

Market Overview

Between 1960 and 2015, Brazil was a major target for international philanthropy, receiving over USD 15bn in international development aid. However, over the past two decades, Brazil has rapidly developed the ability to meet the basic needs of its own population. Between 2003 and 2014, Brazil enjoyed an economic boom that lifted more than 29 million Brazilians out of poverty. This emergent middle class has sought to purchase higher-quality education, health care services and sustainable consumer goods. Yet a new economic downturn in 2014 led to unemployment for 14 million Brazilians. Sixteen million Brazilians now live below the poverty line, and the World Bank warns that millions could return to poverty in the coming years. Although this condition has compromised access to fair opportunities and a decent quality of life, the impact-investment and social-business markets continue to grow. Brazil is one of the first countries to have established a government-approved 10-year national strategy for impact investing. In June 2018, the Brazilian National Advisory Board (NAB) rebranded itself as the Impact Investing and Business Alliance (IIBA).

IMPACT INVESTMENTS HIGHLIGHTS

Supply of Impact Capital

- ▲ Brazil has benefited from decades of DFI investment, which provided seed and patient capital for the impact market's foundations.
- ▲ The Brazilian pension fund was one of the founding members of UN PRI.
- ▲ High-net-worth individuals (HNWIs) and families have played a formative role in the Brazilian impact-investment market, largely through funds.¹
- ▲ In 2017, a group of foundations and institutes began testing the impact-investment field, directing a percentage of their donations to this area.
- ▲ Brazil's largest pension funds, along with DFIs and government agencies, have served as anchors for the country's private capital market.² In fact, Brazil is one of the top recipients of financing from bilateral DFIs (USD 14bn).³

Intermediation of Impact Capital⁴

- ▲ In 2017, Brazilian investors reported impact-oriented assets under management (AUM) of USD 343mn, with a median value of USD 15mn. This is approximately 25% of the Latin American region's total (USD 1.4bn).¹⁴
- ▲ Equity and debt instruments are the dominant impact-investment vehicles, utilized by over 70% of investors active in Brazil. Quasi-equity is used by 39%. Most investors utilize a combination of instruments, with 25% also using donations.¹⁴

Demand for Impact Capital⁵

- ▲ A recent survey⁶ found data on 1,002 impact businesses. A separate UNDP effort⁷ mapped 857 ideas and social-impact businesses aligned with the Sustainable Development Goals (SDGs), from all regions of Brazil.

Government and Regulation

- ▲ The Secretariat for Innovation of the Ministry of Economy is coordinating the National Strategy for Business and Impact Investing (ENIMPACTO).

- ▲ The government has shown a growing interest in impact investing through the National Bank for Social and Economic Development (BNDES) and two other public banks, Caixa Economica Federal (CEF) e Banco do Brasil (BB).

Market Builders

- ▲ Active players in the ecosystem include a heterogeneous mix of incubators, accelerators, universities, networks, think tanks and other entities.

Indicators ^A	
GDP total (2011 PPP \$ billion)	2,991.8
Total Population (millions)	209.3
GINI Index	51.3
HDI	0.759
MPI	3.8%
EPI	60.70

KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
IFC	VOX Capital	Geekie
IDB	SITAWI	Vivenda
Proparco	Oikocredit	Avante
BNDES	MOV Investimentos	TEM
Wright Capital	Kaeté Investments	Terra Nova
Itau Unibanco	Bemtevi Investimento Social	4YOU2

SPOTLIGHT DEALS^B

Company	Total Funding	Investor	Sector
Geekie	\$7M	Omidyar Network	EdTech
Avante	\$18.8M	VOX, Centera	FinTech
Dr Consulta	\$91.9M	Omidyar, Kaszek, LBT Impact Ventures	Health

ABC of the Brazilian Impact Economy^C

An impact economy is a just and equitable economic system in which positive impact is produced in an environment of risk and return. In an impact economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sectors of the society in the mainstream economy, while also giving consideration to the needs of our planet and its environment.

The following table describes actions undertaken by a variety of stakeholders in Brazil for the adoption of strategies intended to **A**void harm, **B**enefit all stakeholders and **C**ontribute to solutions. The Brazilian impact-investment sector has already reached a relatively advanced state. This has been bolstered by demands from Brazil's new conscious consumers, who provide an ideal environment for investors desiring to achieve positive social impact using return-seeking investment capital.

	Avoid Harm	Benefit all stakeholders		Contribute to Solutions
IMPACT IN BUSINESS	<ul style="list-style-type: none"> ▲ In 2018, 29 Brazilian companies participated in a voluntary emissions-trading system simulation exercise, as a means of testing and developing proposals for a possible national system.⁸ 	<ul style="list-style-type: none"> ▲ There are currently 131 B-Corps in Brazil.⁹ ▲ In May 2018, the insurance industry signed the Rio declaration on climate-risk transparency. ▲ Two sustainability indices on the national equities exchange respectively focus on corporate sustainability and environmental sustainability. 		<ul style="list-style-type: none"> ▲ In 2019, a survey found 1,002 social and environmental impact businesses in Brazil.¹⁰
IMPACT IN INVESTMENT	<ul style="list-style-type: none"> ▲ Governance issues are systematically integrated into investor processes. A recent survey suggested that environmental and social issues will gain in importance over the next five years.¹¹ ▲ Brazil's largest pension fund was one of the founding signatories of the Principles for Responsible Investment (PRI). It helped in creating a strong platform for responsible and ESG integration, and subsequently for impact investment. 	<ul style="list-style-type: none"> ▲ Nine green bonds have been issued, for a total of USD 3.67bn. Most (73%) have come from corporate entities, with energy the largest field of investment (42%).¹² The main equities exchange certifies bonds as "green bonds," helping to attract interest. ▲ A Finance Innovation Lab, led by the IDB, the Brazilian Association for Development and the main Brazilian equities exchange (B3), is trying to develop financial instruments to foster sustainable investment, and has proposed related regulatory reforms.¹³ 		<ul style="list-style-type: none"> ▲ In 2018, Brazilians reported total impact-related AUM of USD 343mn, with a median value of USD 15mn. This is approximately 25% of the region's total impact-related AUM (USD 1.4bn).¹⁴ ▲ Impact investments taking the form of private equity or venture capital in Brazil totaled USD 6.8bn in 2016 – 2017, across 332 deals, according to industry research.¹⁴
IMPACT IN POLICY	<ul style="list-style-type: none"> ▲ Pensions regulator CMN has published a new standard governing the investment practices of occupational pension plans. Among other changes, it clarified that ESG issues must be considered in the pension funds' regular risk-assessment process.¹⁵ 	<ul style="list-style-type: none"> ▲ Under a 2005 anti-slave-labor pact, companies pledged to keep their businesses free of forced labor and cut commercial ties with businesses profiting from slavery.¹⁶ 		<ul style="list-style-type: none"> ▲ In 2017, Brazil launched a 10-year government-approved national strategy for impact investing and impact business, following collaboration between public- and private-sector entities. Twenty-six organizations have committed to achieving its targets.
IMPACT ON CONSUMPTION	<ul style="list-style-type: none"> ▲ Over 90% of Brazilians perceive air pollution, climate change, biodiversity loss and water availability as very serious problems – at least 30 percentage points more than the international average.¹⁷ 			

SDG Dashboard and Trends

CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges
 ■ Significant challenges
 ■ Challenges remain
 ■ SDG achieved
 ■ Information unavailable

SDG TRENDS



↓ Decreasing
 → Stagnating
 ↗ Moderately improving
 → Maintaining
 ↑ On track
 ● Information unavailable

Key Initiatives

Increasing the capital available to impact businesses

Encouraging additional supply of capital into the sector remains a key priority for Brazil, and additional innovative financing mechanisms are being established, especially at the seed level.

Increasing the number of impact businesses

Capacity-building programs for impact businesses have been important in the Brazilian market. These have been delivered through collaborations between public and private institutions, generally through accelerators or incubators, support programs, and universities. The objective has been to increase the number of qualified and scalable impact businesses, while consolidating the accelerators and incubators that support these businesses.

Strengthening intermediaries

There are at least 18 active impact-investing actors in the country, and at least seven incubators or accelerators dedicated to impact businesses. Another 70 entities have a strategic plan to bring impact business into their portfolios. ICE's Academia program supports professors in developing courses and research on the themes of impact investing and impact businesses. To date, more

than 90 professors from upward of 50 universities, half of which are public, have joined the program.

Promoting a conducive environment

Brazil has well-defined regulations governing the way that pension funds and listed companies report on ESG matters. The most notable recent advancement was the introduction of a regulation requiring pension funds to report on how they treat ESG matters. If they do not issue such reports, they need to explain why. In addition, the equities exchange requires all listed companies to report on sustainability issues, or to explain why they do not. SERP Regulation 4327 (2014) establishes social and environmental responsibility guidelines for financial institutions.

Strengthening data generation

Inspire Metricis is leading an impact-measurement initiative with more than 40 participants. A number of Brazilian accelerators, incubators and companies are also part of the Impact Management Project, led by Vox in partnership with Bridges Fund Management.

Road to Impact Economy

PATH TO TIPPING POINT 2020

Continue to move forward with plans to implement the national strategy for impact investing and impact businesses (ENIMPACTO)

Policymakers and other sector entities should encourage the involvement of private-sector and civil society organizations in implementation of the ENIMPACTO national strategy, while regularly monitoring and reporting on progress. Focusing on the four pillars simultaneously will help to avoid bottlenecks as the impact economy progresses.

Secure the commitment of newly elected political leaders

Having champions within the government has been a key factor in ENIMPACTO's success thus far. Newly elected political leaders should thus be encouraged to promote impact investing and impact businesses, in line with ENIMPACTO.

Increase government procurement from impact businesses

The share of public procurement (municipal, state and federal) of goods and services coming from impact businesses should be increased. Currently, there are strong barriers preventing impact businesses from winning government procurement contracts. Changing this regulatory structure will allow for significant progress.

Continue to progress with launch of SIBs

The launch of SIBs in Brazil has stalled in the current political environment. The release of an inaugural SIB will help the sector gain traction.

Progress with legislation on a company legal form

Legislation for a new legal vehicle similar to the B Corp is currently awaiting approval in Congress. Progressing with this legislation will help enable more specifically targeted impact-related policies.

Expand access to capital

Legislation governing the creation of endowments is awaiting approval in Congress. If endowment legislation was integrated into the National Strategy, this would provide an additional source of capital for the impact-investment sector.

Footnotes:

- ^A **Environmental Performance Index** Available at: <https://epi.envirocenter.yale.edu/>; All other **indicators** available at: <http://hdr.undp.org/en/countries>
- ^B Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, "Total Funding" refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.
- ^C The **ABC of the Brazilian Impact Economy** table is adapted from the IMP framework.

Sources:

- ¹ The ImPact (2017). IDEM
- ² EMPEA (2018). The Shifting Landscape for Private Capital in Brazil. Available at: https://www.empea.org/app/uploads/2018/05/EMPEA-Briefs_Brazil_FINAL_WEB.pdf
- ³ Center for Global Development (2018). Comparing Five Bilateral Development Finance Institutions and the IFC. Available at: <https://www.cgdev.org/sites/default/files/comparing-five-bilateral-development-financeinstitutions-and-ifc.pdf>
- ⁴ ANDE (2014). Mapping the Impact Investor Sector in Brazil. Available at: https://assets.aspeninstitute.org/content/uploads/files/content/docs/pubs/ImpactInvestingStudy_FINAL_VERSION_ENGLISH.pdf
- ⁵ ENIMPACTO (2018). National Strategy for Business and Impact Investing. Available at: http://www.mdic.gov.br/images/National_Strategy_for_Business_and_Impact_Investing_-_final_version_post_public_consultation_28.02.2018.pdf
- ⁶ Pipe Social website: <http://pipe.social/mapa2019>
- ⁷ UNDP and Sebrae Include Call, visit the website <https://www.br.undp.org/content/brazil/pt/home/presscenter/articles/2017/08/22/divulgado-o-resultado-da-chamada-de-casos-iniciativa-incluir-2017.html>
- ⁸ ICAP (2019). Available in [https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems\[\]=79](https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems[]=79)
- ⁹ Sistema B (2019). Brazil. Available in : https://sistemab.org/empresas-b-america-latina/?fwpp_presencia=brasil
- ¹⁰ Pipe (2019). Available at : <https://pipe.social/mapa2019>
- ¹¹ CFA Institute (2018). ESG Integration in the Americas: Markets, Practices, and Data. Available at: <https://www.unpri.org/download?ac=5397>

Document success cases

Highlighting successful cases could prove the validity of investing for social and financial returns, and thus stimulate further growth within this sector. According to the ANDE 2018 study, there were eight impact-related exits in Brazil between 2016 and 2017.

Ensure a sufficient range of impact-investment vehicles

Currently, the high concentration of deals with ticket sizes below USD 250,000 and above USD 1mn risks excluding impact businesses looking for resources between these extremes from the capital market.¹⁸

TRANSITION TO IMPACT ECONOMY 2030

- ▲ Brazil remains one of the most unequal countries in the world. Half of the population receives 10% of total household incomes, while the other half receives 90%.¹⁹
- ▲ By facilitating more inclusive approaches, the impact economy and the social and solidarity economy can play a crucial role in addressing some of Brazil's contemporary challenges. If Brazil is to reach the next level of social and economic development, inequalities in income must be reduced and public-service delivery improved, and the economy must diversify beyond its reliance on primary-product exports. Impact investing has the potential to address these issues by supporting market-based, scalable and measurable solutions that create social impact while generating positive financial returns.
- ▲ Though Brazil has the world's richest biodiversity, impact investments targeting environmental conservation are limited. The three editions of "The Impact Investing Landscape in Latin America" reveal few investments in businesses that generate positive impact on the conservation of our natural heritage. Additionally, the complexity of the topic makes it difficult for it to be more effectively incorporated. It is therefore essential to showcase examples that generate positive impact with regard to biodiversity conservation so that the topic gains relevance in impact investors' strategic agendas.²⁰

- ¹² Climate Bonds Initiative (2017). The State of the Market: Spotlight Brazil. Available at: <https://www.climatebonds.net/files/files/CBI-SotM-17-BR-English-WebFinal-01.pdf>
- ¹³ GSI Alliance (2018). Global Sustainable Investment Review. Available at: http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf
- ¹⁴ ANDE & LAVCA (2018). The Impact Investing Landscape in Brazil. Available at https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/brazil_files/ImpInvBrazil_Eng_2018.pdf
- ¹⁵ Emerging Markets ESG (2018). "Brazilian Monetary Authority Approves New ESG Requirements in the Investment Rules of Occupational Pension Funds". Available at: <http://www.emergingmarketsesg.net/esg/2018/01/10/brazilian-monetary-authority-approves-new-esg-requirements-in-the-investment-rules-of-occupational-pension-funds-un-environment-program-finance-initiative-july-10/>
- ¹⁶ ILO (2005). What is the Pact for the Eradication of Slave Labour. Available at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---ilo-washington/documents/genericdocument/wcms_189835.pdf
- ¹⁷ Echegaray, F. (2013) Sustainability in Brazil: a mixed conundrum. The Guardian. Available at: <https://www.theguardian.com/sustainable-business/sustainability-brazil-mixed-conundrum>
- ¹⁸ ANDE & LAVCA (2018). The Impact Investing Landscape in Brazil. Available at https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/brazil_files/ImpInvBrazil_Eng_2018.pdf
- ¹⁹ OECD (2018). Brazil Overview Economic Survey. Available at: <https://www.oecd.org/eco/surveys/Brazil-2018-OECD-economic-survey-overview.pdf>
- ²⁰ ANDE (2018). The Impact Investing Landscape in Brazil. Available at: https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/brazil_files/ImpInvBrazil_Eng_2018.pdf
- ²¹ Produtos Financeiros de Impacto: <https://forcatarefa-assets.s3.amazonaws.com/uploads/2019/10/Publica%C3%A7%C3%A3o-Produtos-financeiros-de-impacto-Vers%C3%A3o-OUT2019.pdf>

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