** Developed and Emerging Market Metrics.
— **IRIS Working Group:** Land Conservation Metrics.
— **Microfinance Information Exchange and Social Performance Task Force:** Microfinance Metrics.
— **National Community Investment Fund:** Community Banking Metrics.
— **Toniic – Global Action Community for Impact Investors:** Metrics for Investments in Early-stage Enterprises.
— **Global Impact Investing Network:** Compilation of other metrics.

> "The investor must be clear as to who is responsible (the intermediary or the business) for monitoring and reporting, and with what frequency."
>
> ***Cristieni Castilhos (Fundação Lemann)***

IN SUMMARY

Before making any impact investments, foundations and institutes should be aware of the relevant legal questions, starting with careful reading of their own Statutes to see what is and is not allowed. Cases not covered therein should be discussed with legal departments or specialized law firms.

In the first year of the FIIMP, we emphasized the Management phase and the selection of the financial instruments and business to be supported. In the second year we will focus on monitoring the impact of invested businesses and the results of the chosen instruments

There are several references and methodologies already used by the market to define impact indicators for social and environmental businesses, but the challenge is to choose metrics that do not require much time or financial cost for the business, and can feasibly be implemented.

> “ In the case of the FIIMP, the Intermediaries are responsible for financial monitoring and for assisting in the metrification of environmental and social impacts. The businesses should carry out the measurement according to the agreed impact indicators. ”
>
> ***Jair Resende***
> ***(Instituto InterCement)***

6.

EMBARKING ON THE JOURNEY

We tested two investment models – direct and indirect – with three different Intermediaries: Din4mo – an impact venture capital fund; SITAWI Finance For Good – a civil society organization managing social and environmental funds in the expansion and scalability phases; and Bemtevi – a social business constituted as an NGO, in the process of consolidation, that fosters impact businesses. For the FIIMP this diversity was intentional, to allow resources to flow to different types of social business and through different types of financial mechanisms. We consider that this plurality of businesses being fostered is fundamental so that the field of social finance in Brazil can address the complex challenges of social inequality.

In this process, SITAWI also had another important role in the co-investment process, being hired by the group to manage the pooled resources.

The 22 participating organizations in the FIIMP contributed a total of **703,500 Brazilian Reais** (approx. US$ 180,000) for the four investments detailed below. Read on to learn about each financial instrument used, its potential for transformation and how the FIIMP investors were able to participate and learn from this experience.

In the case of the FIIMP, some of the organizations provided these resources in the form of a donation so as not to compromise their legal and statutory structures, since the objective was to learn and test the investment.

CASE 1 – LOAN GUARANTEE – SITAWI

The intermediary chosen for this instrument was SITAWI Finance for Good, founded in 2008 with the mission of mobilizing capital for social and environmental impact. It is a Public Interest Social Organization (OSCIP in Brazilian legal terms), and a pioneer in the development of financial solutions for the social sector and in analyzing the environmental performance of companies and **financial**[12] institutions.

FINANCIAL INSTRUMENT

The instrument chosen was the "Loan guarantee". With FIIMP's contribution, SITAWI is structuring the first Socio-Environmental Loan Guarantee for an impact business in Brazil. In addition to the role of guarantor, SITAWI supported the development of the financial operation by seeking financial institutions and facilitating mediating dialogue with the chosen impact business. In addition, during the guarantee period, the intermediary will support the business and monitor its social impact indicators.

Being an innovative mechanism, 2017 focused on prospecting and approaching the possible financing institutions and establishment important partnerships. In parallel, the process of analyzing and selecting impact businesses with relevant profiles and interest in receiving the financing was carried out.

HOW DOES A LOAN GUARANTEE WORK?

The supporting organization (in this case, SITAWI) assumes the role of guarantor for the loan to be contracted by the impact business, which pays a fee for this service. The business goes through two processes of analysis and approval: in the stage of the guarantee and in the process of obtaining the loan.

12 Since the guarantee was not yet finalized, the intermediary requested that we refrain from publishing the name of the business and the financial institution.

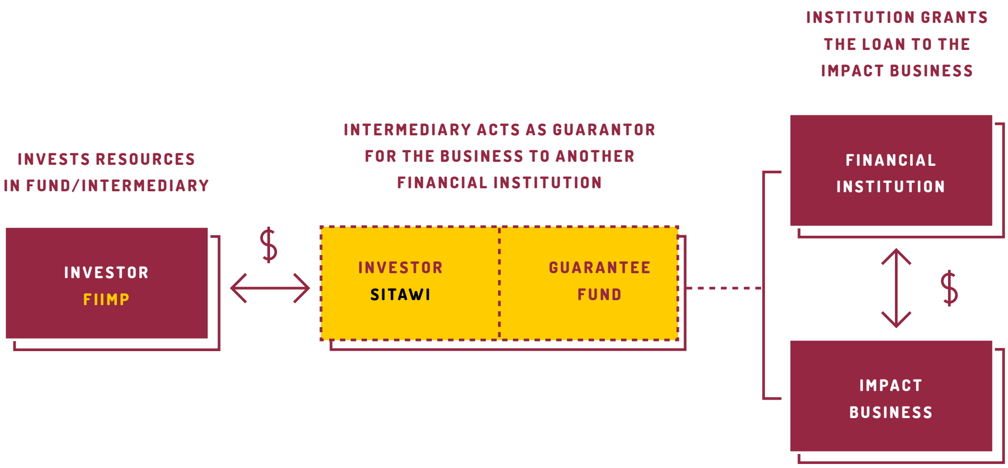
HOW WAS THE FIIMP RESOURCE FLOW STRUCTURED?

The FIIMP (in the role of investor) contributed **167,500 Reais** (approx. US$ 45,000) to SITAWI (the guarantor). SITAWI invests this in a high-liquidity, low-risk investment product (in this case, a bank bond issued by a commercial bank) and this agreement will be given as collateral for the financial institution that makes the loan to the impact business.

The first business that was selected received support from SITAWI to search for a lender with appropriate credit rules for the profile of the business, so as to minimize the risk of the loan request linked to the SITAWI guarantee being rejected.

In guarantee funds, investors receive their initial investment plus the guarantee fee and interest earned on the bank bond, minus costs and possible losses, at the end of the investment period. In the case of the FIIMP, the group decided to leave the residual resources with SITAWI, to be reinvested in other businesses and thus strengthen the ecosystem.

The diagram below shows the resource flow for this operation.



Source: Kalo Taxidi / SITAWI

HOW DID THE FIIMP PARTICIPATE IN THE INVESTMENT PROCESS?

During 2017 representatives of several members of the FIIMP witnessed the various stages of the business selection and due diligence processes carried out by SITAWI.

The first phase was **prospecting and initial evaluation**, in which more than 70 organizations registered for the process on Sitawi's website (FIIMP members also had the possibility to make nominations). The candidates were analyzed according to criteria such as the degree of formalization of the company, incorporation of social or environmental impact at the core of the organization, revenue range, capital requested, impact (tangibility, reach and depth), and financial health and structure.

Two impact businesses went forward for analysis by a **Prioritization Committee**. In this phase, one business was chosen to move to the **due diligence**, which analyzed the investment needs, payment capacity, social impact to be generated as a result of the investment, leadership and operational execution capacity of the business (evaluation criteria used by SITAWI). Additionally, five FIIMP representatives attended meetings with the team of the selected business and conducted two on-site visits. Once the due diligence was completed, an **Approval Committee** was formed, made up of external experts invited by SITAWI, which analyzed the business and decided on the conditions of the guarantee to be structured.

In parallel, SITAWI played an important role in prospecting traditional financial institutions that could potentially lend resources to the business, presenting the opportunity for them to access the impact business market with a reduced risk due to the guarantee mechanism. In this process it was essential to understand the lines of credit and commercial terms that could be offered in this loan and support the business in the contact with the financial institution.

Between the end of 2017 and the beginning of 2018, the **process of evaluation of the business by the financing institution and negotiation for the possible signing of a guarantee contract was carried out.**

WAS THE BUSINESS ABLE TO OBTAIN CREDIT USING THE GUARANTEE MECHANISM?

After nine months of proceedings (three from SITAWI and six from the financier), with the loan agreement close to being signed, the business initially chosen gave up on accessing it. During this time important changes had occurred that affected this decision: the rates initially foreseen by the potential investor were increased due to the closing of the credit line that was to be used (from 0.3% per month to 0.6%), the commercial strategy of the chosen business was reformulated and the entrepreneurs received proposals to access international credit lines, dispensing with the use of the guarantee mechanism.

As a result of this withdrawal, SITAWI restarted the process with the next businesses on the list that were interested in the guarantee mechanism. The signing of the guarantee contract and subsequent disbursement by the lender are expected to happen by the end of 2018, bearing in mind that the process will now be more agile because of the learning acquired with the first attempt.

> “The business having given up on accessing the loan using the guarantee shows that the timing for this type of operation is critical. If the negotiation process takes too long, the business can’t wait, perhaps even running the risk of winding up. This process was, in any case, an extremely relevant source of learning for the FIIMP, for institutions that want to implement guarantee mechanisms.”
>
> ***Márcia Soares***
> ***(Fundo Vale)***

HOW DOES THIS EXPERIENCE STRENGTHEN THE SOCIAL FINANCE AND IMPACT BUSINESS ECOSYSTEM IN BRAZIL?

With a guarantee contract in hand, a nascent or growing impact business is more likely to access other sources of capital, such as credit lines from traditional commercial banks, therefore building up its credit history. With the guarantor at its side, the business represents a lower risk for financial institutions, being able to negotiate better conditions and / or larger loan volumes.

This could be the embryo of a Guarantor Fund for impact businesses, something unheard of in Brazil, which may attract more conservative credit organizations such as commercial banks and international investors to invest in the field. For the intermediary institution that acts as guarantor, this instrument has an advantage over the granting of a credit, since the resource does not need to be transferred immediately to the business, thereby possibly increasing the organization's liquidity.

Several foundations and corporate institutes with revenue generation projects in cities where they have operations see loan guarantees as a tool they could use after one or two standard loans, empowering businesses needing larger investments than their donations can achieve.

MAIN LEARNING POINTS OF THE FIIMP PARTICIPANTS

— SITAWI contacted traditional financial institutions with the potential and profile to lend to the business, seeking to understand their operating logic, loan ticket parameters and risk assessment criteria. Being familiar with these sources is fundamental for anyone investing in the guarantee instrument.

— Creating a guarantor fund is different from carrying out a guarantee operation (the FIIMP case). If this was already a fund, it could provide guarantees for more than one business simultaneously.

— It is clear that this instrument has a double check, as besides SITAWI / FIIMP there is the risk assessment of the institution making the loan.

— This instrument can encourage investors to come together to create a guarantee fund.

— Initiatives like this can leverage new resources for the impact investing field by opening doors to traditional financing organizations, including influencing the creation of new lines of credit that are more accessible to impact businesses.

— The timing of negotiating a guarantee is critical to defining the success of the operation and securing the loan at an appropriate time for the business' needs.

TECHNICAL INFORMATION

CASE 1 – LOAN GUARANTEE – SITAWI

FINANCIAL TRANSCATION DETAILS

Duration of the guarantee (term) – 2 years

Rate of return initially offered*: 4.8% in the period + bank bond income

Management fee charged to the investor: only the cost of the guarantee was charged

FIIMP assets under management by SITAWI for guarantees: 167,500 Reais

*In this case the FIIMP chose not to receive back the initial loan amount or interest received on it. This resource will be used in future transactions to support impact businesses.

CASES 2 AND 3 – CONVERTIBLE DEBT CERTIFICATE: VIA CLOSED FUNDING ROUND AND VIA CROWDFUNDING – DIN4MO VENTURES (VIA BROOTA)

Due to the similarity of the structures we have grouped cases 2 and 3 together, giving an initial description of the Intermediary and the instrument whilst differentiating the cases directly in the examples below. In both cases, Din4mo is responsible for the entire investment process and manages resources.

In case 2, five FIIMP participants (Cyrela Institute, ICE, InterCement Institute, Holcim Institute and Phi Institute) contributed funds to a sindicato[13] ed by Din4mo Ventures and whose resources were invested in a healthcare business (Mais 60 Saúde).

In case 3, another participant (Childhood Foundation) made an investment directly in a home improvement business (Vivenda) through Broota, in another syndicate also led by Din4mo Ventures.

Even though case 3 was a direct investment, in both cases the syndicate leader was **Din4mo**, founded in January 2014 to structure financing for impact startups and advise social organizations on social innovation projects. Through the Innovative Impact and Social Innovation Program for social organizations, it supports development of investee businesses in the following dimensions: management, governance, capital and networking.

Din4mo Ventures, responsible for the FIIMP investments, is a holding company and the investment arm for impact businesses. It mobilizes and connects its own capital and capital from impact investors so that impact businesses gain efficiency and scale. Din4mo Ventures leads syndicates through equity crowdfunding (CrowdEquity) platforms, such as **Broota**.

To leverage new resources via CrowdEquity, the seed money and management structure provides protection to managers, entrepreneurs and investors.

13 Syndicate – organized investor groups, led in the majority of cases by more experienced investors ("Lead-investors"). Their main benefit is allowing access to investment opportunities for investors that would not be able to invest their capital directly. Read more (in Portuguese) at: **https://capitalaberto.com.br/temas/legislacao-e-regulamentacao/sindicato-e-a-principal--novidade-da-minuta-da-cvm-sobre-crowdfunding/#.WtDzlC4bOOO**

WHICH IMPACT BUSINESSES RECEIVED INVESTMENT?

MAIS 60 SAÚDE – LED BY DIN4MO VENTURES

“**Mais 60 Saúde**[14]”, is an impact business in Belo Horizonte offering a primary care model for health and well-being of seniors and their families, making use of broad geriatric evaluations that are applied by a multidisciplinary team and follow specially developed protocols. Its services go beyond the “Popular Clinics” model by focusing on the needs of the individual and his/her family, using an integrated team that shares responsibilities, offering affordable care payment packages and scheduled health initiatives, engaging patients and family members in care. It positions itself in the market as offering greater clinical effectives and lower cost.

The manager of Mais 60 Saúde shared his experience with FIIMP:

“The resources provided will be essential for: 1) developing a new service, accessible to people without health insurance; 2) adequately publicizing our work and increasing interest from new clients; 3) strengthening the team; 4) increasing technological resources for the core business (health care), especially in relation to impact measurement.

“Our greatest learning in this process relates to the development of management skills, with an increase in the quality and quantity of time dedicated to management. This is always a challenge for founders / entrepreneurs, but it is for business growth.”

“We also learnt a great deal about how to communicate with investors and how to position ourselves in the market. We see this movement by the company as a great lesson. We knew

14 www.mais60saude.com.br

little, and only theoretically, about the risks and benefits of fundraising – diving into this operation was much more than any MBA class. The resources provided are important, but the gain in management strength, from the way we talk to the way we organize the work internally, is much more valuable. "

VIVENDA – DIRECT CONTRIBUTION TO THE BUSINESS VIA AN OPEN FUNDRAISING ROUND

"**Vivenda**[15]" is a business committed to making sure people can live in better conditions, generating social impact in low-income communities. It has developed a complete solution in housing reforms which, quickly and without bureaucracy, allows the client, to have their project prepared and their reform finished within 15 days. It is an integrated model of planning, material, labor and payment plans, guaranteeing the affordability of the service. In addition, it fosters local labor and establishes partnerships with material suppliers for reforms.

The manager of Vivenda shared his experience with FIIMP:

"In our second round of fundraising via CrowdEquity, the funds received from FIIMP through Din4mo Ventures have been fundamental in completing the foundations of our scaling efforts, which are the enhancement of the financing, materials procurement and sales models. We understand that in addition to the financial resources, receiving investment means having the opportunity (and the obligation) to improve the management and governance of the business. Especially with Din4mo's support, we believe we are making good headway in this direction. Given that the organizations that make up FIIMP work in the social and environmental area, we believe that it would be beneficial to think of spaces for investee businesses and investors to explore debates and actions together."

15 http://programavivenda.com.br

FINANCIAL INSTRUMENT

In both cases 2 and 3, the instrument chosen was a **Convertible Debt Bond**, which as with other debt instruments offers a rate of return. In this case, however, by investing in startups the investor knows about the risks and does not expect to receive the money back at the end of a certain period, but rather hopes to see the equity participation increase in value. Since these are investments in nascent companies, the maturity is usually at least five years.

The issuing of securities is divided into series with different nominal values and, potentially, minimum criteria for investing. Each company can establish the minimum value of the series, provided that it is not less than 1,000 Reais (the minimum allowed through Broota). Din4mo does not charge management fees – its gains come from the success of the investee startups through the "carry" (share of investment profits paid to the lead investors), which in this case is 15%. The service fee charged by Broota is 5%

After a certain period, investors may convert their debt bonds into preferred shares, in specific situations stipulated in the contracts with the syndicate leader (Din4mo). These situations include the maturity date of the bond, a change in controlling shareholders of the bond issuer (Din4amo), transformation of the investee into a Ltd. Company, and an IPO of the bond issuer.

HOW DOES THIS INSTRUMENT WORK?

Fundraising is organized by a lead investor (in this case, Din4mo Ventures). This organization can be done in fundraising rounds, which can be determined by targeted investment volume or by category of investor (eg international investors, professional investment managers, individuals). The lead investor assures the others that the investee business is sound and investment-worthy, and is responsible for financial management.

In both cases, the lead investor (Din4mo) opened a syndicate on the Broota platform and held fundraising rounds to meet investment targets. Each of the syndicates directed the investment to a different impact business (Mais 60 Saúde and Vivenda).

Unlike investment funds, which charge variable management fees of up to 25%, syndicates have no management fee, thus freeing up more capital for investment. While a fund invests approximately 75% of the committed capital, at least 90% is **invested**[16] with a syndicate.

HOW WAS THE FIIMP RESOURCE FLOW STRUCTURED?

Din4mo contributed to the syndicate and continued with its closed funding rounds (aimed at potential investors in the networks of both Din4mo's and the entrepreneurs) and later on with the public funding round. So far, Din4moVentures invested 250,000 Reais to lead the two rounds for Vivenda and 150,000Reais for Mais 60 Saúde.

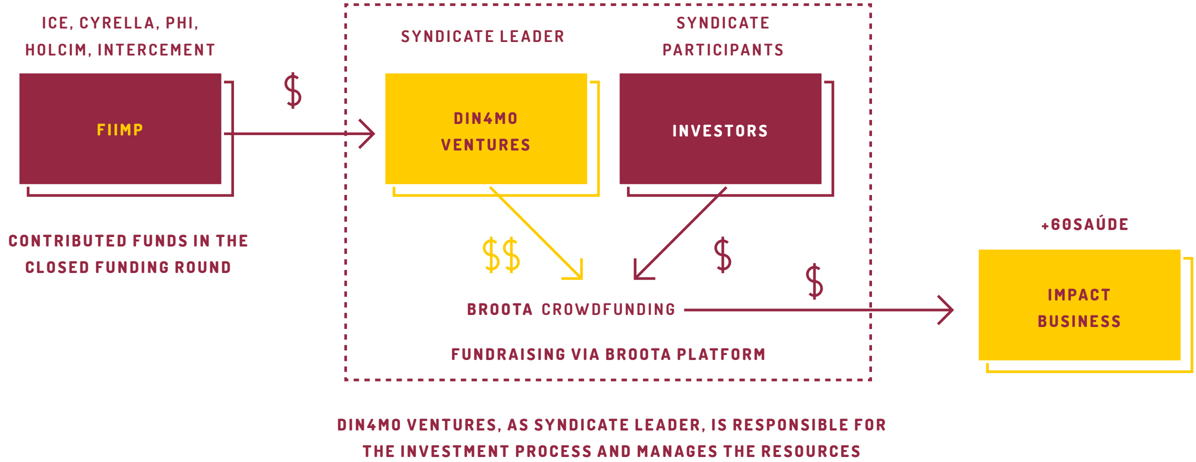
The 5 FIIMP organizations contributing to the Mais 60 Saúde investment gave 167,500 Reais to Din4mo (approx. 45,000USD), making up part of the leading investor volume, and Childhood invested 33,500 Reais (approx. 9,000 USD) directly in Broota during the second round of public funding for Vivenda.

Due to legal issues specific to the institutes (referenced in the previous chapter), Din4mo agreed to enter into a simple loan agreement with each of the FIIMP investors at a rate of 4% per year for 10 years. The five organizations that invested in this syndicate changed their by-laws so that they can receive the investment back by the end of the 10-year period.

Under a simple loan agreement, the investor transfers capital or assets to the other party, and may choose to collect them back on a specific date and under pre-defined conditions.

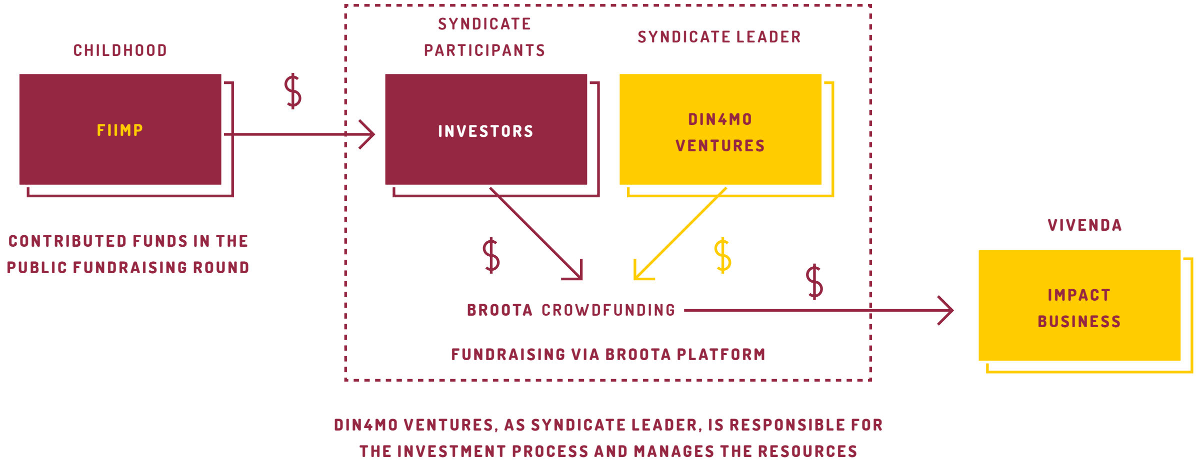
16 Source: Broota

FIIMP INVESTMENT FLOW INTO +60 SAÚDE:



Source: Kalo Taxidi

FIIMP INVESTMENT FLOW INTO VIVENDA:



Source: Kalo Taxidi

HOW DID FIIMP PARTICIPATE IN THIS INVESTMENT PROCESS?

Din4mo allowed the FIIMP to appoint a representative to observe its Strategic Investments Committee. This committee is composed of Din4mo executives and investors.

The Committee was created as an advisory body and has the following functions:

— Deciding on investments (veto) and exits (qualified vote).
— Checking for feasibility, risks and investment performance.
— Discussing possible conflicts of interest.
— Validating the company screening and prospecting funnel.
— Approving with the majority of the votes of the participating members.
— Meeting ordinarily bimonthly or extraordinarily by summons, to monitor pipeline and portfolio.

During the term of this financial transaction, regular meetings of this Committee will be the forum for the monitoring by the FIIMP of the investment made. The Committee has a mandate of 24 months that will expire in December 2018

WHAT DOES THIS EXPERIENCE BRING TO THE SOCIAL FINANCE AND IMPACT BUSINESS ECOSYSTEM?

Din4mo Ventures (DV) provides a service called the Impact Innovation Acceleration Program. The selection process generates a qualified impact business pipeline, mitigating risk and reducing cost of ownership for Din4mo.

DV's role in supporting startup is essentially in the following steps:

1. Construction and validation of the investor deck (ICVM588);
2. Mobilization and connection of investors (private and public offer);
3. Management, support in the impact indicators and monitoring of the funding and investment process;
4. Structuring the investment alongside the crowd equity platform and legal details such as the debt bond
5. Investor Relations: sending quarterly financial reports to investors, including executive summary, strategic pillars, operational performance, financial performance and other relevant facts from the respective period. They also provide a digital space for investors and entrepreneurs to exchange information.

Another contribution is the diffusion of crowd equity digital platforms. The use of digital platforms to attract investors shows that impact businesses have the possibility to receive investments with more speed and volume. The platform allows access to a greater number of potential investors (eg angel investors, companies, financial institutions, individuals ...), and the possibility to capture investments of all sizes (2k, 100k, 500k Reais ...).

For the intermediary who supports the impact business, the platform can speed up fundraising and provide greater visibility to different types of investors.

For the ecosystem, crowdfunding allows the entry of more investment, both in the number of investors and the volume raised. This tool "popularizes" investment, since anyone can access the platform and make an investment.

MAIN LEARNING POINTS OF THE FIIMP PARTICIPANTS

— At the group meeting in late 2016, the five institutes – ICE, Cyrela, Holcim, Phi Institute and InterCement Institute – decided to make the investment directly into the Din4mo fund. They faced questions from their legal departments: how were were the 5 going to invest together? They also involved their financial departments to bring solutions. Finally, they made the decision to make a simple loan agreement with Din4mo. They had very little prior practical experience in this matter.

— It is interesting to see that this instrument can popularize investment in impact businesses; the minimum investment in the Din4mo syndicate is 2,500 Reais, for example.

— This instrument via crowdfunding is in the process of being regulated CVM (Brazilian SEC) and therefore it is important that the investor follows these changes.

— Seeing crowdfunding investments exceed expectations is impressive and attests to the potential of this instrument. In the case of Mais 60 Saúde, the minimum funding expected was 679,320 Reais, and the amount raised in the closed funding round alone was 492,500 Reais, which is very significant.

TECHNICAL INFORMATION

CASE 2 – CONVERTIBLE DEBT BOND – +60 SAUDE – DIN4MO VENTURES (VIA BROOTA)

FINANCIAL TRANSACTION DETAILS

Duration of instrument (maturity): 10 years for conversion
Amount invested: 167,500 Reais
Broota fees charged to the entrepreneur: 3,000 Reais at the point of funding approval, for structuring the offer. In the case of a successful offer, a maximum of 10% of the amount raised.
Din4mo administration fee charged to investors: they do not charge an administration fee.
Theoretical rate of return for the investor (FIIMP): 4% p.a.

TECHNICAL INFORMATION

CASE 3 – CONVERTIBLE DEBT – VIVENDA – DIN4MO VENTURES (VIA BROOTA)

FINANCIAL TRANSACTION DETAILS

Duration of instrument (maturity): 10 years for conversion
Amount invested: 33,500 Reais
Broota fees charged to the entrepreneur: 3,000 Reais at the point of funding approval, for structuring the offer. In the case of a successful offer, a maximum of 10% of the amount raised.
Din4mo administration fee charged to investors: they do not charge an administration fee.

CASE 4 – DEBT INSTRUMENT – BEMTEVI

Bemtevi was created with a vocation for promoting and supporting Social Business, believing that this model has essentially a very clear objective of removing limits artificially imposed on the less favored and freeing the potential that all people have, ensuring the best opportunities to reach their goals, regardless of means or social class.

Unlike other processes, it believes that all ideas and entrepreneurs have potential and deserve to be developed – each in its own time, with greater or lesser need for improvement, but all deserving of credit and trust. “We are a Social Business that invests in Social Business” – Bemtevi’s Manager.

WHICH IMPACT BUSINESSES RECEIVED INVESTMENT?

Funding was invested in the Bemtevi Fund that makes loans to Social Businesses. The FIIMP contribution is part of five loans to Social Businesses, with the loan to one of the businesses having been executed to date.

In the Bemtevi model, up to 50% of the funding can be lent to the Social Business. To share the learning, we outline below some examples of business that have benefited from the FIIMP contribution.

AGENCIA POPULAR SOLANO TRINDADE

A cultural enterprise that has been built by young people who organize cultural activities in the south of São Paulo. Its purpose is to foster and strengthen the creative cultural economy, by encouraging production and diffusion of popular culture, creating forms of organization that enable the sustainability and self-production of cultural initiatives. They sought out Bemtevi to present the **Solano Trindade Creative Community Kitchen** project, which aims to combat the problem of food deserts, bringing quality food to the community of Campo Limpo and supporting local entrepreneurship in activities related to healthy eating.

DESCARTE CORRETO

A social business located in Manaus (Amazon region), specialized in the management of electronic waste and with an innovative process that brings together advanced alternatives offered by the corporate and social sectors for the collection, recycling and correct disposal of electronic waste, duly registered and licensed. They disseminate the concept of correct disposal by mobilizing people, communities, companies, governments, entities and social businesses, aiming for promotions, events, forums and seminars. Through partnerships, they have created a network of hubs, with solutions for the correct disposal of electronic waste.

HOW DID FIIMP PARTICIPATE IN THIS INVESTMENT PROCESS?

The resource invested by FIIMP supports a pool of impact businesses served by of Bemtevi, namely: Agência Solano, Pano Social, Flavia Aranha, Descarte Correto and ASID (Social Action for Inclusion of Differences). In order to follow the investment steps, FIIMP representatives participated in day-to-day activities of the supported businesses, such as Agência Solano Trindade's "Creative Kitchen Project", and the company "Descarte Correto".

Bemtevi has always been very open to the FIIMP learning process, making the entire business agenda available for the participation of our members, with no limits on the number of people.

"Having the feedback from an investor so specialized in the social impact sector was very valuable to Bemtevi." Bemtevi manager

FINANCIAL INSTRUMENT

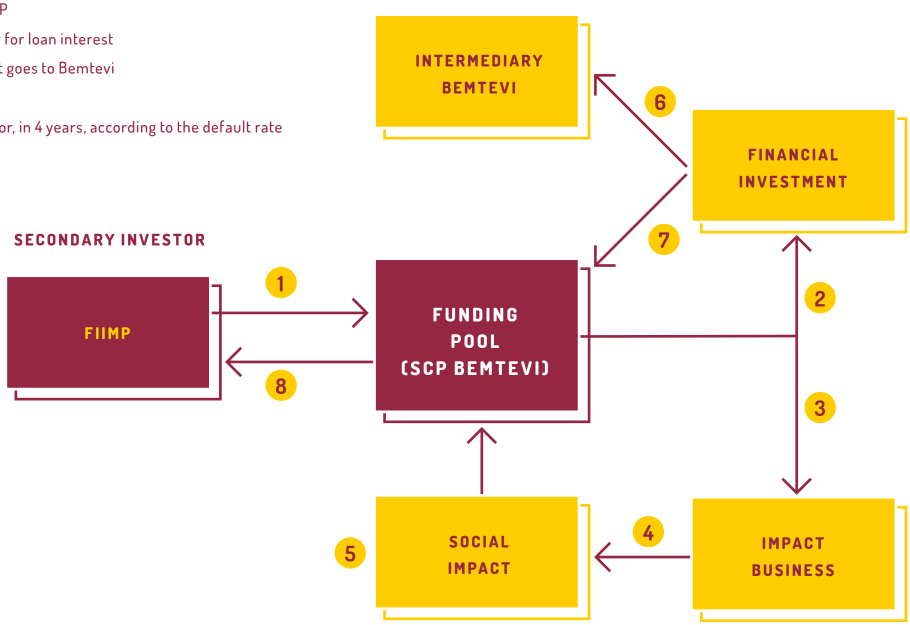
The instrument chosen was debt, which consists of making loans to impact businesses. The loan is made directly to the impact business, and establishes criteria for time, interest rate, and social and environmental goals (unlike the regular financial market).

HOW WAS THE FIIMP RESOURCE FLOW STRUCTURED?

FIIMP contributed funding of **167,500 Reais** (approx. 45,000 USD) to SCP Bemtevi (SCP is a Brazilian legal structure in which secondary investors do not respond legally for the organization's activities) with return of the loan amount in 4 years. Part of this was earmarked for a low-risk financial application (this income covers potential defaults on loans made to the businesses and Bemtevi's costs). The other part is intended for loans to be made to impact businesses. Unlike in other cases, the invested resource can benefit more than one business simultaneously. With respect to the return on investment to FIIMP, it will remain with the intermediary organization so that it can be reinvested in other businesses and thus strengthen the ecosystem.

FLOW OF FIIMP'S INVESTMENT VIA BEMTEVI

1. Investment in the SCP
2. Minimum 50% of the funds go into a low risk financial investment (Brazil risk)
3. Maximum of 50% of funds is loaned to impact business
4. Impact business pays back the loan to SCP
5. % of impact attained is a reduction factor for loan interest
6. Earned income from financial investment goes to Bemtevi
7. Initial loan amount returns to SCP
8. SCP returns the initial value to the investor, in 4 years, according to the default rate



Source: Bemtevi

WHAT DOES THIS EXPERIENCE BRING TO THE SOCIAL FINANCE AND IMPACT BUSINESS ECOSYSTEM?

The impact business is able to accesses loan conditions that it could not get in the regular financial market. In this experience, Bemtevi encourages the achievement of socio-environmental impact goals through the reduction of loan interest.

Loans in this field take into account socio-environmental results, in addition to financial / economic results.

MAIN LEARNING OF FIIMP PARTICIPANTS

— We are investing in the work of the Intermediary and supporting several businesses with the same investment.

— Having an intermediary who actively participates in business management processes, starting with building the theory of change, gives more security to those who are investing.

— Bemtevi's own business, which achieves zero interest depending on the performance of the business, linked to the expected impact of the theory of change, is very innovative for the field of social finance. And one of the proposals of the FIIMP is to strengthen the field itself.

TECHNICAL INFORMATION

CASE 4 – LOAN – BEMTEVI

FINANCIAL TRANSACTION DETAILS

Loan Duration (term): average of 2 years, but depends on each business.
Amount of funding for the impact business: up to 50% of the amount invested.
Theoretical rate of return for the investor (FIIMP) *: return would be principal
Administration fee: None.
* In this case the FIIMP chose not to receive back the initial loan amount, or the accrued interest. These resources will be used in the future for further loan transactions.

IN SUMMARY

FIIMP tested four different financial instruments through three Intermediates and one direct investment.

In the first case, **SITAWI** Finance for Good was the intermediary and the instrument used was **Loan guarantee**. The supporting organization (in this case, SITAWI) assumes the role of guarantor for the loan to be contracted by the impact business, which pays a fee for this service. To guarantee the loan sought by the business, the Intermediary charges a standard service. Due to the delay in the negotiation time, the initially chosen entrepreneur gave up on the operation because they obtained a loan with more favorable rates and conditions elsewhere. SITAWI continued the process, evaluating other businesses interested in the guarantee, for execution in 2018.

In the second case, the intermediary was **Din4mo** and the instrument was **Convertible Debt Bond (TDC)** carried out through the Broota platform in the closed fundraising round of Din4mo's syndicate. A healthcare business (Mais 60 Saúde) received investment from five FIIMP organizations (Cyrela, ICE, InterCement, Holcim and Phi). The contribution was 167,500 Reais, making up the volume of the leading investor. After private funding, the Din4mo led a round of public fundraising (crowdfunding).

In the third case, the investment was made directly by Childhood in a business of reforms for popular houses (Vivenda), through the a public fundraising roundup on the Broota platform. The instrument was the **Convertible Debt Bond**, as in the second case, with an investment of 33,500 Reais.

In the fourth case, the intermediary was **Bemtevi**, supporting several businesses (Agência Solana, Pano Social, Flavia Aranha, Descarte Correto and ASID), and the chosen instrument was **Debt**. The financial resources contributed (167,500 Reais) were transferred to SCP Bemtevi, part of which was destined for a low risk financial investment and the other part is destined for loans to impact businesses.

7.

NEXT STEPS

HOW CAN WE CONTINUE TOGETHER?

Joining together 22 foundations and institutes, from the most diverse sectors and with different interests, to invest jointly in impact businesses and to learn how to do this kind of investment was a bold (and even risky) idea. However, after the first year of the FIIMP, we have reasons to celebrate!

The accounts of FIIMP participants are very positive in relation to increased knowledge about investments and businesses, the expansion of the repertoire of financial intermediaries and their methodologies and the definition of impact investment strategies of their respective organizations. As seen in the cases invested, learning was acquired by all those involved, and there was relevant contribution to the ecosystem.

Other gains have been strengthening dialogue with other philanthropic organizations, the possibility of increased networking and joint investment opportunities, reflections for the social Sector, as well as dialogue with regulators.

“It had the great value of showing paths and demystifying this agenda among philanthropic organizations.”

Fábio Deboni
(Instituto Sabin)

“I have great appreciation for spaces in which different worlds are represented. When you watch presentations from the different Intermediaries and different social businesses, we see links of the whole chain being represented. We have to be very careful not to keep the same pattern of exclusion as always.”

Ana Maria Drummond
(Childhood Brasil)

“It reinforces the idea of networking and the power of peers. In the field of philanthropy this makes a lot of difference. There is also a symbolic contribution, there are at least 22 relevant institutes and foundations testing more daring things and venturing to understand this new option. I see that it was a trigger and that arms and legs are becoming uncrossed. ”

Fábio Deboni
(Instituto Sabin)

“The richness of the FIIMP has been the possibility of learning together. We can’t give up on taking a little risk. Without this we do not discover new things.”

Ana Maria Drummond
(Childhood Brasil)

“The process and the structure of the FIIMP have provided an inexpensive experience that has generated confidence and dissemination quickly. It would take much longer if someone tried to call us one by one for this investment. Creating the group was the right move.”

Cristieni Castilhos
(Fundação Lemann)

“For the Tide Setubal Foundation it was very important to participate in this group that achieved joint action and harmonious learning. We have been able to experience new frontiers for innovation in the field of philanthropy, with the potential to attract more resources and partnerships for our causes.

Paula Galeano
(Fundação Tide Setubal)

WHAT ABOUT INSIDE MY ORGANIZATION?

There is still much to be done – and we are aware of it. In 2018 the FIIMP will monitor its investments and the financial and socio-environmental impact generated in each case. In this way, we will be able to learn even more about each financial instrument used, critically assessing what worked and what could have been better, as well as analyzing together with the selected Intermediates and impact businesses what were our main challenges and learning along the way. Certainly we will have much good news, reflections, learning and recommendations to share at the end of yet another cycle!

Our wish with this publication is that more institutes and foundations can take their first steps in impact investing, with the security that this type of investment requires. The more knowledge generated in relation to the topic, the more institutes and foundations will feel confident in diversifying their investment portfolio, whether by investing directly in impact businesses or through financial intermediaries.

We are sure that investing in impact businesses can be a profitable alternative to traditional investments, and bring many more benefits to everyone.

Society gains by having some of its most pressing challenges solved, at least partially; the impact businesses and intermediaries gain strength to expand their operations and generate more impact; and investors have a financial return at market-like rates, and most of all, they can feel much more accomplished knowing that their invested capital has helped to solve some of the country's many problems. **Let's embark on this journey together?**

“FIIMP has been a very rich space for exchange. Institutes and foundations traditionally support socio-environmental initiatives with non-refundable resources, and this field of Social Finance has appeared in recent years as a complementary possibility to the philanthropy sector. The shared learning of the FIIMP ends up reducing risks and accelerating the process. Meanwhile for FundoVale, our current challenge is to stimulate this ecosystem in sustainable productive projects in the Amazon, based on accumulated learning.”

Márcia Soares
(Fundo vale)

“The power of the connections is enormous! I invite you to experiment. It is up to some actors to finance maturity, testing and error.”

Luis Fernando Guggenberger
(Instituto Vedacit)

“Our organization had never made an investment like this before and today we better understand the ecosystem to promote this type of investment within the companies of the group”

Fernanda Quintas
(Instituto Votorantim)

“No matter the size of the organization, the difficulties are very similar.”

Tatiana Brasil
(Instituto Holcim)

“We are more prepared to propose solutions related to impact businesses to companies in the Votorantim group.”

Filippe Barros
(Instituto Votorantim)

“The greatest learning has been the ways that Foundations can act as impact investors because it guarantees innovative approaches to achieve our institutional mission. FIIMP was essential for the development of our internal impact investment strategy. Without the various lessons learned, this agenda would hardly advance in our Foundation”

Fernando Campos
(Fundação Grupo Boticário de Proteção à Natureza)

“I was able to include the concept of ‘social business’ in the project I work for and also contribute to the restructuring of a program. In addition, I have identified several opportunities for partnerships with FIIMP participating organizations, an excellent example of how Foundations can join forces by networking.”

Greta Salvi
(Fundação Tide Setubal)

IMPACTS AND CONTRIBUTIONS OF THE FIIMP EXPERIENCE FOR PARTICIPATING ORGANIZATIONS

INSTITUTO INTERCEMENT	FUNDAÇÃO OTACÍLIO COSER (FOCO)	OI FUTURO	INSTITUTO VOTORANTIM
— Broadening vision about investment in impact businesses.	— Redesign of the sustainable communities panorama.	— Shared journey and information. — Investment (options for instruments). — Clarification of legal issues. — Knowledge about Intermediaries.	— Getting to know intermediaries and their diverse actions / financial mechanisms. — Understanding how needs of large companies and challenges faced by impact businesses can converge. — Interacting with experiences in this topic of other foundations and institutes.
INSTITUTO EDP	**FUNDAÇÃO LEMANN**	**FUNDAÇÃO RAÍZEN**	**INSTITUTO HOLCIM**
— Expectation of how to make impact investments.	— Knowing that other foundations and institutes support the topic gives us certainty that we are on the right track.	— We can expand the impact created for Young people and in communities where Raizen is present, but which we can't reach through the foundation.	—Strengthened the debate around a new way of working — Discussion on the topic internally.
FUNDO VALE	**PHOMENTA**	**INSTITUTO AYRTON SENNA**	**CHILDHOOD**
— Learning about social finance instruments. — Connection to other organizations in the ecosystem.	— Understanding of the challenges, agendas and risks tolerated.	— Discussions on sustaintability and new business modelos to increase distribution of educational solutions and impact.	— Reflection on which programs have potential to become independent and sustainable.

BMW FOUNDATION	INSTITUTO PHI	INSTITUTO SABIN	GIFE
—SDG methodology	— Possible partnership with BemTeVi. — Philanthropic capital for social businesses.	— Consolidate strategy. — Create own investment instrument (Convertible debt, 150k, impact business in health).	— More knowledge of impact businesses / social finance in network.

INSTITUTO SAMUEL KLEIN	INSTITUTO VEDACIT	FUNDAÇÃO GRUPO BOTICÁRIO
— Get to know better the world of impact business and investment mechanisms. — Get in touch with a network of diverse foundations and institutes. — Being "in the know" on topics discussed annually in the social sector (eg: legal situation for impact businesses). — Learn about the universe for entrepreneurship with impact and returns.	— Premise: Hire impact businesses wherever possible. — Invest in actions that develop the field. — Connect the business to rethink the pipeline for open innovation (consider impact businesses too..	— Helping the topic of impact investing to enter into our agenda. — Networking and sharing learning.

ICE INSTITUTO DE CIDADANIA EMPRESARIAL	FUNDAÇÃO TIDE SETUBAL
— Bringing foundations to the field. — Concrete opportunities to involve ICE's associates and partners. — Test out mechanisms. — Reflect on the role of philanthropy in strengthening the field. — Inspiration for FORI Impact Project (Family Offices for impact).	— Investment in mechanism for financing Vivenda reforms. — Work of the FZLS ("FUNDO ZONA LESTE SUSTENTÁVEL") in supporting community entrepreneurs from the Eastern district of São Paulo. — Supporting and strengthening collective initiatives / projects from other peripheral areas.

1.
The first steps

2.
Our journey

3.
Beginning the journey: why invest in impact business?

4.
Getting to know the path: how to invest in impact business

5.
Moving forward: legal matters and impact evaluation

6.
Embarking on the journey: the FIIMP investments

7.
Next steps

8.
Going further

8.

GOING FURTHER

SUGGESTED READING FOR DEEPENING UNDERSTANDING

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WANT TO KNOW MORE? (GLOSSARY)

Investment agreement: basic terms established between the parties as to the investment conditions. **Source: Various.**

Guarantor: organization or person directly responsible for the payment of a foreign exchange security, expressing, in person, his or her signature on the back or front of the same, answering legally as if it were the guaranteed party. **Source: Various.**

Carry: also known as carrying charge, are the charges levied for granting credit, financial expenses, insurance expenses. **Source: Adapted from the Dictionary of Financial Terms and Investment, by John Downes and Jordan Elliot Goodman.**

CDB (Bank bond): a security deposit certificate issued by a bank that operates like a loan that it receives, paying a fee in return. At the end of the application, the interest is added to the initial loan amount. **Source: Government of Brazil.**

Simple loan agreement: the loan of fungible items. In contract, the borrower is obliged to repay to the lender what he received in something of the same kind, quality and quantity. **Source: Article 586 of the Civil Code - Law 10,406 / 02.**

Debt: an investment instrument consisting of lending.. **Source: Various.**

Equity crowdfunding: means of collective financing through digital platforms by which the investor gains the right to acquire an equity stake in the invested company. **Source: Various.**

Due diligence: due diligence is the careful, thorough evaluation of a potential investment, whether on a corporate or individual level. The objective is to verify the material facts related to the purchase of the investment, as well as to understand whether the investment fits an individuals return requirements, risk tolerance, income needs, and asset allocation goals. **Source: Merriam-Webster.**

Foundations and Institutes: Foundations and institutes in Brazil have two legal structures that present the characteristics of non-profit entities: foundations and associations. Foundation is the attribution of legal personality to patrimony, with a social purpose. When it is created, the foundation will be subject to supervision by the Public Prosecutors Office. An association meanwhile is the union of two or more people who organize for non-economic purposes. Among associations, the social sector includes those that pursue the common good and act in the social and public sphere. **Source: Social Finance Task Force.**

Outcomes: the measurement, generally qualitative, of the social impact associated to the results, to the changes seen in the target group after the intervention. In the example of a vocational course, outcomes could be associated with the knowledge acquired by students or the future consequences of such knowledge, such as gaining a job or returning to formal studies. **Source: Adapted from Kellogg Logic Model.**

Outputs: associated with "products" that are delivered by a social business, usually measured qualitatively. In a professional qualification program, for example, the output in a logical model is the course itself offered. This output could then be measured by means of frequency indicators, completion of the course or number of students. **Source: Adapted from Kellogg Logic Model.**

Private equity: an investment model that emerged in the US in the 1980s, in which a manager – a company that manages investments – buys a part of a particular company, becoming a partner in the business, in order to leverage its results to increase value of the company. This fund profits by selling its share of the business – after contributing to its value appreciation. **Source: Endeavor Brazil.**

Fixed Income: fixed income securities are characterized by having defined rules of remuneration. That is, those securities whose income is previously known (fixed interest) or that depends on indexers (exchange rate or inflation, interest rate, etc.). Investment in fixed income securities requires that certain specific characteristics of this category of asset be observed. Its most important characteristics are: who is the issuer of the security; what is the title term; and what is the type of yield of the bond. **Source: Banco do Brasil.**

Risk adjusted returns: A concept that refines the return on an investment by measuring the amount of risk involved in producing that return, usually expressed by a number or rating. Risk-adjusted returns are applied in mutual funds, individual securities and portfolios. **Source: Various.**

SCP: a legal structure that binds, internally, participants that are classed as either ostensive or participatory. The ostensive partner performs in his name the legal business necessary to finalize the object of the enterprise and responds for the unfulfilled obligations. The participatory partner, in contrast, has no legal responsibility for the business carried out on behalf of the ostensive partner. Update in 2016: although taxes and contributions are collected in the legal entity of the Ostensive Partner, the SCP itself must also be on the commercial register, being responsible for compliance with ancillary obligations. **Source: normative instruction srf nº 179, of December 30, 1987 and its amendments.**

Administration fee: remuneration paid for the provision of management and administration services, and may also be used to remunerate the other service providers that operate the investment fund. **Source: Itaú Asset Management.**

Impact thesis or Theory of change: in essence, a comprehensive description and illustration of how and why change is expected in a particular context. In the world of social impact projects, we are generally addressing social change. The theory of change exists to map, or rather "fill in" and explain what will happen midway between the start of project (or social program) and its end. What a social initiative does (what are its activities or interventions) and how will these help achieve the desired goals (social transformations). **Source: Inkinspira.**

Investment Thesis: a statement of how the organization will make the business more valuable within a period of time (about three to five years). A good thesis provides a much clearer basis for action than the typical financial goal of "last year's x% gains" that most companies use. Source: Paul Rogers, **Bain's London Office leader.**

Venture capital (VC): name used to describe all classes of risky investment. Even so, venture capital funds usually invest in mid-sized companies, which already have significant revenues, but which still need to make a leap in growth. With investment, the goal is to help these companies expand and reach their full potential. **Source: Endeavor Brazil.**

Q & A – FREQUENTLY ASKED QUESTIONS ABOUT FIIMP

What is FIIMP?

FIIMP – Foundations and Institutes for Impact is a group of 22 philanthropic organizations – corporate, family-based or independent foundations and institute – that have come together to learn, track and understand the results of investments in impact businesses, experiencing the use of different financial instruments. Its first initiative carried out collectively, with shared contributions, is the initiative "Learning with Impact Businesses."

What is the main objective of the group?

The main objective of FIIMP is to strengthen the social field by investing in businesses with socio-environmental impact, inspiring other social actors to do so.

How was FIIMP born?

The FIIMP had its origin in the Social Finance Innovation Lab organized by the Social Finance Task Force in October 2016 in Rio de Janeiro. The focus of the Lab meeting was to reflect and build proposals that could contribute to Task Force recommendation #2, which addresses the importance of institutes and foundations in supporting the development of the impact business ecosystem.

Who is part of FIIMP?

The following organizations participate in the collective: Childhood, BMW Foundation, Grupo Boticário Foundation for Nature Protection, Lemann Foundation, Otacílio Coser Foundation (FOCO), Raízen Foundation, Telefónica Vivo Foundation, Tide Setubal Foundation, Vale Fund, Ayrton Senna Institute, Coca-Cola Institute, Instituto Cyrela, Instituto de Cidadania Empresarial (ICE), EDP Institute, Holcim Institute, InterCement Institute, Phi Institute, Sabin Institute, Samuel Klein Institute, Vedacit Institute, Votorantim Institute and Oi Futuro. The group has the technical support of GIFE, Phomenta and ANDE (Aspen Network of Development Entrepreneurs).

How was the choice of FIIMP participants made?

Based on the idea that was born in the Task Force Lab, the participants designed an action plan to implement the first initiative of the group and a plan for prospecting possible institutes and foundations with potential interest in the initiative to make it feasible. A deadline for membership (December 2016) was established for organizations. From the beginning of the year the group started to work on structuring governance and implementing the initiative.

How did the group structure itself?

In order to structure the group and define its action strategies, a workshop was held in Rio de Janeiro in October 2016, with the support of the BMW Foundation. Social finance concepts and available tools were also discussed there, and the group's objectives and operating model were defined, as well as the financial instruments and intermediary institutions that would receive investment. Since then, it has consolidated itself as an independent group with its own governance structure.

Is the group a GIFE initiative?

No. Not all participating institutes and foundations are associated with GIFE. But the group understands that it helps Impact Businesses gain strength in the strategic agenda of GIFE and of the country, especially in its Impact Business Thematic Network.

How does FIIMP governance work?

The group's governance is based on collaboration and consensus, and is structured into an Assembly, a General Coordination Unit and an Extended Governance Group. In addition, it has working groups composed of representatives of the organizations involved in the initiative, which divide the tasks defined by the collective.

Does FIIMP have any projects?

The first action of the group is the "Learning with Socio-Environmental Impact Business" initiative, whose purpose is to learn collectively and collaboratively about intermediary organizations in this ecosystem and different financial instruments to support impact businesses, developing and managing a process of learning and experimentation in Social Finance instruments.

What are the specific objectives of this initiative?

— Trying out the application of different social finance mechanisms in a practical and collaborative way.
— Tracking and systematizing the experience, to ensure the learning of the group participants
— Testing financial mechanisms that are appropriate in the context of Brazilian foundations and institutes.
— Trying out strategies to support socio-environmental projects with returnable resources.

How long will the initiative take place? What is its duration?

The first FIIMP initiative should last until the end of 2018, when the group can follow the first results of the investments made. There is no other initiative yet, but the group plans to meet in the first half of 2018 to consider its next steps.

How much is each organization contributing?

The pool of organizations raised a total of 703,500 Brazilian Reais (approx. 180,000 USD), from individual contributions of 33,500 Reais, which will be allocated in the learning process through investment in businesses of socio-environmental impact, via Intermediaries, and in the social finance ecosystem. The focus is learning, not maximizing the return on invested money.

Isn't the amount contributed by the members of the FIIMP (US $ 10 thousand = R$ 34,300) very small considering the size of many of these organizations? How was the contribution amount defined?

The main objective of this first initiative of the group is to learn and experience together. When the idea was conceived, the group decided that the process should start quickly, so the challenge was to join as many organizations as possible in a short time. Therefore, a relatively low value per organization was chosen, but which collectively is significant for the proposed objectives.

What will be done with the returns on the money invested in this initiative, since these are investments that are refundable?

One part of the group made a donation to the intermediary, and the return on the money invested will remain with these intermediary organizations chosen by the group to be able to reinvest in other businesses and thus strengthen the ecosystem. Another part of the group decided to amend their statutes to make investment and prove the thesis that they could receive the funds with interest in the future.

What financial instruments will be tested?

The financial instruments chosen for this first pilot action are:

— Convertible debt (Equity Crowdfunding), which is a means of collective financing through digital platforms in which, when making the investment, the investor gains the right to acquire an equity stake in the invested company;

— Debt, which consists of lending to the impact businesses;

— Loan guarantee (or guarantee fund) in which foundations and institutes assume the role of guarantors for loans contracted by the business.

Why were only three financial instruments chosen, if there are several others? What were the criteria for choosing?

The group chose three instruments that it considered as being the most interesting for a first experience of collective action. In addition, the group in this way ensured that each instrument tested received a significant volume of resources, so that it could support various businesses.

Are there any specific themes being supported by FIIMP, via these financial instruments (eg health, education, environment etc ...)?

No, the group is supporting business in several areas through this first 'Impact Business Learning' initiative with three intermediary organizations.

Why have such large foundations united around this initiative, if they already have their own model of operation?

This is a new topic in Brazil and also in the context of Brazilian philanthropy. In addition, collective work has shown itself to be a trend in philanthropy, not only in this theme, but as a working methodology generally, with the specific objective to implement initiatives with better connected strategies and less overlap, and thus increase the impact.


II Workshop FIIMP
sobre
Negócios de Impacto