What drives Impact Investing in Brazil?
An interview series on motivations, challenges and future perspectives

Dear reader, prezados leitores e prezadas leitoras,

we are glad to present our second newsletter on Impact Investing in Brazil. The aim of the newsletters is to further unite the Impact Investing community, to provide a channel to exchange ideas and simply to inspire.

As the title states, this newsletter contains interviews with key stakeholders from the area of Impact Investing, such as academics, investors, and entrepreneurs.

In this edition, the investor's perspective will be covered by ***Juan Carlos Moreno*** from LGT, the entrepreneur's perspective by ***Ernesto Moeri***, CEO and Chairman of Ecogeo, and finally the academic perspective will be presented through interviews with ***Sérgio Lazzarini***, Academic Director at Insper, ***Ernst von Kimakowitz***, member of the HSG Impact Investing platform board and director and co-founder of the Humanistic Management Center, and ***Fabian Oppenheimer***, from the São Paulo Hub Office of the University of St. Gallen.

The interviews mainly cover the various motivation behind Impact Investing in Brazil and follow the objective of spreading knowledge, but shall also highlight challenges and hurdles that have to be overcome in order to accelerate the further development of the Impact Investing Industry.

We would like to take the chance and invite you to our next conference with the topic: *Impact Investing – The Status Quo in Brazil. The conference will take place on* ***3 June, from 18:00 to 22:00 at Insper*** *(Rua Quata, 300).*

We hope you enjoy reading our newsletter!

Mario Fiasconaro (Impact Investing Newsletter Editor)

The Investor's Perspective

Juan Carlos Moreno, Investment Manager at LGT Venture Philanthropy

What is your motivation to work in the area of Impact Investing?

My personal background plays an important role for my motivation to work in the space of Impact Investing. Born to multicultural parents, I grew up in Switzerland, however, often spent vacations in Mexico – my mother's home country. This allowed me to see and make firsthand experiences with poverty in the developing world. The apparent inequality stroke me quite a bit and the sense of urgency to do something about it has been with me ever since. Growing up in Europe I had the opportunity to work in the corporate finance area allowing me to travel frequently to Latin America. I have always wanted to give something back to this continent and realized that I could do that through the skills and knowledge I had built up over the years. At the same time it began to dawn on me that I could never completely identify with the focus of traditional corporations that primarily yield for financial returns. I realized that my desire to give back to others not only applied to my personal life, but also and more importantly had to determine my future career path. For this reason I became part of LGT Venture Philanthropy's iCats Fellowship Program in 2009 (www.icatsprogram.com) and spent one year with a medium sized social enterprise in Brazil. Through the iCats Program I entered the impact investing field, as it allowed me to understand and experience the challenges in an emerging country, the Latin culture and the social sector. After my fellowship, LGT Venture Philanthropy offered me a position as Investment Manager in Brazil, starting to create Impact Investing activities in Latin America.

What can investors expect from Impact Investing?

LGT Venture Philanthropy's mission is to increase the sustainable quality of life of less advantaged people. Investments of impact investors like us yield towards „social return first". This means that we have a very clear aim in finding organizations that fit the criteria of the classical venture capital methodology while striving to impact socially in a sustainable manner. Financial expectations are only secondary. Still, the objective is to preserve capital on a long-term yield of return of 5-10% in order to sustain our activities. But again, the primary focus is the social impact. We are a global firm and are active in the six world regions China, India, Africa, Southeast Asia, Europe and Latin America. We seek 2-3 investments per year and region. Once we have identified suitable investments, our goal is to invest successfully by growing and exiting these businesses in the following five to seven years.

Why should Retail Impact Investing work?

Currently, there are three ways of how to invest in the Impact Investing field. (1) You create your own foundation, (2) you set up your managed account with a bank or (3) you actually invest in a current fund. Each of these investment options entails minimum amounts of investment: USD 120'000 as the smallest investment in a current fund, which is still high.

LGT Venture Philanthropy has launched an accelerator program in Brazil, Mexico and Colombia this year with the idea to foster both the Impact Investing entrepreneurs and potential investment possibilities, and also to attract young investors that are able to invest smaller amounts of USD 20'000 to USD 30'000. Unfortunately, it is still difficult to invest in this field because for the large public there is still no concrete asset class. However, there are at least two reasons why small investors should consider Impact Investing. First, they can diversify their portfolio or enter an area that has

the potential of yielding financial returns of 5-10% and that fits their ideals of how the world should be. In general, small investors need to be passionate about either a specific country or a specific topic in order to make an investment.

What are the key figures to invest in an enterprise?

Generally, we invest in young, strongly growing businesses that are managed by a highly qualified team. The selection of investments is based mainly on three criteria: (1) early growth stage (3-5 years), (2) the minimum revenue needs to reach USD 200‘000 per year, and (3) they need to have at least six full time employees hired. Furthermore, the business is seeking either grant, loan or equity financing. LGT Venture Philanthropy invests between USD 200‘000 and USD 10m per organization.

How can investors find enterprises and vice versa?

Generally, the enterprises find us through contacts, networks and referrals. Furthermore, they can also apply for investments on LGT Venture Philanthropy’s website www.lgtvp.com. Most contacts are established through networking actually.

What is your vision? Where does Impact Investing stand in 10 years from now?

Impact Investing can significantly contribute to lowering the inequality in the world, creating a world of inclusion and increasing the quality of life of less advantaged people – ultimately leading to a world in which all people have a reason to smile. This smile shall stand for the equal rights and access to the same privileges as people in developed countries, such as quality education, quality healthcare, quality infrastructure and others. This is the primary vision of Impact Investing. To achieve this, we first need to incentivize entrepreneurs to actually create and enter this Impact Investing business. In other words, we can only reach a larger amount of people if we have enough quality businesses that are managed by top quality entrepreneurs who have the capacity to manage a growing enterprise and scaling the impact. Besides creating the Impact Investing asset class and attracting institutions to invest in this area, we need to support the basis, which are the entrepreneurs. These are entrepreneurs that come up with great innovations and have the possibility of scaling them and impact systemic issues that we face today. My vision is that more people incentivize and attract investors that invest in the base. This also means that we need to make sure that universities talk about impact investing, make sure that enterprises have the possibility of entering accelerator programs, and finally create a new asset class in order to attract public investors. This way we can increase the amount of money in the field and create positive impact for more and more people in need.

Why would Impact Investing NOT work?

Impact Investing is nothing for short runners. My experience in the last 4 years showed me that Impact Investing in Latin America requires the perseverance of a long-distance runner, strong risk management expertise and collaborative partnerships with investees who welcome and value business know-how and who are willing to change “business as usual”. Today, the field of impact investing has found enough of investors who are willing to invest in this field and also take risks on a long-term perspective. However, the bottleneck of Impact Investing is the persistent lack of quality enterprises and managers that have the experience to successfully grow and exit the social businesses we are looking for.

The Entrepreneur's Perspective

Ernesto Moeri, Chairman and CEO of Eco-geo

What is your motivation to work in the area of Impact Investing?

The environment has been a topic of public concern in Brazil since the 1980s and companies are increasingly gaining awareness of the importance of acting environmentally sustainable. Consequently I have set up presence in Brazil with my company 30 years ago, because there is an increasing demand for environmental experts – and that is what we are.

What does ECOGEO expect from Impact Investing?

The energy use of biomass in Brazil, which exists in vast amounts, is still a rather unexplored area and is only used in a very restrictive way. As the biogas and power generation technology is new in Brazil, however widely approved in Europe, investors need a certain readiness to assume risk. But it is a groundbreaking and efficient investment, which contributes to the reduction of greenhouse gas.

Why should Retail Impact Investing work?

I feel that in this respect the Swissness of our fellow countrymen plays an important role. We have a strategic partner in Switzerland, which is Ernst Basler + Partner (EBP), one of Switzerland's most renowned engineering companies. We always had a special connection to Switzerland and this link has been gaining importance over time. For European investors it is definitely important to be able to rely on this seriousness and to do business with a local partner that represents his same values.

What are the key figures to invest in an enterprise?

We are looking for neither huge, nor extraordinarily small projects. The investments per project amount from R$ 5-20 million. We always try to make the enterprise contribute to the investment by itself. We furthermore try to procure local loans, in order not to finance the whole project through equity only. The share of equity amounts from 30% to a maximum of 50% of the total investment, for which we expect a minimum return of 15%. Such a return is definitely realistic in this industry. However, the challenge is that for most Brazilian enterprises an investment in energy production does not represent its core business, nor does it seem a necessity, and they prefer to invest in short term productivity gains instead.

How can investors find enterprises and vice versa?

In our specific case, we know which types of agro businesses are interesting for us. These are enterprises that process agricultural products and thereby produce high amounts of organic waste. These products can range from coffee over oranges to cattle. The size of the enterprise that decides to invest can range from a giant, such as Nestlé, down to small enterprises. The enterprises themselves can find investors like us through platforms such as the HSG Hub Office in São Paulo. The numerous attendance at the conference of the past 5 December 2012 has shown that the interest of investors towards this new kind of investments exists.

What is your vision? Where does Impact Investing stand in 10 years from now?

In my sector of bio-energy I see an enormous potential in Brazil and the ultimate goal would be to turn Brazil into a carbon neutral country. Compared to similar investments in developed countries, Brazil can achieve reductions of greenhouse gas that are around ten times higher, by being more efficient. Furthermore, such projects can also generate social impact in Brazil, which is very much needed. This is the

message I want to pass to the investors: Invest where you can achieve a big environmental and social impact with relatively small investments.

Why would Impact Investing NOT work?

I believe that if there is one place where impact can be generated, then in Brazil. Given the size and its huge potential, not only in bio-energy, but also in other areas such as construction or education, investors can make a difference in Brazil with relatively small investments. A problem might consist in the fact that a return on investment in bio-energy usually takes from five to eight years, which is a rather long period for Brazilians and might discourage them from investing. However, for a European investor this might be an interesting option, especially considering that the investment delivers also a personal satisfaction.

The academic perspective

Ernst von Kimakowitz, member of the HSG Impact Investing platform board and director and co-founder of the Humanistic Management Center

What is your motivation to work in the area of Impact Investing?

My motivation is founded in the belief that financial market actors could and should play a bigger role concerning social development and sustainability. These aspects have not received sufficient attention in the past and Impact Investing offers an opportunity for investors to address social challenges with an entrepreneurial spirit. Consequently, I want to further my understanding of the subject, make the gained insights available to all actors in the Impact Investing space and raise public awareness on this exiting topic.

What can investors expect from Impact Investing?

Firstly they should expect their investment to make positive impact on a societal problem whilst expecting some financial return. Secondly their expectations should include the differentiation between philanthropy on one side and socially responsible investments (SRIs) on the other. Impact investing sits in between. It has higher financial return expectations than philanthropy where all money is donated, and has higher impact expectations than SRIs which are generally based on risk avoidance with the aim to achieve market rate or market beating returns. This is not to say that either SRIs or Philanthropy are bad ideas. On the contrary: some of the most pressing problems we face today as a global community, will not find their answer in an innovative business model. Impact Investing can by no means make philanthropy obsolete. Simultaneously one has to welcome products that raise investors' awareness that the neglect of environmental and social risks can cost dearly and SRIs are doing just that by integrating these risks into the information provided to investors. Both SRIs and Philanthropic expenditure however, are not impact investing. In my opinion, the term Impact Investing implies that the main principle is impact first, not finance first. Impact Investors are happy to trade in some financial return for more social and / or environmental return.

Why should Retail Impact Investing work?

Currently, the main share of Impact Investing is covered by equity investments in social enterprises that stem from wealthy private investors. If we look at the retail market though, we can observe an increasing demand for products with a social and environmental focus and I hope that some banks would see the opportunity to take the next step and develop impact driven retail products. At the same time attempts of launching stock exchanges exclusively for social enterprises can be observed, for example in Singapore, Germany or the UK, and social impact bonds are also emerging across the globe. Such developments increase

the accessibility of impact investing products for smaller investors, and can become a driver for retail products.

What are the key factors for a successful impact investment?

The matchmaking of investor and investee still represents one of the big challenges in Impact Investing. Both sides often lack information and knowledge about one another. Investors are generally very finance savvy but may find it hard to adopt a different, an impact first mindset. Social entrepreneurs on the other hand may at times overlook the wide range of benefits an investor can bring in addition to funds. In this situation mission alignment is pivotal and both sides are well advised to take the time to get to know each other and find out if what they want really fits together. In many other respects, however, impact investments don't differ that much from other investments. The difference lies more in the aim, motivation and outcome that constitute success, rather than in the mechanisms that create it.

How can investors find enterprises and vice versa?

The desired condition would be to have open and transparent access to investment opportunities powered by, for example, specialized stock exchanges or platforms. However, we currently still observe that matchmaking is highly contingent upon relationships. Investors need to deploy substantial resources to scan the industry and enterprises need to invest in networking activities that demonstrate their readiness to receive an investment. There are, for example, events that promote networking such as the Partnering for Global Impact (PGI) Initiative that takes place every year in Lugano, Switzerland. It brings the actors together to meet and learn about existing opportunities. Such Initiatives facilitate and professionalize the matchmaking process. However, we need to give more attention to providing the means for investees to find investors and vice versa.

Why would Impact Investing NOT work?

We ought to see Impact Investing for what it is: a building block in improving the state of the world and not an all-encompassing solution to the problems we face. In this sense exaggerated expectations that may result from the current hype around the topic pose a serious risk to its success. If first expectations are raised sky-high and subsequently not met, it is not a failure of impact investing but a failure of cultivating realistic expectations. This distinction may not always be made, though. Resultant disappointment can seriously harm the future development of Impact Investing. New investment opportunities can also attract the wrong investors for the wrong reasons. It does present a challenge to shield Impact Investing from actors that view it as a new instrument to generate market beating returns with a 'feel good' name who could undermine the impact driven intentions of the entrepreneur.

What is your vision? Where does Impact Investing stand in 10 years from now?

Being placed between Traditional Philanthropy and SRIs, Impact Investing offers new opportunities to fuel growth in social enterprises enabling them to enhance the impact they generate. But, as stated above, Impact Investing alone will not solve all social and environmental problems. It is only one, although important, component and we must stay clear of unrealistic expectations. Furthermore, we face the dilemma that we need more money to fuel growth in social enterprises, but we have to be very selective when it comes to the motivation this money presents itself with. Therefore, if we succeed in increasing the volume of the investments without losing the focus on impact, I am very optimistic.

Sérgio Lazzarini, Adademic Director at Insper

What is your motivation to work in the area of Impact Investing?

As a professor of strategy I have more recently been working with Public Private Partnerships (PPP). In particular, I have done research in prisons and analyzed how private funds could participate in developing these and other public institutions. In this context, a project of a social impact bond in the UK called my attention, which was based on prisons and I wondered whether such a model could be replicated in Brazil. However, in Brazil nobody knew about this initiative and so we started to study Impact Investing and how that could be applied to areas of social interest. We then focused mainly on education, which was the field that most stakeholders were mainly interested in.

What can investors expect from Impact Investing?

Apart from a major group of investors that are interested in financial returns, there is also a sub group of investors that care about both financial returns and social impact. Fact is that somebody needs to pay for the impact, what is often expected from benevolent investors or the government. In PPPs, governments often pay subsidies to private investors, which is difficult to imagine in Brazil. Therefore, investors definitely have to accept a tradeoff between financial return and social impact. This is only possible if you can measure and show the achieved impact, what also increases trust in the system.

Why should Retail Impact Investing work?

It seems like there is a large enough group of investors interested in Impact Investing. This is the group we target at. But finally, all depends on the extent of the reduction of financial return that an investor has to expect. Somebody that invests in a specific project in Brazil therefore needs guarantees that there is social impact, which is why the impact has to be measured. The success of Retail Impact Investing also depends on how the financial sector will manage the portfolios of the investors. For example, if a share of the portfolio is allocated to Impact Investments, the rest of the portfolio is re-adjusted towards traditional investments that increase the lower than expected profitability. This can happen through either higher risk or also through lower transaction fees for Impact Investing offered by some banks. As a result, the required profitability of the investor might be met.

What are the key figures to invest in an enterprise?

I do not think that we need a minimum size for an enterprise, but rather we should start to replicate models that have proven to be successful. For example, Embraer founded an institute that invests in schools for the low-income population. The model has proven to be successful and we have all the knowledge and technology we need to replicate it. Embraer is also willing to share the model, which is how we could gain scale and leverage the projects. Unfortunately, in Brazil we could observe the tendency of organizations and institutes to do their own projects and embrace them as their own projects without sharing them. Instead, we should learn to accept that others imitate projects in order to increase the social impact over all. So if we really care about social impact we should be ready to share our ideas and projects. But that would require a change in the philosophy to that kind of business in Brazil.

How can investors find enterprises and vice versa?

The financial sector should develop structures that enable the matchmaking process. What we would need in Brazil is a center to consolidate all the initiatives. It could also act as an evaluation and assessment center, which would naturally be a point of aggregation. The more projects and data we aggregate, the more knowledge we gain that can be used for replication, for instance. Such a center could for example also think about launching calls for proposals with the participation of firms of the financial sector.

What is your vision? Where does Impact Investing stand in 10 years from now?

It is very difficult to predict what will happen in this industry. What I see, however, is a growing interest in the field. The speed of development will definitely depend on the extent to which the industry will be able to create standardized platforms, which evaluate and assess the projects. Another key issue is the legal framework, which is still very complex in Brazil. Such standardized platforms could contribute to the further development of the legal framework, apart from aggregating knowledge, conducting evaluation and measurement, and also how to replicate the experiences. Such platforms would definitely increase the development of the industry.

Why would Impact Investing NOT work?

It will not work if we do not find the necessary leadership to execute the projects. Many people seem to be interested in Impact Investing, but the final execution is often lacking, which also includes replicating other successful projects. If for instance an entrepreneur wants to replicate Embraer's model of education for the low-income population, all we need to do is a phone call. Here at Insper we would be glad, to incubate an assessment center. We already developed a technology to measure social impact, which is ready to be used. But to do that we need people who are interested in pilot projects. Some people argue we should include the government. In my opinion this would take a while, which is why I would rather focus on private efforts. But what is missing is the leadership to start pilot projects. We need some movement, and at the moment, this movement is still not observable.

Fabian Oppenheimer, double degree master student HSG/EAESP-FGV, HSG Hub Office Trainee and HSG Impact Investing Platform Coordinator

What is your motivation to work in the area of Impact Investing?

As a double degree master student of the University of St.Gallen (HSG) at Fundação Getulio Vargas (FGV) in São Paulo I was contacted by the HSG Hub Office in São Paulo (in the following referred to as "the Hub") with the proposal to contribute to the implementation of a Impact Investing Research Platform. Before starting at the Hub I had acquired knowledge about the topic through desk research and the time during my engagement at the Hub helped me to deepen my knowledge about Impact Investing quite quickly. My motivation is to develop the university's research platform, to give future students the chance to work in the field and to provide the industry of impact investing a reference point and best-practice cases. I think it is important to provide an academic approach to matchmaking in the field of Impact Investing. This is crucial for contributing to the consolidation of the still fragmented market and to motivate more players to enter the field.

What can the HSG Hub Office in São Paulo expect from Impact Investing?

The Hub is implementing an Impact Investing Research Platform, whose objective is both to support enterprises that aim at a social or environmental impact and also to attract investors. Furthermore, the Hub concentrates on the matchmaking of the parties and also offers students the opportunity to write their master theses about the topic of Impact Investing. For the Hub and the HSG, Impact Investing is crucial because the university can position itself as the leading academic institution in the field. The proximity to enterprises and investors supports the Hub in generating knowledge in the field for enterprises, investors and the University itself. So I believe that the HSG Hub is able to generate a Win-win situation by contributing to the field of Impact Investing: while the industry is further developed, the university is able to position itself as a reference and to promote its research in Emerging Markets, such as Brazil.

Why should Retail Impact Investing work?

Currently Impact Investing is at a stage where only professional investors or wealthy individuals are able to do an investment. The industry definitely has to develop further in order to attract smaller investors. What we need is more visibility through projects that show that it is possible to achieve a social and environmental impact. In my opinion, the willingness of the broad public to invest in social and environmental issues already exists, but most potential investors are not aware of the actual possibilities they possess. Therefore, I consider it crucial to increase the visibility of the industry by starting projects. But, it is important that investors are aware of the social impact they are generating and also of the possibly lower financial return their investment achieves. I think retail impact investing should work, if there are successful projects demonstrating the success of Impact Investing. If investors are aware of the necessity of being committed to society and the environment, and if outstanding entrepreneurs bring up innovative projects, people are willing to invest in, I believe that retail Impact Investing has great potential .

How can investors find enterprises and vice versa?

It is a big challenge to find appropriate entrepreneurs that are both able to generate a social and environmental impact and are also willing to receive money from an impact investor. But in general, as the visibility of the platform and of the market increases, it becomes easier for investors and entrepreneurs to find each other, by searching actively. However, Investors not only provide the funds, but also have certain return expectations – in contrast to traditional Philanthropy, where enterprises receive pure donations. These impact investors differentiate between financial and social return, meaning the entrepreneur receiving the funds has to generate both. This causes new conditions for the matchmaking process, as both parties have certain requirements that they expect to be met. The Hub is currently in the stage of searching for appropriate enterprises and to open a matchmaking platform, where investors can find respective projects. There are a relatively large number of investors actively contacting us regarding their search for adequate entrepreneurs. Some potential pilot projects have already been found. They will be started within the near future. My general impression is that as the experience and the knowledge within the impact investing develops, the matchmaking process becomes easier, as the reciprocal expectations become clearer and are communicated.

What is your vision? Where does Impact Investing stand in 10 years from now?

First of all, we have to be careful not to consider Impact Investing as the great new measure to alleviate poverty. Impact Investing by its own will not be able to solve all the social and environmental problems the world is facing today. But Impact Investing is an important step in the right direction and is able to generate a significant contribution among other measures. I believe Impact Investing can give an important impulse for development and will help to further generate solutions to overcome the social and environmental challenges the world is facing. For example, if you consider a coffee farmer who is forced to pay lower wages to his employees because he is not able

to receive a fair price for his coffee on the market, Impact Investing could help by introducing new trade channels that result in higher wages. This in turn helps to increase the local social and environmental conditions. So my vision is that Impact Investing will develop further and help to address current social and environmental issues. If the industry of Impact Investing manages to provide representative best-practice cases, to scale-up and keeps applying market-driven mechanisms to the solutions of social and economic issues, I believe that Impact Investing will contribute significantly to the development of the economic conditions in Emerging Markets. So in 10 years from now, I believe Impact Investing has the potential to be a well established and accepted approach to promote the economy and to increase the social conditions.

Why would Impact Investing NOT work?

Impact Investing is still facing big challenges. First of all, Impact Investing is often not differentiated from traditional Philanthropy, where money is simply donated, and Socially Responsible Investments, which often merely consists of negative screening. As a result, if potential investors are not able to categorize it correctly as a new and innovative approach, Impact Investing could soon be forgotten. Furthermore, Impact Investing is still in an early phase of development and needs to be scaled-up. Otherwise we run the risk that potential investors will regard it as a kind of academic approach that is not able to really solve any social or environmental issues. To avoid that Impact Investing is marginalized, we have to find a balanced approach combining academia with practical solutions.