

ASPEN NETWORK OF DEVELOPMENT ENTREPRENEURS

aspen institute

# Impact Investments in Brazil 2020

February 2022

### PREPARED BY

### Aspen Network of Development Entrepreneurs



The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in developing economies. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs create jobs, stimulate long-term economic growth, and produce environmental and social benefits.

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### COORDINATION AND ANALYSIS

### Pipe.Labo

Research and intelligence in reading data and scenarios are our vocations. Pipe.Social was born from a research on impact businesses in education and launched itself to the market with the first Map of Socio-Environmental Impact Business and the Pipe.Social business window. Since 2016, we have been developing several studies on the socio-environmental impact sector in Brazil, publishing mappings, developing taxonomies and tools to support the ecosystem and the entrepreneur on their journey. With great pride, we have become a reference for the sector in the country and have consolidated Pipe.Labo as a center for studies and applied knowledge about the socio-environmental impact market in Brazil.



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### Participating nvestors

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Letter to Readers

 $\checkmark$ 

Since 2014, the Aspen Network of Development Entrepreneurs (ANDE) has published research results on impact investments in Brazil and Latin America. As per the Brazilian Alliance for Impact Investment and Impact Businesses' recommendation to annually monitor the impact investment sector until 2025, we publish this first report with data from 2020.

This edition innovates by incorporating data from two key themes for ANDE: gender equality and climate and environmental action in the entrepreneurial sector. For the first time, we have asked investors about the composition of their boards, their leadership (above management positions), the leadership in their portfolio companies regarding gender and race, and whether they have diversity, equity, and inclusion policies. We have also introduced questions about green technologies – asking investors to detail their deals in key subsectors in addition to asking if they manage climate risks and opportunities and measure greenhouse gas emissions associated with their investment portfolio.

It is a pleasure for ANDE to help record and reveal this data from Brazil, which shows a clear growth in invested volume and transactions. The data, however, also show that there is still so much more to be done. More women and black entrepreneurs need to be represented in leadership positions in investment firms, and our economy needs to be more and more "green".

A special acknowledgment to the partners who have made this research possible through their financial support: Institute for Climate and Society, Instituto de Cidadania Empresarial, and Boticário Group Foundation. We also thank Pipe.Labo, which was our technical executor and a small and growing business founded and led by women.

**Cecilia Zanotti** Head of ANDE Brazil

And to the other respondents.



# Summary

1 • Methodology & Sample	05	
2 • Introduction		
3 • Landscape 2020	08	
3.1 • Overview	08	
4 • Investors	12	
4.1 • Profile of investors	12	
4.2 • Impact intentions		
4.3 • Fundraising profile	21	
5 • Investiments	24	
5.1 • Type of investment sought	24	
5.2 • Methods of investing		
6 • Trends	33	
6.1 • Impacts of the pandemic	33	
6.2 • Trade opportunities		
7 • Key Tekeaways	42	
8 • References	44	



# Methodology & Sample

The data in this report come from an online survey that was developed in reference to studies conducted by the Aspen Network of Development Entrepreneurs (ANDE) and the Global Impact Investing Network (GIIN) on business and impact investments.

In all, 202 Brazilian and foreign investors were invited to answer around 90 questions about their impact investing organizations and practices, provided that they declared having managed **impact investments** in Brazil in 2020.



### **DESK RESEARCH & QUALITATIVE INTERVIEWS**

Secondary data from national and international research on impact investments and general investments were used. This report also leveraged relevant macroeconomic data to support some of the analyses and provide context to the presented information. For the same purpose, national experts were consulted who could qualify our analyses. These experts are acknowledged in the introduction of this study.

### IMPACT INVESTMENTS

In this research, the term "impact investments" refers only to those investments that meet the following conditions:

- Are direct investments in companies.
- Have environmental or social impact as an explicit goal.
- Have an expectation of financial return.
- Have deals of at least
   US\$ 4,400.00 or R\$ 22,000.00

### FIELD

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Data were collected online during the second half of 2021 in English and Portuguese. The survey elicited voluntary participation and self-declared responses and included mandatory and non-mandatory open-ended and close-ended questions. All questions that included monetary values were adapted to US Dollars (US\$) in the English questionnaire.



### Considerations for interpreting the data

- Most respondents chose to provide their information in reals (R\$). Some respondents chose to provide them in US dollars (US\$). For data analysis, the conversions of assets under management (AUM) at the end of the year were made using Central Bank of Brazil's official quotation December 31 of each reference year. For conversions of deal data in certain years, the average quotations of the reference year were considered according to data from the Institute for Applied Economic Research (IPEA).
- For some analyses in this study, the respondents who indicated having directly carried out investments in microcredit (exclusively or in addition to investments in other non-microcredit businesses) were considered outliers. Although there is a

consensus that microcredit businesses are impact businesses, there is a gray area pointed out by the technical committee for this study regarding the definition of who the investors in impact businesses in such cases are: institutions that make the loans or just the investors of these institutions. As seen below, this group of *outliers* has different characteristics from the rest of investors and represents 62% of the assets under management reported. When relevant, data will be presented separately for what this report refers to investors and *outliers*.

- Details of deals and exits were not enough for a more segmented analysis (only nine respondents).
- Some questions were single-answer only, others allowed multiple answers. Therefore, some graphs add up to 100%, but others do not.

### **QUICK GLOSSARY**

### **Assets Under Management (AUM):**

The total market value of the assets that an investment company manages.

**Investment portfolio:** The set of financial assets in which a given investor has invested their resources under management. It may include, for example, equity interests in impact businesses or loans.

**Deals:** Closed deals / completed transactions.

**Exits:** The moment in which an investor leaves a company, thus obtaining a financial return.

ESG (Environmental, Social, and Corporate Governance): Framework or criteria commonly used to measure a company's environmental, social, and governance practices.

**High-Net-Worth Individuals (HNWI):** People whose investable wealth (assets such as stocks and bonds) exceeds a certain value – typically more than one million dollars. **Outliers:** A certain set of data points as having particular characteristics that make them fundamentally different from the rest of the sample. In this research, impact investors who invest directly in microcredit were considered *outliers*, as explained in the above methodology.

**Risk-adjusted market returns:** Investors who expect to obtain this type of return seek to be compensated according to the risk taken in a given investment, with higher return expectations for riskier investments. This implies, for example, that the interest charged on a loan for a small company is higher than that which would be charged for a larger one.

Venture Philanthropy: A type of investment that uses concepts and techniques from venture capital financing and business management and applies them to achieve philanthropic ends, in order to provide for social and environmental impact solutions not only financial resources but also technical and managerial support.



# Introduction

Estimating the size of a market is a challenge that entrepreneurs often face when trying to convince potential investors that their business can grow and - if they are talking to impact investors - solve relevant social and environmental problems. Likewise, it is with this challenge that this research is faced. Based on the Aspen Network of Development Entrepreneurs (ANDE) conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits, and that access to capital is one of the determining factors for an entrepreneurs' ability to scale, this study was carried out in order to better understand the current size of the market in Brazil, its characteristics, perspectives, and challenges.

The work of tracking and measuring the landscape of impact investing is an enormous challenge, as evidenced by the fact that the first rigorous study estimating the size of the global impact investing market - the Global Impact Investing Network's report titled "Sizing the Impact Investing Market" - was published for the first time in April 2019. ANDE has approached this challenge head-on by analyzing key market trends in the Latin America impact investing field since 2013 and has continued to expand its sample and refine its methodology. This study seeks to deepen this investigation, looking exclusively at the Brazilian national market, with more questions and data, combining international comparisons, criteria and taxonomies.

Finally, any examination of investing must recognize the enormous challenges presented in the last two years, starting in 2020 - the year selected for this study. The largest and most obvious challenge was the spread of the Covid-19 pandemic across the globe, which made even clearer the importance of impact businesses and NGOs to deal with the challenges of the 21st century. It is not by chance that we have seen the acronym ESG (Environmental, Social, and Governance) gain space in various media – from investment conferences to major communication vehicles. In this scenario, 2020 was still a year full of challenges for the Brazilian economy and the businesses based here, which can be summarized in two statistical insights: the small growth of IBOVESPA (2%, after successive years of high) and another upward movement in unemployment (13.5%, the highest in the historical series started in 2012), which was already at historically high levels before.

Despite the challenges, what this research presents is a growing sector, which has improved and increased its investments in the face of many uncertainties. We want to extend our gratitude to investors who continue taking risks and believing in Brazilian impact businesses.



# Landscape 2020

### 3.1 **Overview**

This Impact Investments in Brazil 2020 report by the Aspen Network of Development Entrepreneurs (ANDE) provides the most up-to-date market scenario based on conversations with 47 investors who invest in Brazil, of which 38 had assets under management (AUM) invested or designated for investment in impact businesses in Brazil in 2020.

The good news is that in general, data point to a heated market that has been growing in recent years in terms of the number of investors, volume

of assets under management, and volume of deals and exits. All these indexes grew in comparison to previous reports by ANDE and other actors in the sector.

This report improves upon previous ANDE studies by analyzing some new indicators and cross-referencing information from comparable studies by the GIIN and Pipe.Labo. Through these improvements, this study aims to better characterize the impact investing sector and to understand the status of the market in Brazil.

### **FIGURE 3.1.1**

We collected information from with 47 investors who invest in Brazil; of these, 38 had assets under management (AUM) invested or for investment in impact businesses in Brazil in 2020; and 35 reported their portfolio values.

### **Headquarters** <u>country</u>





### Assets under management:

### R\$ 11,5 billion

dedicated to impact investments in Brazil with outliers (including microcredit organizations)

### R\$ 4,4 billion

in the sample without outliers (excluding microcredit organizations)



### Exits

14 exits made by nine investors, totalizing

**R\$ 22 million** 



### R\$1 bilhão

without outliers, in a total of 183 investments (deals) made by 30 investors







### **OVERVIEW**



### FIGURE 3.1.1 (CONTINUATION)

### BREAKDOWN OF INVESTMENT PORTFOLIOS BY SECTOR

B

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\$

\*

Others

LEGENDA

Citizenship / Civic Tech

Cities / Smart Cities

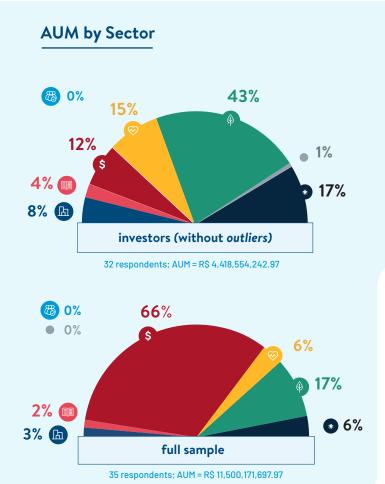
Education / Edtech

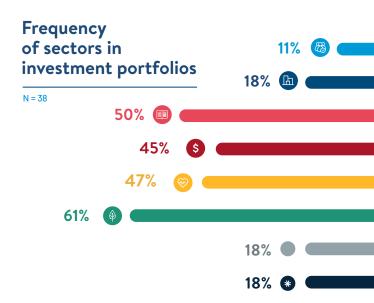
Finance / Fintech

Health / Health tech

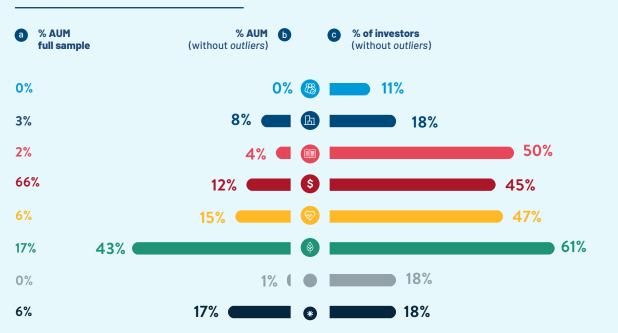
Green technology / Green Tech

Unallocated / Cash / Unpaid





# Frequency in portfolios vesus Percentage of total AUM



### Note:

Side list percent of AUM full sample (investors and outliers); base AUM = R\$ 11,500,171,697.97.

Left column percent of AUM excluding outliers; base AUM = R\$ 4,418,554,242.97.

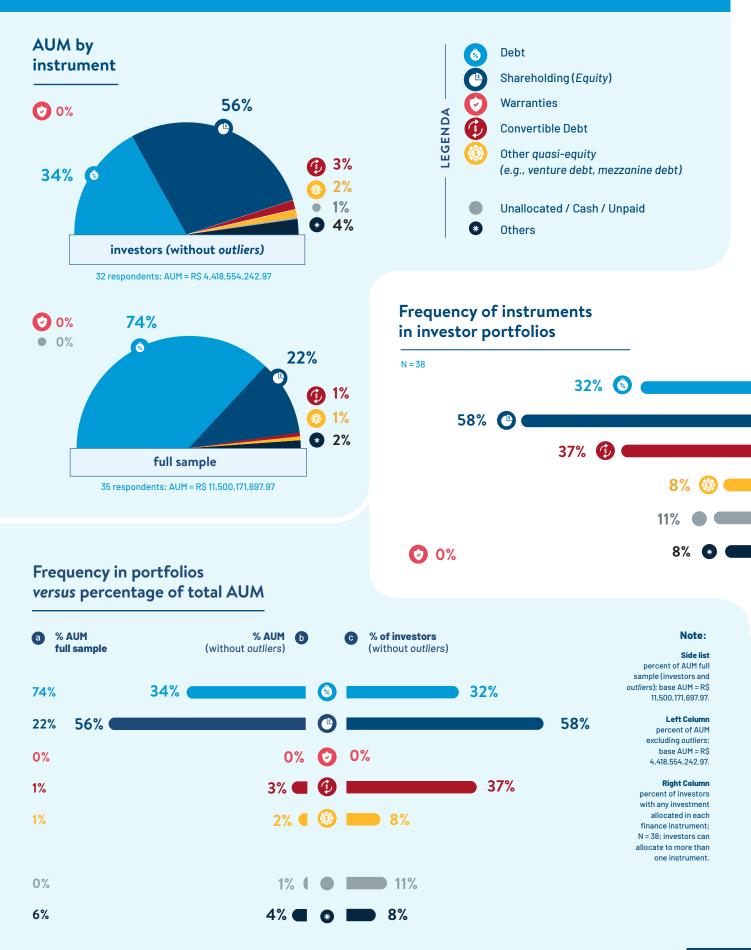
**Right column** 

percent of investors with any investment allocated in each sector; base = 38; investors can allocate to more than one sector.



### FIGURE 3.1.1 (CONTINUATION)

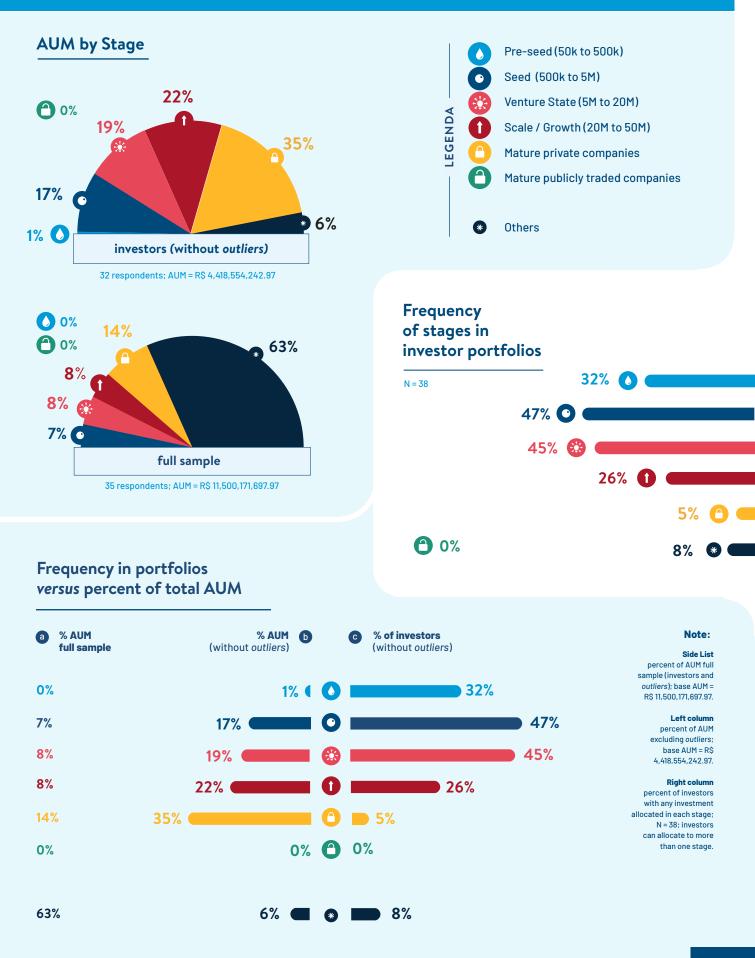
### BREAKDOWN OF INVESTMENT PORTFOLIOS BY MECHANISM





### FIGURE 3.1.1 (CONTINUATION)

### PORTFOLIO BREAKDOWN BY STAGE OF BUSINESS DEVELOPMENT





# Investors

The report was developed based on analysis of conversations with **47 investors based in Brazil and abroad,** with **38 of them having assets under** management (AUM) dedicated to impact investing in Brazil in 2020.

Together, these investors reported:



Assets under management • TOTAL: R\$ 11,500,171,697.97 or US\$ \$ 2,212,975,741.16

Assets under management
• Without *outliers*: **R\$ 4,418,554,242.97**or US\$ 850,261,509.78

Assets under management: • With *outliers*: **R\$ 7,081,617,455.00** or **US\$ 1,362,714,231.37** 

N = 35

This section describes these investors in terms of their constitution, location, business management, positioning, and impact intentions. In addition, this section examines their fundraising processes and their end investors' vision – those who allocate resources to responding organizations that invest in impact businesses for them.

# **Profile of Investors** (Figure 4.1.1)

Of the 38 investors included in the study, 28 are based in Brazil and 10 are based abroad. Most respondents are for-profit asset managers with a strengthened market positioning, especially in Brazil. In recent years, new managers have continuously emerged, and their desire to align themselves with the national standard of impact business - which prioritizes returns on their investment while pursuing positive socio-environmental impact - has grown. For analysis, it is worth noting that for-profit managers are also the majority among investors based abroad; the main difference between investors based in Brazil vs abroad is that there are no financial institutions among this externally headquartered group.

The desire of investors to position themselves close to the non-impact market also becomes apparent when considering their view on target returns. Most respondents aim for risk-adjusted market-rate returns, without expecting lower returns in exchange for impact. This majority is verified both in the frequency of the sample, 27 (which aim at risk-adjusted market returns) versus 11 investors (which aim at below-market returns), as well as in the volume of assets under management available, R\$ 11.4 billion against R\$ 93.3 million, respectively.

Many of the investors who made their first investment in the country in the last 10 years have strengthened this view. The number of first-time investors based in Brazil hiked in recent years. While only 6 investors made initial investments before 2010, 21 investors made initial investments between 2011 and 2020. This provides a positive outlook of a developing and tractional market. Among investors based abroad, the number varies less: four invested for the first time until 2010, and six in the following years.



### Microcredit

As explained in the methodology section, *outliers* (the three investors who operate microcredit) are excluded from most charts in this report. Two of the three outliers carry out microcredit operations directly, while the remaining one, directly and indirectly, provides microcredit. The volume of resources under management of these three *outliers* totaled R\$ 7.1 billion in 2020.

### United Nations 2030 Agenda

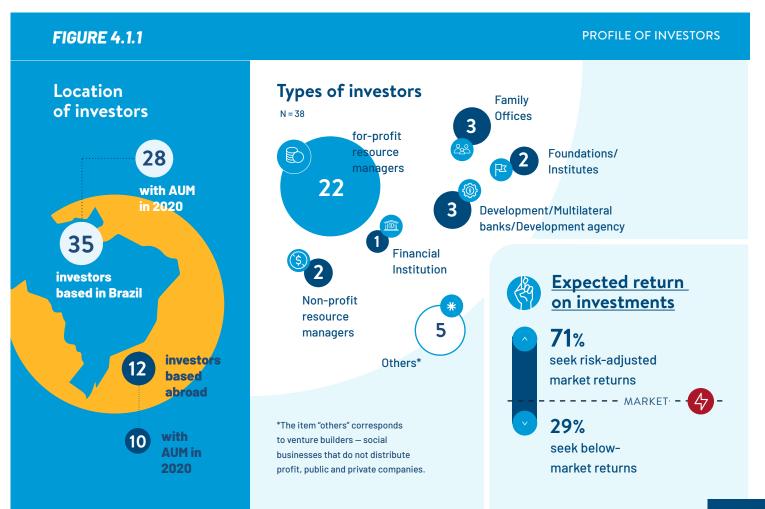


The majority of respondents (82%) use the Sustainable Development Goals (SDGs) of the UN 2030 Agenda as a guideline for their impact investments. This scenario is common among investors based in Brazil and abroad.

Overall, among the most adopted SDGs by investors are: SDG 10, Reduced Inequality (52%); SDG 3, Good Health and Well-being (48%); and SDG 13, Climate Action (45%). At the other extreme is SDG 16, Peace, Justice, and Strong I, with 0% of investors aligning their investments with this goal.

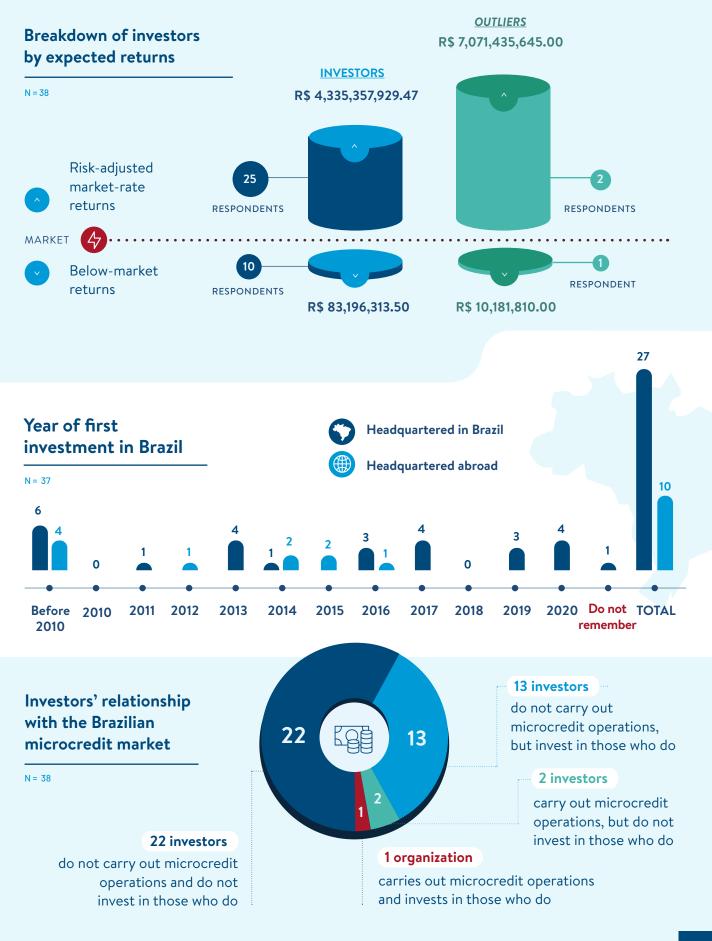
When comparing investors based in Brazil versus abroad, there is greater alignment of locally headquartered investors with the themes of health (6 out of 10), education (5 out of 10), and reduced inequalities (5 out of 10). Investors headquartered outside Brazil align more frequently with poverty eradication (7 out of 10), zero hunger and sustainable agriculture<sup>1</sup>(6 out of 10) and action against global climate change (6 out of 10).

<sup>1</sup>SDG 1: Zero Hunger in Portuguese is titled "Zero Hunger and Sustainable Agriculture. See https://brasil.un.org/pt-br/sdgs.





### FIGURE 4.1.1 (CONTINUATION)





### FIGURE 4.1.1 (CONTINUATION)

Impact investment

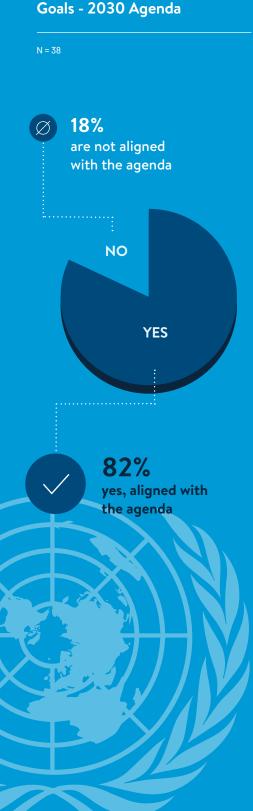
strategy explicitly aligned

Sustainable Development

with the United Nations

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS









Three-quarters of investors reported that they measure the impact of all or most of their initiatives. The previous edition of this report covering trends in 2018-2019 found that half of the sample measured impact (52%). Among investors based in Brazil, two-thirds measure the impact of all or part of their investment portfolio. As for those based abroad, nine out of 10 measure the impact of all of their investments.

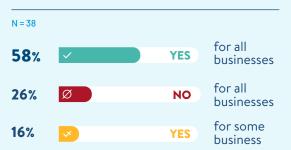
Regarding impact measurement tools, 59% of investors marked the option "other". Of these, most mentioned using their own measurement tools. Fifty-six percent reported Theory of Change - a methodology that demands a specific and customized construction for each invested business - to us.

The relatively low adoption of standardized tools is a well-known fact in the national impact business market. Many businesses are still in the early stages of development and cannot meet metrics or requirements of more robust and standardized tools used to measure impact in large companies. There is also the challenge of adapting to methodologies for the innovation and specificity of solutions, in addition to the constant changes that start-ups face in their early stages. Many of these observations appear in Chapter 6 of this report, which covers market challenges and trends.

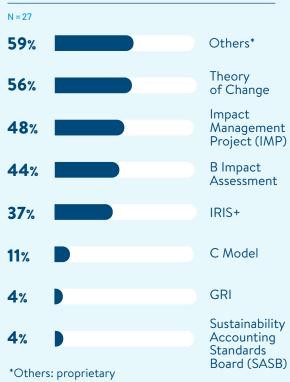
The cost of measuring impact is a well-known challenge in the national market. Therefore, it is interesting to observe how, in general, entrepreneurs and investors share the costs of these processes (44% and 56%, respectively). Looking at investors based in Brazil, 6 out of 10 respondents reported that their own invested businesses bear part of these costs, and 4 out of 10 investors collaborate in this process. Among investors headquartered outside Brazil, the trend is reversed, with only two out of 10 reporting that their businesses bear the costs and 8 out of 10 that they help cover these costs.

### **FIGURE 4.2.1**

## Measure social and/or environmental impact of invested businesses

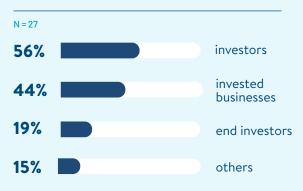


### How they measure impact



or lesser-known tools

### Who pays for impact measurement



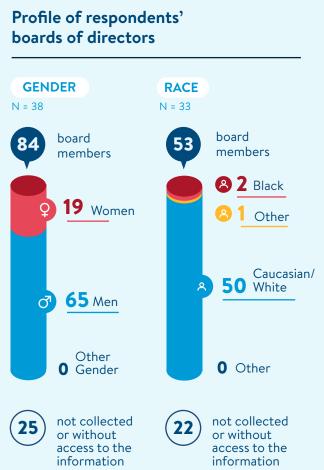


The 15% of respondents who marked the "other" option are headquartered in Brazil and bring alternatives for paying these costs, such as voluntary monitoring of their investees by academic groups and/or sponsorships from institutes and foundations.

### • Equality (Figure 4.2.2)

Since 2019, ANDE has prioritized gender equality as one of its priority themes, and in the last two years it has produced knowledge, made more than US\$ 2 million available through public notices, and supported organizations to advance their internal and external equality policies, including investors. In the questionnaire, investors were asked to provide information regarding their teams, boards, and investment practices considering this topic.

EQUALITY



Most respondents reported that they do not collect or have access to data regarding the composition of their board (25 out of 38 in gender; and 22 out of 33 in race or color) and leadership of investees (21 out of 34 in gender; and 18 out of 30 in race and color). While the lack of data imposes an additional layer of challenge, the data at hand makes us believe that a very small number of black people are board members (2 out of 53) and are in leadership positions (18 out of 124).

The issue of gender equality among leadership appears a little more equal, with 83 out of 187 people in leadership positions being women. Among investees, however, there is a clearer gender disparity – 40 women and 182 men in leadership positions – which reflects the lack of women entrepreneurs' access to capital evidenced by previous ANDE research<sup>2</sup>. Finally, the gender composition of investors' boards also skews strongly toward men, with only 19 of 64 reported board members identifying as women.

The challenge of racial diversity is significant among board members, organizational and business leaders. Caucasian/white people take the majority of board member positions (50 out of 53), leadership positions (136 out of 146), and business leader positions (105 out of 124). The remaining business leadership positions are composed of 10 black, eight "partidos" (a term in Brazil referring to a person of mixed black, indigenous, or/and white ancestry)," and one Asian.

When it comes to investment policies, gender and racial equality filters are uncommon. Only 45 percent respondents have these types of policies implemented in their investment reviews. Among those who have these policies, most focused on gender equality within portfolio businesses.

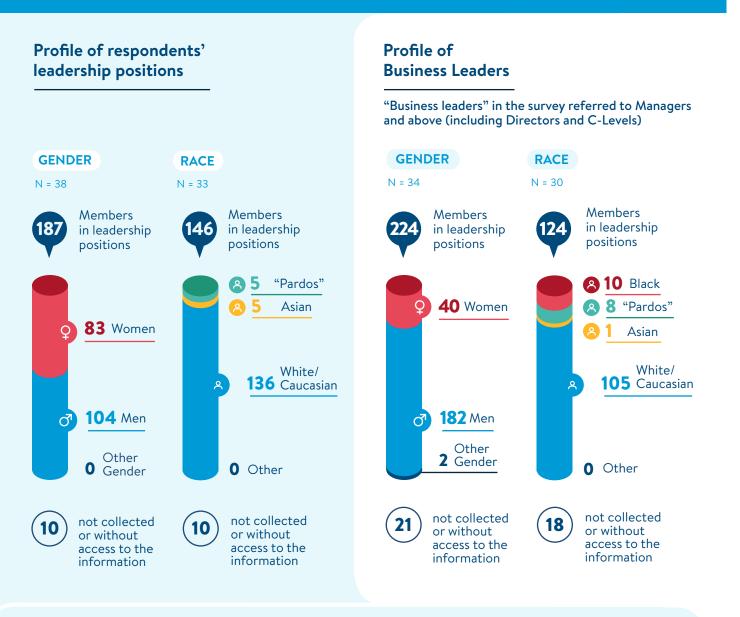
<sup>2</sup> https://www.galidata.org/assets/report/pdf/ Does%20Acceleration%20Work\_EN.pdfsdgs.

**FIGURE 4.2.2** 

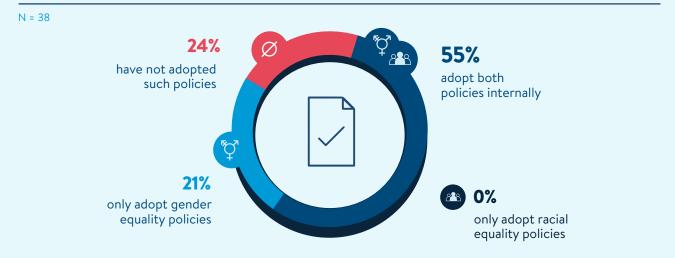


### FIGURE 4.2.2 (CONTINUATION)

EQUALITY



### Adoption of gender or racial equality policies in internal staff hiring processes





### FIGURE 4.2.2 (CONTINUATION)

### OPEN-ENDED QUESTION



### Most commonly used equality policies

Among the 14 investors who are already moving towards gender and racial equality policies, the most cited examples of policies practiced are inclusive communication actions in job postings, as well as the advertisement and access to these opportunities in media and vehicles that reach a more diverse audience.

"Positions exclusively open to under-represented determined groups, reduction of naturally excluding criteria such as English."

Responding Investor

"Inclusive language and communication in advertising opportunities."

Responding Investor

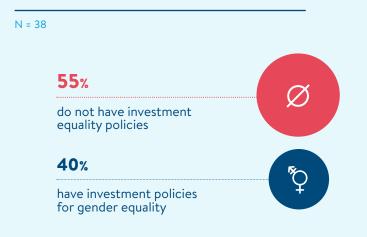
"Attraction and selection without biases and job positions advertisement in diverse communities."

Responding Investor

### "Service fees: pay equality in the same role and area for every person on the team."

Responding Investor

### Adoption of gender or racial equality policies in the process of choosing investees



# 21% have investment policies for racial equality 18% have investment policies that prioritize solutions that impact gender issues in Brazil 18%

have investment policies that prioritize solutions that impact race issues in Brazil

### • Climate (Figure 4.3.2)

Based on questions built in cooperation with CDP – Disclosure Insight Action, a non-profit organization specializing in climate issues, we sought to understand the adherence to the topic among impact investors in the country. Overall, 45% of respondents do not manage climate risks and opportunities for their investment portfolio but would like to do so, while 31% do not now and do not intend to do so in the future. Of the investors based in Brazil, only one in 10 respondents currently manage climate risks and opportunities. On the other hand, investors based abroad have a higher tendency to assess climate risks and opportunities of their investment, with six of the nine total respondents who carried out the risk assessment being based outside Brazil.



CLIMATE

"While in advanced economies, the transition to a low carbon economy represents additional costs, in Brazil we have a unique opportunity with the transition to leverage investments, resume growth, and generate jobs and quality income. We need to include 'climate' in public and private planning, redirect investments to sectors emissions and align financial and tax regulations, mitigating climaterelated risks, and optimizing the use of the green wave opportunities."

**Gustavo Pinheiro** 

**Climate and Society Institute** 

The same case is repeated in the analysis of greenhouse gas emissions associated with investment portfolios. Overall, 46% of investors still do not calculate emissions but intend to calculate in two years, while 35% do not find it necessary to calculate the carbon footprint of the portfolio. The only investor that already calculates the emissions of the entire portfolio is headquartered abroad.

Of the total number of investors, 38% already have initiatives to engage investees regarding the climate change agenda. The examples cited by investors in open-ended questions include initiatives such as ESG business assessments and B certification, incentives for the use of carbon credits, zero-carbon focus, and ecological footprint monitoring. Most investors based abroad, six out of 10, already work on this agenda; in Brazil, three out of 10.

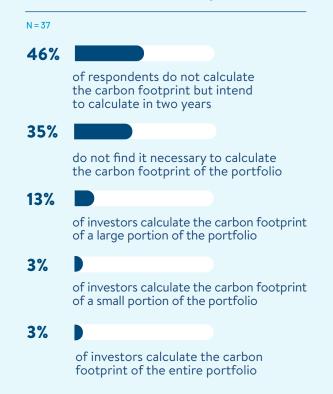
It is interesting to point out the difference between investors based in Brazil and those based abroad. For all impact questions, Brazilians more often present answers such as "We do not do it now but intend to in the future". None of the investors based abroad, on the other hand, took this position and were more emphatic when saying that they either already are measuring or do not intend to.

### **FIGURE 4.3.2**

Management of climate risks and opportunities for investment portfolios



### Greenhouse gas emissions associated with investment portfolios



### Engagement with investees on issues related to climate change



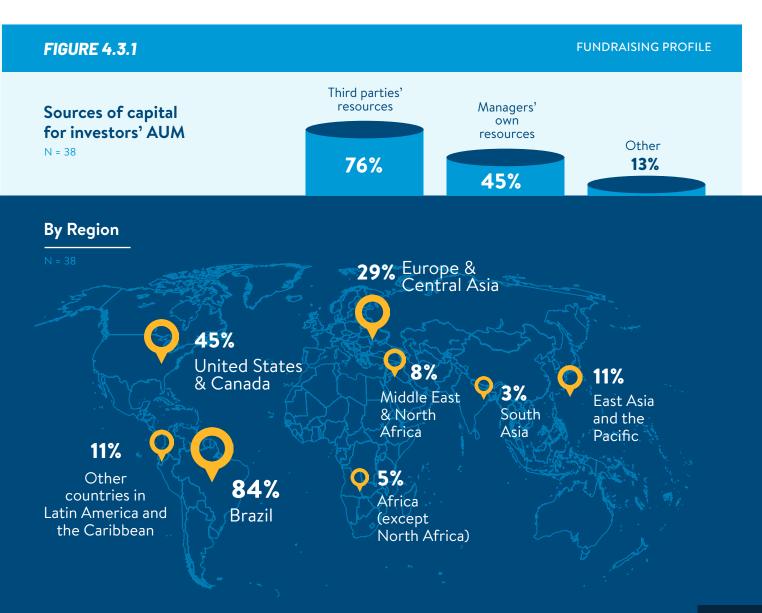




This section analyzes how investors are raising funds, the origin of the money, and the profile of end investors who are interested in impact businesses in Brazil.

Overall, the majority (76%) of investors raise their funds from third parties, especially from investors in their own country, the United States, and Europe. Among investors based in Brazil, almost all raised funds locally, and 3 out of 10 raised funds in the United States and Canada. None raised funds in the Middle East, North Africa, or South Asia. Investors based abroad also fundraise in Brazil (5 of 10) and were more likely to fundraise from the United States and Canada and Europe and Central Asia (8 of 10 and 6 of 10 respectively).

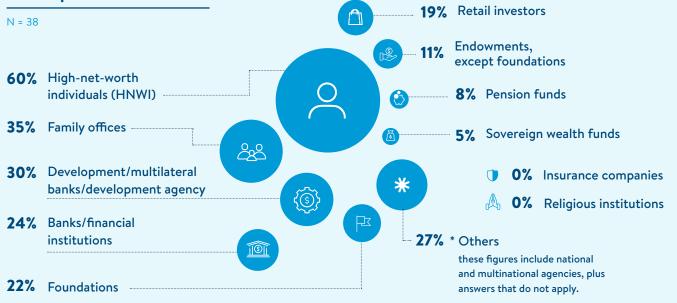
In this sample, a greater proportion of Brazilian investors fundraise from high-net-worth individuals (7 out of 10) and family offices (4 in 10). Foreign investors in Brazil rely on banks/ financial institutions, development/multilateral banks/developmentagencies, funds from highnet-worth individuals, and other funds equally at the rate of 4 out of 10. This suggests that foreign investors' financial portfolios are not skewed towards the high-net-individuals as it is for Brazilian investors.





### FIGURE 4.3.1 (CONTINUATION)





### • Intent (Figure 4.3.2)

The majority of investors in the study view the impact business market as an opportunity to invest in innovation and impact with financial return. There is a clear tendency (82%) to score their end investors' resources for investment and not philanthropy, especially in the sample of investors based in Brazil. In the survey, nine out of 10 local investors only manage resources aimed at financial returns. Among those based abroad, the number drops to six out of 10.

Following the same vision, most investors make use of traditional investment market practices. They charge performance fees (57%) for all or some of the investments, as their returns exceed certain benchmarks, especially IPCA+6%. Performance fees are usually 20%, as is common in the retail investment fund market in Brazil, for example. Brazil-based investors are also more likely to charge performance fees for some or all investments (7 out of 10 *versus* 3 out of 10 for those based abroad).

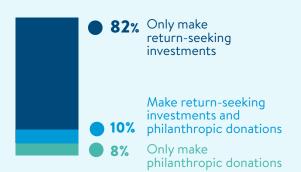
When it comes to target return on investments, roughly half have a clear target return (this proportion is similar among investors based in Brazil and abroad). Among those who reported a target return, about half seek the market rate at IRR 20%-30% per year, and the rest aim at capital preservation.

It is interesting to note that the open-ended question about the motivation of these end investors, who make their resources available for investments, reveals the investors' equal emphasis on capital that seeks return and innovation to make socio-environmental impacts.

### **FIGURE 4.3.2**

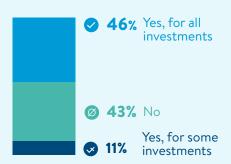
### Return intention of those who provide capital for impact investments

N = 38



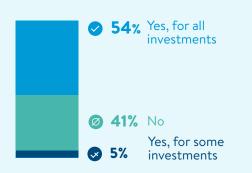
### The organization charges performance fees when return on investment exceeds specific benchmarks

### N = 38



### The organization presents investors with a target return for its investment portfolio

N = 37



### **OPEN-ENDED QUESTION**

### % Charged Fee

Most charge a performance fee when the investment exceeds IPCA+6%, and the most common fee is 20%.

### Target return

Among the investors who reported a target return, most are divided into: seeking an IRR 20%-30% pa and return on investment capital, aiming at capital preservation.

### Motivation

The primary motivation of the end investors who allocate resources to be managed by the responding investment firms is the possibility of having financial return combined with a positive socio-environmental impact.

"Possibility of financial return aligned with positive externalities for society."

Responding

impact, redefining success in capital allocation."

"The essence is to

investor

"Innovation, social impact, return."

 Responding investor

generate a positive socio-environmental

Responding investor

"Alignment of purpose and vision for the future."

 Responding investor

INTENT



# Investments

The 38 investors who had investments in impact businesses in 2020 answered questions about their investment intentions, their investment activity (deals and exits) over the past three years, and the composition of their portfolios, as of December 31, 2020, with three levels of detail: sector and stage of the invested businesses and financial instrument used. These data provide a snapshot of the aggregate portfolio composition of investors in the national impact sector, as well as comparisons between their goals and the portfolios they actually manage.

Below are the data and lessons learned from this study regarding what investors are seeking and how they invest.



Investors were asked to respond in two ways about their investment intentions considering specific sectors: using the composition of sectors according to the GIIN's international reports and the composition built by Brazilian impact actors and used in the most recent reports by Pipe. Labo (including the Mapa de Investimentos de Impacto 2021, published in April 2021).

### • Prioritized sectors (Figure 5.1.1)

Health is the most common sector of focus, with two-thirds of investors showing interest in

businesses in this sector. Then comes education (58%), and food and agriculture, and biodiversity and ecosystem conservation (each approximately 50%). This is similar among investors based in Brazil and abroad, with those abroad leaning more toward the financial services sector (6 out of 10) and less toward health (4 out of 10).

Interesting differences emerge when investors are divided into those seeking risk-adjusted market-rate returns (27 out of 38) and those willing to earn lower returns (11 out of 38). First, the energy, financial services and healthcare sectors were cited most commonly by those seeking market-rate returns, with a variation of around 30 percentage points. On the other hand, those with lower return aspirations (close to the market or capital preservation) are slightly more interested in manufacturing (three in 11 as opposed to one in 10 of the international investors).

When declaring investment intentions within the national taxonomy used by Pipe.Labo, the topic of green technologies arises at the forefront of interests, and this may be a result of the Pipe.Labo list aggregating all green technologies (energy, biodiversity, and ecosystem conservation; food and agriculture; and part of water, sanitation, and hygiene) into one category.

27 investors reported their interest in green technologies and answered an additional question about the environmental impact subsectors. The typology adopted for these seven sectors of green tech was obtained from the study *The Green Wave* (Pipe.Labo & Climate Ventures) and also from the content of the publication Não Perca Esse Bond - Ativos e projetos elegíveis à emissão de Títulos Verdes em setores-chave da



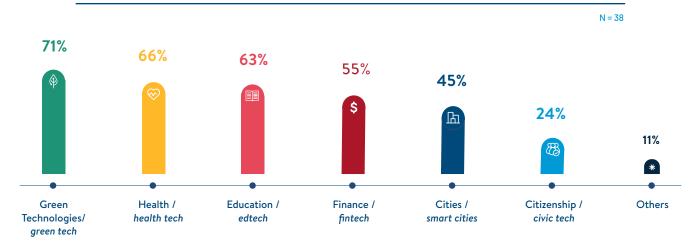
**PRIORITIZED SECTORS** 

economia brasileira (iCS & Sitawi). Here, waste management (79%) is the clear leader, as has been the case in the most recent studies carried out on impact businesses in the country. Then comes agriculture (61%) and forests and land use (57%).

### **FIGURE 5.1.1**

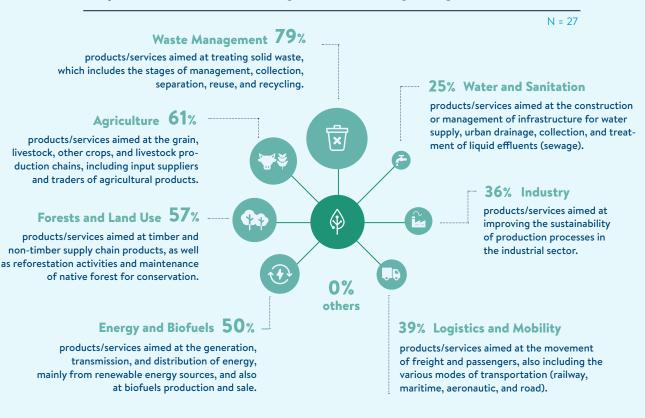
### Which sectors are prioritized for making impact Water, sanitation, 37% investments - GIIN Taxonomy and hygiene N = 38 34% Housing R 32% Microfinance 66% Health ÷ **24%** Information and Communication 58% Education Technologies (ICT) 50% Food and Agriculture 21% Infrastructure 50% Biodiversity and 13% Manufacturing ecosystem conservation 8% Arts and culture **45%** Financial services 21% (except Microfinance) Others 40% Energy

# Which sectors are prioritized for making investments – national taxonomy used in *Pipe.Labo's Mapa* 2021 dos negócios de impacto:





### FIGURE 5.1.1 (CONTINUATION)



### Impact focus areas within green technologies / green tech sector:

### • Where investors seek deals, stages, and mechanisms (Figure 5.1.2)

Investors rely heavily on their networks to search for investment opportunities, with partner and co-investment referrals leading as sources of opportunity. In total, two-thirds already work with their own hunting teams, showing a gain in sector professionalization.

In the selected stages, Seed (500k to 5M), Venture Stage (5M to 20M) and Scale / Growth (20M to 50M) are the most sought-after ticket sizes, at 61%, 58% and 42%, respectively. The large company market attracts less interest, with 13% seeking mature privately held companies and only 3% looking at publicly traded ones. There is still no consensus within the Brazilian impact ecosystem on the existence of mature publicly traded companies or companies that do not configure themselves as impact businesses, especially among environmental solutions.

Investors based abroad more commonly seek business in the Venture Stage (5M to 20M) (nine in 10 versus five in 10 for Brazil-based investors). Those who accept below-market returns are more interested in early-stage businesses than the rest of the sample, which is in line with a greater openness to risk and intentions to foster the ecosystem.

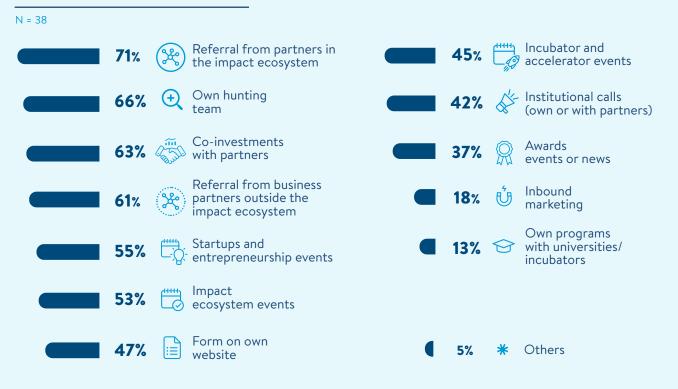
Finally, financial instruments data point to a greater interest in equity and convertible debt than in simple debt. The order of priorities is reversed when isolating those seeking belowmarket returns, with seven of 11 choosing to invest via debt. More foreigners also opt for debt (6 out of 10) than Brazilian investors (3 out of 10).



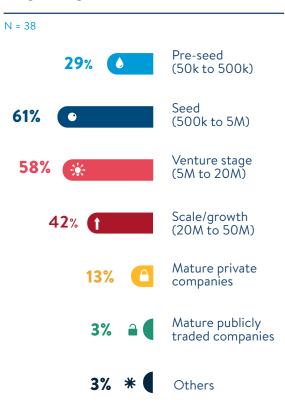
### **FIGURE 5.1.2**

WHERE INVESTORS SEEK DEALS, STAGES, AND MECHANISMS

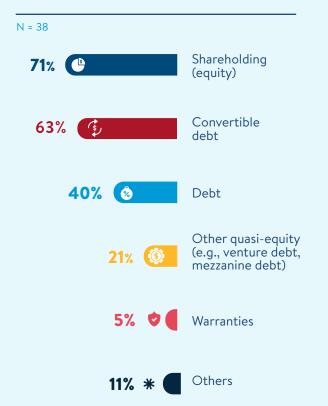
### Where investors seek investees



### Business stage sought



## Financial instruments investors intend to use







Data regarding the composition of investment portfolios were gathered as a percentage, with each investor indicating, for example, the percent of their portfolio in healthcare companies, *fintechs*, etc. The tables below show the frequency with which each sector, mechanism, or stage appeared in the composition of investor portfolios. They also aggregate the entire amount invested by all investors in each item, thus having a view of the percentage of total AUM dedicated to each sector, mechanism, and stage.

As seen in the overview of this research, we chose to separate respondents that operate microcredit as *outliers*. Reflecting the nature of microcredit, the *outliers*' portfolios are almost entirely (99%) debt investments in the finance / *fintech* sector that do not fall into the business stage categories used in this study. Thus, the analysis below excludes these *outliers* to provide a more clear picture of impact investment into entrepreneurial ventures.

This section also compares the data collected in this study with data presented in the tenth edition of the Annual Impact Investor Survey, published in June 2020 by the Global Impact Investing Network (GIIN). The section concludes with of an overview of ANDE's impact investing data in Brazil over the past.

# • Frequency versus AUM (Figure 5.2.1)

When looking at the comparison between frequency of investors focused in certain sectors and the actual AUM invested in these sectors, the concentration of available capital in green technologies (43%), which appears in 61% of portfolios, stands out. Education, health, and finance appear with similar frequencies, but education accounts for only 4% of AUM, while health and finance account for 15% and 12%, respectively.

Among green technologies, the greatest share of AUM (22%) is directed to energy and biofuels businesses.

When looking at financing mechanisms, the biggest difference is the use of convertible debt. This difference can be explained by stages of investment: convertible debt is converted into equity when the businesses reach certain growth objectives. It is therefore understandable that the amounts dedicated to early stages, via convertible debt, are smaller than direct holdings gained at more advanced stages.

It is also worth noting that although only 6% of Brazilian respondents (two investors) have investments in mature private companies which represent 36% of the sector's total portfolio.



"At Vinci, from the beginning of the impact fund, we had this intention that there would be no tradeoff between impact and return, and that we would have clarity in our mandate. For us, the impact becomes investing in less developed regions or in companies with low access to capital and knowledge, being partners of entrepreneurs who believe in having a financial return and generating a positive impact on society. We agreed on an impact plan: definition, measurement, and monitoring must be part of the company's strategy and governance. We are looking at businesses that have been growing, that can receive investment tickets between 50 and 120 million Reais, with us being the minority. We don't do venture capital, we look at businesses that are 10 to 20 years old. We have no difficulty in making investments according to the fund's strategy and principles. We focus on the Healthcare, Retail, and B2B Services sectors. But we have noticed that some still need more pipeline maturity, such as with ESG/impact consultancy, health businesses that look at middle-class, at most) and also, microcredit solutions (there is a challenge of the size of the business in Brazil, a country whose microcredit is less developed than others in Latin America)."

Pepe Pano, Partner at da Vinci Partners

### **FIGURE 5.2.1**

FREQUENCY VERSUS AUM

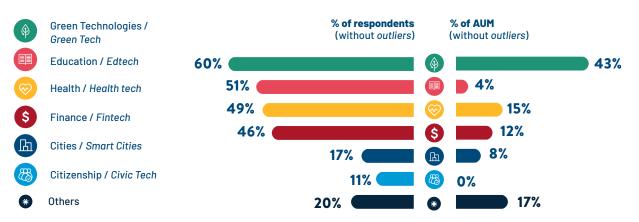
### Assets under management for impact investments in Brazil in 2020

N = 35

ASSETS UNDER MANAGEMENT	ASSETS UNDER MANAGEMENT	ASSETS UNDER MANAGEMENT
• TOTAL •	WITHOUT OUTLIERS	OUTLIERS
R\$ 11,500,171,697.97	R\$ 4,418,554,242.97	R\$ 7,081,617,455.00 or
or US\$ \$ 2,212,975,741.16	or US\$ 850,261,509.78	US\$ 1,362,714,231.37

### Frequency of sectors in investment portfolios

N = 35 respondents with total AUM = R\$ 4,418,554,242.97





Note:

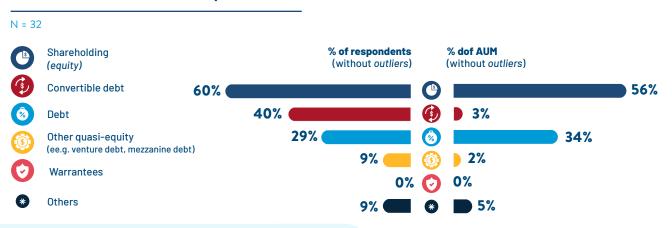
### FIGURE 5.2.1 (CONTINUATION)



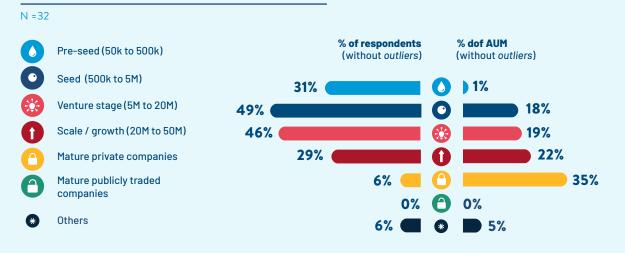
## Frequency of green technology subsectors in investment portfolios

	Forests and Land Use	% of respondents (without <i>outliers</i> )		% <b>of AUM</b> (without <i>outliers</i> )	Twenty investors reported the compo- sition of their portfo-
Ì	Waste Management	31%	<b>P</b> P	<b>4%</b>	lios among the green technology subsectors.
	Agriculture	26%	Ì	2%	Together, they invested R\$ 1,596,752,176.09 in
$\overline{\mathbf{O}}$	Energy and Biofuels	20%		5%	these subsectors.
	Logistics and Mobility	17%		22%	Left column calculated based
		11%		1%	on the 35 investors that responded
•••	Water and Sanitation	11%	<b>F</b>	2%	(without outliers). <b>Right column</b>
	Industry	9%	<u>C</u>	1%	calculated based on the total AUM
					without outliers, R\$ 4,418,554,242.97.

# Frequency of financing mechanisms in investment portfolios



# Frequency of business stages in investment portfolios





# • Comparisons with global data (Figure 5.2.2)

Below, the data from this survey are compared with those presented in the 10th edition of the *Annual Impact Investor Survey*, published in June 2020 by the GIIN.

The primary difference between the datasets is the presence of investments in publicly traded companies. Although the data from section 5.1 show a small interest in this stage by the investors who responded to this survey (3%), this type of

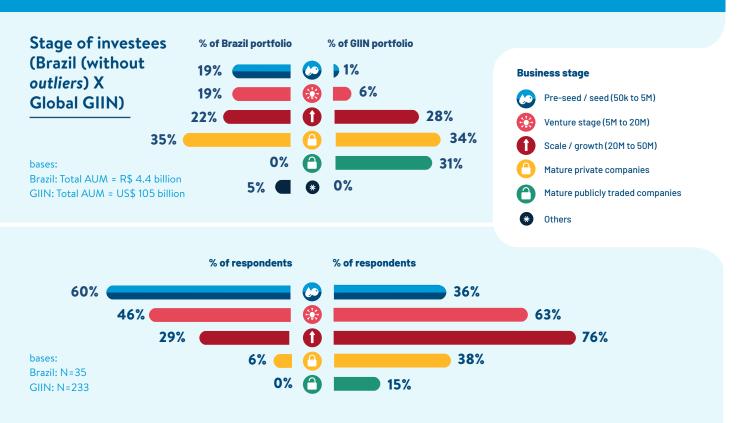
**Beto Scretas, ICE** 

investment does not exist in the composition of their portfolios, while it is 31% of the allocations mapped by GIIN, which are present in the portfolios of 15% of its respondents.

This difference also implies some considerations: GIIN may have, in part of its portfolio, mapped publicly traded companies that might be potentially considered ESG by Brazilian investors and not necessarily impact businesses. This is an interesting point, as there is an internal discussion that could consider some of the national publicly traded companies as impact businesses.

"There are already several mature businesses in the country focused on renewable energy, water and solid waste, etc. Many are already listed on the stock exchange and receive investments from various sources. Some have the potential to be considered impact businesses and there is already a discussion about this within the local ecosystem. A change of view on this would have a significant impact on Brazil's data, since these sectors move billions of Reais in investments."







### • Research History (Figure 5.2.3)

In this current data collection, 38 investors claimed having, by the end of 2020, R\$ 11.5 billion in AUM. Excluding *outliers*, respondents to this study (35 total) reported having R\$ 4.4 billion. In 2020 alone, 183 investments (deals) made by 30 investors were also mapped, totaling R\$ 990 million (or R\$ 13.1 billion if *outliers* are included).

Previous data on AUM in Brazil, from the Impact Investing in Latin America: Trends 2018 & 2019 report by ANDE, shows a value of US\$ 785 million in Brazil. These data were not used as a basis for market evolution, as these are different samples (only 28 respondents reported their AUM in the previous study). Therefore, in this study, respondents were asked to provide investment data for the two previous years (2018 and 2019), separately, to understand the market evolution. The questions were not mandatory since part of the investors might not have had AUM in previous years. Based on a sample of 15 investors (including an *outlier*) that provided this retrospective information, there was 39% growth per year in the volume of AUM since 2018. Excluding the *outlier*, there is a more modest growth of 12% per year.

The deals and exits data were considered insufficient for a historical analysis.

### **FIGURE 5.2.3**

AUM in Brazil 2018, 2019 and 2020	
-----------------------------------	--

B	OUTLIERS	INVESTORS	TOTAL
AUM in 2020 in Reais	7,021,435, 645.00	1,180,847, 861.00	8,202,283,506.00
AUM in 2019 in Reais	4,747,353, 727.00	1,078,070, 093.60	5,825,423,820.60
AUM in 2018 in Reais	3,276,945, 072.00	944,650,581.00	4,221,595,653.00

**Note:** Only the AUM of 15 investors (including one *outlier*) who reported their AUM in the three years were considered. The other investors only reported their AUM as of December 31, 2020.



# **Trends**

The data for this report were collected in 2021, when the world was immersed in the Covid-19 pandemic. Therefore, it is important to understand how the health crisis affected investments and investment decisions in 2020. This study also sought to clarify these investors' visions and expectations for the future, as well as their concerns for the third year of crisis, 2022.

In addition, gaps and market opportunities are highlighted to help inform the impact ecosystem in its strategic planning, fundraising rounds, and promotion of the sector by analyzing the survey and interview data. We also achieve this goal by comparing the results of 2020 with previous studies by ANDE (*Impact Investments in Latin America: Trends 2018* & 2019), data from the Brazilian impact business market by Pipe.Labo (*Mapa 2021 and Mapa Ambiental 2021*), and international data from GIIN (2020 Annual Impact *Investor Survey*).

### 6.1 Impacts of the pandemic (Figure 6.1.1)

Among the major consequences of the pandemic on impact investments in Brazil in 2020 were the need to renegotiate terms of previous investments (34%); the cancellation of investment plans (21%); and the increase in fundraising (13%). Investors based abroad listed these challenges as well as changes in investment policies and prioritized areas, while those headquartered in Brazil reported more various challenges, such as investees meeting their goals for the year and maintaining their operations during the crisis.

Looking forward at 2022, most investors (53%) reported macroeconomic conditions of the country and the world as a primary concern. Investors based abroad also focus on concerns about the country's political uncertainties (5 out of 10), whereas Brazilians add concerns regarding funding and the volume of capital available for the year (6 out of 10) and the development of pipeline and new investment opportunities (4 out of 10) to the top of their list.

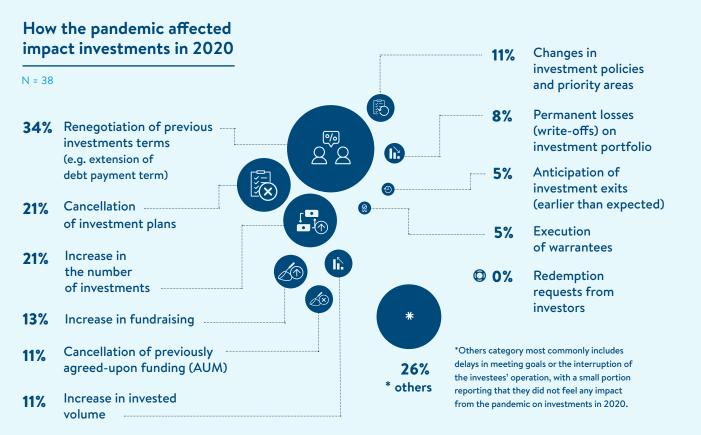
For most respondents, the main obstacle discouraging investors from choosing to add impact investments to their portfolios is concern about investment return (be it higher or equivalent to the invested capital). There is, especially for Brazilians, a concern with the lack of successful exits to date. The market is still young, which limits the number of exits, especially for investors who invest in more mature businesses at larger ticket sizes. In addition, some investors still see the need to better inform end investors about the impact business market. And, as seen in the previous sections, measuring impact for early-stage businesses is still costly and complex.



When we started Wright Capital, we agreed with clients that at least 1% of the equity would be invested in Social Impact funds. We would go in the direction of experimentation with a more conscious and humane capitalism, and the 1% was due to the fact that at the time there were only two funds on the market that was still starting in Brazil.We became activists, provoking families, managers, institutional investors, government officials and regulators to reflect on how to align capitals with values and life goals – thus generating more than a financial return, generating a legacy. With time and with this awareness, we looked at the rest of the portfolio and saw that with changes in the planet, climate or social, we were taking risks or leaving opportunities aside. We learned about the use of ESG criteria, restricting portfolios in toxic assets, impact investing in the most diverse asset classes, the Venture Philanthropy approach and the importance of tailored capital Financing, and intermediaries. We are once again involved in numerous actions of advocacy and philanthropy. Today, seven years later, the impact vehicle has an accumulated return of 95% (absolute) against an accumulated interbank deposit certificate (CDI) of 44% in the same period (12/04/2016–11/30/2021). And most importantly, we positively impact the lives of millions of people. Clients have already increased their allocations, some to 4%of equity. According to the Greek philosopher Aristotle, happiness is the ultimate end of a human being with based on their ethics and through their everyday habits. Virtue, moral excellence, arises from human action, from the daily decision to practice just acts. If it is not practiced, the human being loses the moral disposition.

Fernanda Camargo, Wright Capital

### **FIGURE 6.1.1**

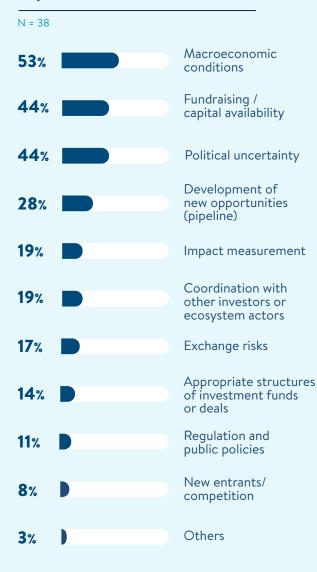


### 34



### FIGURE 6.1.1 (CONTINUATION)

# In 2022, what are the main challenges investors expect to face?



### **OPEN-ENDED QUESTION**

A Main obstacle for end investors to opt for impact investing

Investors point to four major challenges for the acquisition of end investors for impact businesses:

- Return on investment
- Short market history, lack of success stories
- Impact measurement
- Misinformation about the impact business market

"Ignorance and lack of access to information."

• Responding investor

### Responding investor

"Possibility that the

towards a positive

financial return."

business is not geared

"Shortage of capital and uncertainty about results."

Responding
 investor

"Industry history and track record"

Responding
 investor

"The evaluation metrics are complex and make it difficult to understand the rules of the game combined with the risks of return."

 Responding investor

"There is still a false conception that there is a duality between positive impact and attractive financial returns — investors believe it is necessary to opt for one path (impact vs. return) when making impact investments. Furthermore, as the impact investment fund industry in Brazil is still very young, and investors are wary of investing in managers that are relatively 'new'. There is still no relevant track record of impact funds in our country."

 Responding investor



### FIGURE 6.1.1 (CONTINUATION)

### **OPEN-ENDED QUESTION**

The main impact measurement challenges

Investors point to the complexity of quality impact measurement as the main challenge, which can be broken down into four aspects:

• Clear methodologies that correlate actions and results

Capacity and monitoring costs

- Business maturity
- Diversity of products/services

"Difficulty in accessing data and establishing a correlation between results and actions."

• Responding investor

# "Capacity and costs to

follow and measure the impact that is performed."

Responding investor

"Methodological complexity, especially in terms of the causal relationship between actions and impacts."

Responding investor



"Business maturity for complex measurement and methodologies."

• Responding investor

"Comparability between investee businesses because of different degrees of company maturity and diversity of products/services offered."

Responding investor

### 6.2

### Market opportunities

Yet another exercise to compare data on investment desire versus current portfolio (or, some clear market gaps were observed that can guide some views and some plans for the sector and even point to opportunities for entrepreneurs in the pipeline.

# • Supply and demand (Figure 6.2.1)

Despite the concern with attracting investments, which appears among the main worries of investors for the future (especially among Brazilians as analyzed in Section 6.1), the forecast is positive regarding growth in the volume of available resources for impact investments. Investors, excluding *outliers*, indicated that they expect to raise R\$ 1.7 billion in 2021, which would represent a 39% growth compared to R\$ 4.4 billion in AUM in 2020. For 2021, this expectation tends to be very close to reality, since this data was collected during the second half of 2021, when investors already had a much more realistic view of the volume that would be raised for the year.

Besides the volume of fundraising, it is also possible to see opportunities to access different resources, including many still not well-explored by impact investors in Brazil. The GIIN 2020 report includes sources of funds that play a greater role globally and are underutilized in Brazil, specifically foundations, insurance companies and pension funds.

Pension funds are some of the largest investors in the country in all their areas of activity, with around R\$ 2.3 trillion in AUM. The low presence **(**)



in the impact market in Brazil may be related to the need by these investors to invest with larger tickets, given their high volumes of AUM. Especially with institutes and foundations, it is important to note that Brazilian legislation is not very favorable for these organizations to make direct investments in impact businesses. There is currently a movement to create mechanisms that can make financial support possible for these types of entrepreneurs.

"Here at the Boticário Group Foundation for Nature Protection, in recent years, we have been working more directly with impact businesses, seeking to strengthen the concept and expand the number of businesses that generate a positive impact on nature conservation. The approach we have been experimenting with is Venture Philanthropy, a path that can help more foundations and institutes contribute to the volume of resources available to the sector and address this opportunity highlighted by the ANDE study. We have explored this topic on three fronts: 1) via research and new studies with partners, such as the report on innovative and strategic paths for doing philanthropy in the country, developed by Rockefeller Philanthropy Advisors; 2) in the field, we have also been working through an acceleration program, Natureza Empreendedora, supporting the development of impact businesses that contribute to biodiversity conservation; and 3) we support the creation of financial instruments based on collective loans for businesses with a positive socio-environmental impact, which make use of philanthropic capital for their structuring and as a guarantee for peer-to-peer credit operations. There are salutary lessons to be shared with the ecosystem in this regard."

Guilherme Karam, Biodiversity Economics Manager at Boticário Group Foundation

"We can say that Venture Philanthropy is a step before Impact Investing. It is an approach that combines the use of a more patient capital, with a greater appetite for risk and that has the social impact as a priority. Therefore, we are talking about an investment with great potential to validate solutions, stimulate social innovation, and leverage resources. Investors willing to take this risk are key to strengthening and consolidating businesses at earlier stages."

Greta Salvi, Brazil Director at Latimpacto



### • Sectors (Figure 6.2.1)

As shown previously, green technologies are among the greatest impact areas of interest by investors, led by the waste management and agriculture markets (there is even more demand for solutions in this sector than actual presence in investment portfolios - 71% versus 61%, respectively.). Green technologies have dominated the national map of impact businesses in the last two editions of the Pipe.Labo Map of Social Impact Businesses (according to the latest mapping of 2021, 49% of impact businesses in the country identify with this vertical) and are also the apple of the eye of foreign investors in Brazil, as seen in Chapter 5.

In addition, it is important to point out that the desire for impact investment is very diverse and dispersed, potentially more diverse than the business profiles in the market that these resources meet. Here, the frustrated appetite of investors to have more solutions aimed at cities/*smart cities* in their portfolio stands out, as 45% would like to invest in this sector, but only 18% do so. On the other hand, the challenge of Business to government (B2G) business models for early-stage startups may be a hypothesis that explains the lower desire for investment in *civic techs/govtechs* (24%) and the lower volume of investees in the portfolio (11%).

Another relevant mismatch in investment demand versus current portfolio reality is healthcare solutions. 66% want to invest in the sector, but only 47% of them have any such solution in their portfolios. It is important to point out, again, that this may be due to the pandemic.

Though the biggest competition for capital among entrepreneurs may be in the citizenship /*civic techs* sectors. There is more supply (40% of businesses mapped in 2021 identify with the sector) than demand (24% of investors want to invest in the sector). It's important to mention that, besides encompassing *govtechs* and B2G models, the citizenship sector is a generic classification chosen by many impact businesses as a second impact category when working especially in education and low-income communities.When comparing desired sectors between investors investing in Brazil and the global GIIN group, the biggest difference is in the frequency with which biodiversity and ecosystem conservation appear on the wish list. Around here, 50% of investors seek solutions on these issues, against 16% globally. This difference is in line with the nature of the country's challenges and opportunities for impact in relation to the rest of the world, with enormous local potential in these areas.

In fact, new technologies that can leverage Brazil's environmental potential were the subject of a study by Climate Ventures and Pipe.Labo, *The Green Wave* – *Opportunities to undertake and invest with positive environmental impact in Brazil*. The publication brought an unprecedented matrix that summarizes 30 business opportunities in seven key sectors of this agenda and touches on how impact businesses and the consolidation of a new environmental economy can address contemporary challenges.

### **FIGURE 6.2.1**

Fundraising expectations in 2021

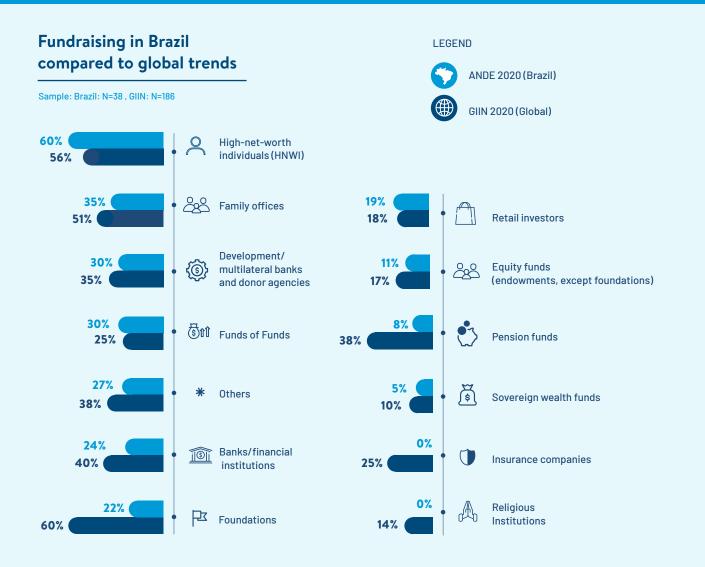
**Eighteen of the investors** (without *outliers*) expected to raise a total of **R\$ 1,737,738,650.60 in 2021.** 

## Expected growth in Assets Under Management:

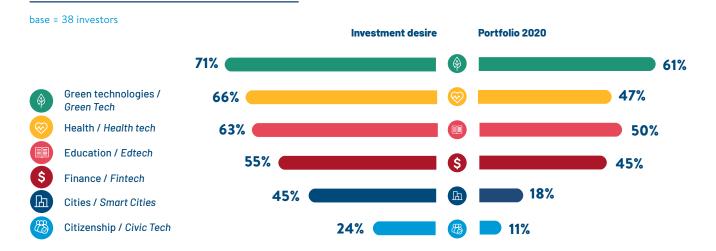




### FIGURE 6.2.1 (CONTINUATION)



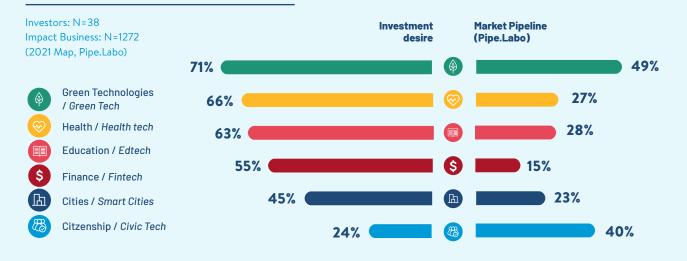
# Investment desire by existing sector frequency in portfolios





### FIGURE 6.2.1 (CONTINUATION)

# Investment desire by existing sector frequency in portfolios



### Investment desire Brazil versus Global

Sample: Brazil: N=38 GIIN: N=294 LEGEND 66% 34% ¢. Health [b] 39% Housing 49% Brazil 2020 ()32% **GIIN 2020** 58% Education Microfinance 30% 41% 50% هم Food and 24% Information and Agriculture Ś communication 26% 57% technologies (ICT) Biodiversity 21% 50% S B and ecosystem Infrastructure  $/|\rangle$ 21% 16% conservation 21% \$ L 45% Financial Others services (except ¥ 49% 39% microfinance) 40% 13% Manufacturing Energy 22% 46% 37% Water, sanitation, 8% ~~ Arts and culture and hygiene 9% 23%



### • Maturity (Figure 6.2.2)

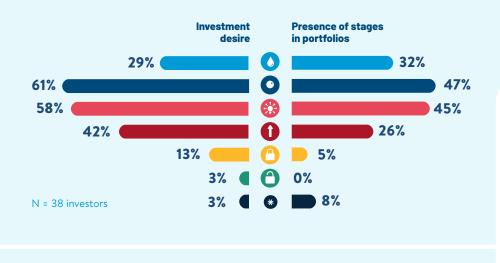
The analysis of investment intention versus reality in investment portfolios regarding business stage shows a frustrated appetite for larger sized deals. This is due to the stage of development of the Brazilian impact business pipeline, as already pointed out in previous market studies and in the assessment of current challenges in this report. There is more desire to invest in all stages from seed upwards, from R\$ 500,000 or more, than is seen in portfolios. Tickets between 20 and 50 million are the ones with the greatest disparity.

Comparing the data in this report with the business offer mapped by Pipe.Labo's *Mapa de Negócios de* 

*Impacto 2021*, one can see a demand concentration from investors in tickets of up to five million Reais. This demand is frustrated by the very young businesses that need more structure to access available investment. The unmet demand for more mature businesses in which to invest is also clear, especially among tickets between five and 50 million Reais, a challenge for a young market still in the process of building good investment cases.

The data analyzed here reflect what is already understood in the sector, reinforcing the need for the ecosystem to help businesses better prepare for raising investments and potentially improve the training of impact entrepreneurs on the processes, terms, and logics behind impact investing.

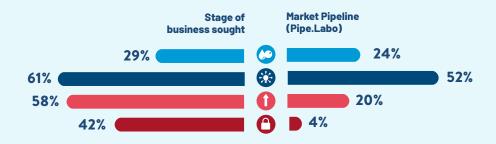
### **FIGURE 6.2.2**



### Investment desire by presence of stages in portfolios

# Stage of Business Pre-seed (50k to 500k) Seed (500k to 5M) Venture stage (5M to 20M) Scale / growth (20M to 50M) Scale / growth (20M to 50M) Mature private companies Mature publicly traded companies Others

### Stage of business sought versus Market Pipeline (Pipe.Labo)



bases: N=38 Impact Business: N=1272 (2021 Map, Pipe.Labo)



# Key Takeaways



The impact investing market in Brazil has grown in recent years, with new investors emerging in the country and the volume of capital available for impact investing increasing. Based on the sample of investors that responded to this study, the AUM dedicated to impact investing in the country increased annually by 39% between 2018 and 2020. Without *outliers*, this growth rate decreases to 12% per year.

In 2021, investors expect the market to continue to grow, especially in fundraising. Respondents (excluding *outliers*) estimated raising R\$ 1.7 billion in 2021, which would equate to a growth rate of 39%.

When comparing Brazil's fundraising sources to investors operating globally, it is evidenced there are opportunities to diversify the source of funds, specifically pension funds and insurance companies. 2

### Specialization

Environmental impact solutions have been gaining traction among impact investors, including those based in Brazil and those based internationally.

Impact investors in Brazil — in terms of the number of respondents, as well as volume of AUM — increasingly define themselves as investors who combine market return with positive impact. Most agree that impact businesses aim at business models with financial returns and that positive impact needs to be linked to the solution's core business.



### | Portfolio

3

The market is prepared to invest with larger tickets in businesses at venture stages (5M to 20M) and scale (20M to 50M) but still finds the pipeline very early-stage. On the other hand, there is little interest in and almost no presence among investment portfolios of mature publicly traded businesses.

Within green technologies, waste management is still the sector with the highest investment expectation and available business volume in Brazil (according to data from *Mapa de Negócios de Impacto 2021* by Pipe.Labo). The agriculture and forests and land use sectors seem to have growth potential, with a great demand from investors.



The methodological complexity and the costs for measuring the impact of investees remain significant challenges for the sector.

Gender and racial equality policies still do not appear in most investment firms. However, more consideration is being given to these inequalities within investor hiring processes.

Most investors intend to incorporate or already manage climate risks and opportunities in their portfolios. Besides green technologies and education, the main sectors in impact investing market, health solutions are increasing in demand. There is a gap between the number of businesses in this sector in the country (Mapa 2021, Pipe.Labo) and the appetite of investors. However, this might be driven by challenges caused by the pandemic, which may have heated up the desire for health solutions.

The biggest gap between investment desire and portfolio presence is in city / smart cities businesses (45% versus 17%).



### Diversity

It is a challenge for investors to collect information regarding the gender, race or color composition of their boards, their leadership, and the leadership of the invested businesses. Most respondents do not collect or did not have access to this data regarding their boards and their investees' leadership.

The greatest gender disparity is in the composition of the investees' boards and leadership (among 84 board members, 74 are men and 19 are women; and among 186 leaders in investees: 104 men and 83 women).

The diversity challenges are stressed when talking about race or color in all analyzed groups. Black, "pardo", Asian, and indigenous races or color are even less present than in gender analyses. Altogether, three out of 53 board members, 10 out of 146 organizational leaders, and 19 out of 124 of the invested leadership identify as people of color.



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