Social Finance in Brazil Solutions to Social and Environmental Challenges

A NEW PARADIGM FOR MANAGING THE NEEDS AND RESOURCES OF SOCIETY

October 2015

FORÇA TAREFA DE Finanças Sociais

BRAZILIAN

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Opening Remarks from the Brazilian Social Finance Task Force

Brazil is facing complex problems that directly or indirectly impact the entire population, in areas such as education, health, housing, job creation and income distribution. Government programmes, private sector investment and individual philanthropy have played an important role in improving social indicators, but they have proven to be insufficient. We are convinced that it is both necessary and possible **to attract more capital in order to finance innovative solutions** that respond to social problems at a scale that is proportional to the size of the challenges.

As a response to this need, the field of Social Finance has emerged, essentially composed of investments that simultaneously create social and financial returns, and of impact businesses. These are different from conventional businesses in four key elements: a **social and/or environmental mission, the monitoring of social/environmental impact, economically viable models, and effective and inclusive governance**.

Until a few years ago, investors and entrepreneurs with such a vision were a rarity. Today, taken together with large corporations, banks, foundations, multilateral institutions and governments, they can be seen as part of a healthily growing ecosystem that uses the combined logic of social impact and financial performance, and which over the coming years expects to transact US$ 1 trillion globally and 50 Billion Reais in Brazil.

This field, still in construction, includes many players that are rethinking their commitment to impact. We highlight entrepreneurs whose businesses have already benefited millions of vulnerable people with simple and accessible products and services, investors who have included impact as a dimension of their risk-return analyses, NGOs that sustain themselves using models of revenue generation, and governments looking to seal agreements that focus on measurable impact.

We intend to transform the social finance and impact business field into a well-tuned ecosystem, with robust mechanisms and clear principles. We are still in our infancy in Brazil, but it was this aspiration that led the Task Force to collaboratively create a clear picture of the present, and to set goals for the future.

This document tells a story of collaboration among more than **500 people**, who during the past two years have worked to produce diverse research and studies, as well as the **15 recommendations** defined as priorities for strengthening the social finance agenda leading up to 2020.

Without the contribution of the these people and organizations – who have reflected, discussed, established connections and sought out examples – this result would not have been possible. To them we offer our most sincere thanks, and a guarantee of our enthusiasm for the next steps.

Our mission is to weave a network of relationships that can bring together investors, entrepreneurs, government and partners, to develop **profitable business models** that solve social or environmental problems, and thus change the dominant paradigm for managing the needs and resources of society.

Read, be inspired, and most importantly get engaged in building **a better future for Brazil**.

Social Finance Task Force

André Degenszajn | Antonio Ermírio de Moraes Neto | Ary Oswaldo Mattos Filho | Fábio Barbosa | Guilherme Affonso Ferreira | Luiz Lara | Maria Alice Setubal | Pedro Parente | Vera Cordeiro

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Executive Summary

The vision of the Task Force is that by 2020, the amount invested in Impact Business in Brazil reaches reaches 50 billion Reais per year, and that the strengthening of the field offers a new way of attracting and committing investors and entrepreneurs to solving social challenges in Brazil.

For two years the Social Finance Task Force (SFTF) has been producing, analysing and debating information on the field of social finance and impact business. One of the statistics collected indicates that in 2014, 13 billion Brazilian Reais were invested in initiatives and businesses that combine social impact and financial sustainability, or, put differently, were allocated to the provision of products and services that improve social indicators and achieve positive financial performance. The vision of the Task Force is that by 2020, this amount reaches 50 billion Reais per year, and that the strengthening of the field offers a new way of attracting and committing investors and entrepreneurs to solving social challenges in Brazil.

Through a meticulous and thorough analysis of the Social Finance ecosystem - encompassing specialists in capital provision, impact business entrepreneurs seeking capital, instruments and mechanisms for facilitating the circulation of financial resources, and intermediary organizations that improve the process – we have identified four levers for strengthening the field, which need to be developed simultaneously: (1) increasing the supply of capital; (2) increasing the number of investment-ready businesses with potential for growth; (3) strengthening intermediary organizations; (4) creating a macro environment favourable to social finance. To pull these levers and consolidate the market for impact investing, the Task Force has defined 15 priority recommendations, with respective goals for the next five years and suggestions for which players should be involved. This method continues the collective and collaborative approach that has made it possible to extract the most profound knowledge from each specialist, to include the richest experience of each professional and to multiply the results. Every piece of this puzzle is a person who has put their talent at the service of the future that we have imagined together.

The recommendations presented in this publication cover opportunities such as strengthening incubators and accelerators, creating financial products for impact, stimulating innovative support mechanisms, and creating a culture for impact evaluation, among others. The 15 recommendations are not an exhaustive list of the efforts needed for the field to grow, but bring together agendas with high potential for synergy, feasibility and results, in a way that is aligned with the UNDP's recently launched Sustainable Development Goals. In the same vein, the citing of specific players does not exclude the participation of other organizations that may identify

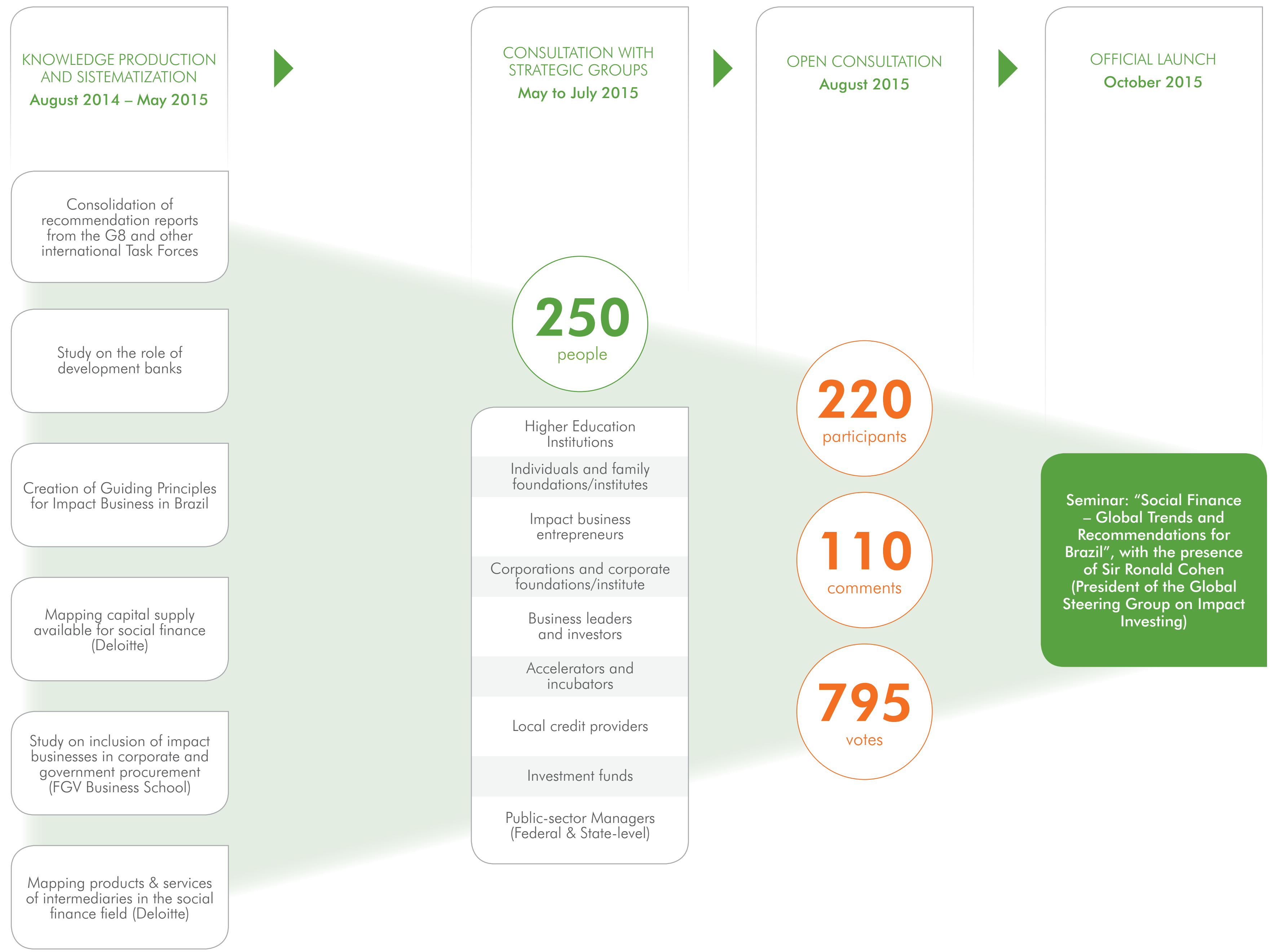
1 Research "Mapping the financial resources available to the social sector in Brazil with the aim to identify potential resources for social finance", conducted by Deloitte, in conjunction with the Social Finance Task Force Executive Board. Sao Paulo, March 2015.

themselves with the proposed objectives. In addition to the recommendations, this publication introduces the social finance field, and the Social Finance Task Force and its achievements to-date. To access other Task Force publications and follow the next steps in disseminating and implementing the recommendations, please visit www.forcatarefafinancassociais.org.br

Social Impact Dimension

The Social Finance Task Force understands that the social dimension (such as impact business action areas or reference to social transformation promoted) should also include environmental aspects. Throughout this document, the word "social" is used as a simplification of "socio-environmental" or "social and environmental".

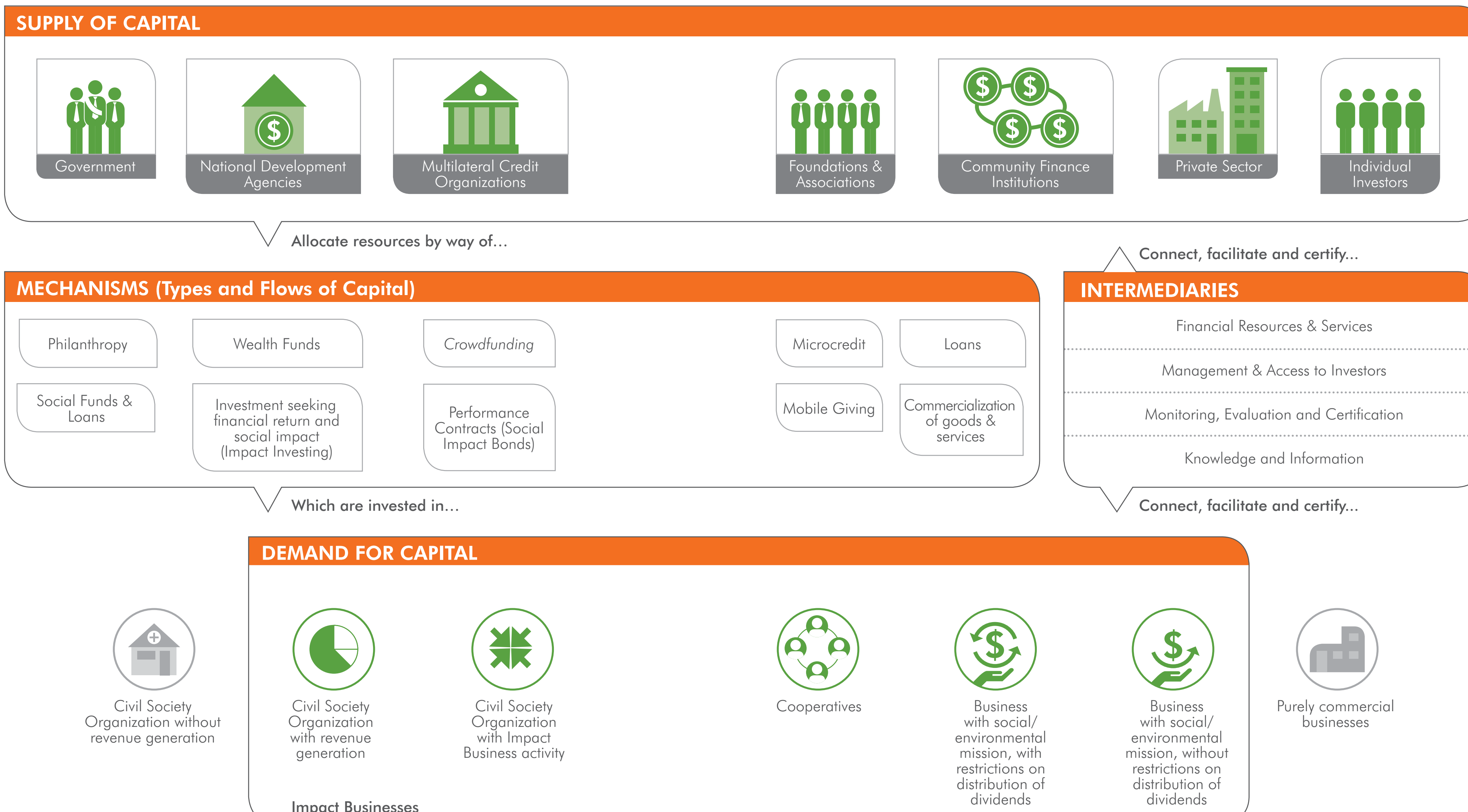
PROCESS FOR BUILDING AND PRIORITIZING THE RECOMMENDATIONS OF THE SOCIAL FINANCE TASK FORCE



1

Social Finance Ecosystem

The Social Finance ecosystem is comprised of those who provide capital (by donating, loaning or investing financial resources), those who seek capital (impact businesses), financial mechanisms and intermediary organisations (responsible for connecting the system players and aiding capital flow, as well as improving and e monitoring the performance of businesses).



WHAT IS SOCIAL FINANCE?

Social Finance refers to the channelling of private and public capital into impact businesses, or into initiatives that use financial mechanisms with a commitment to creating social impact and financial sustainability. It differs from philanthropy and from traditional finance by combining four characteristics:

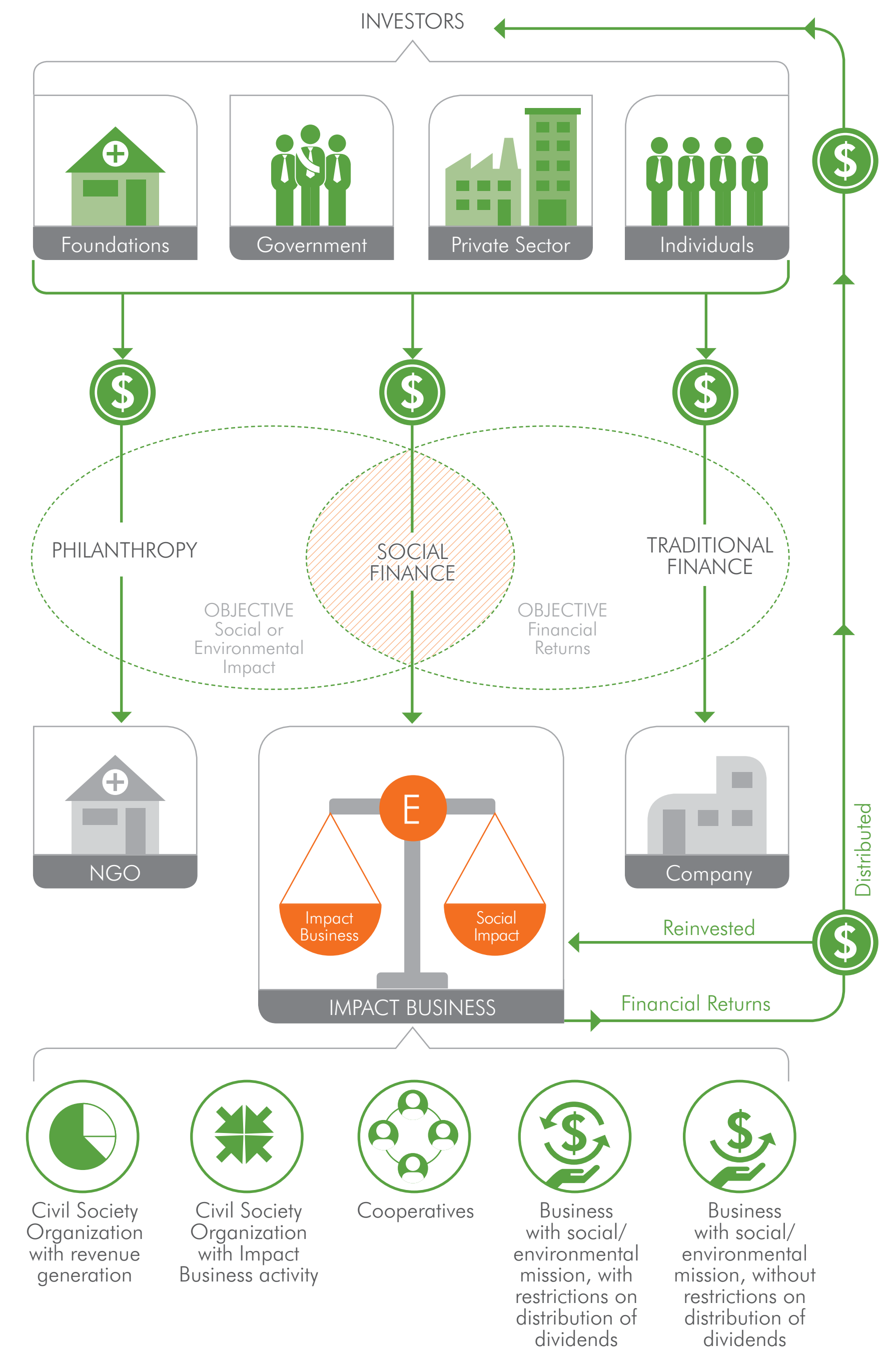
1. **Capital committed to positive social impact with financial returns.** Governments, individuals and the private sector are motivated to donate, invest or purchase with the intention of promoting improvements in the life quality of the population.

2. **Financial mechanisms for impact.** Financial instruments and means (such as investment funds, social impact bonds or crowdfunding platforms) which allow capital to flow to impact businesses and other initiatives for impact.

3. **Investment in profitable business models that solve social problems.** Focus on enterprises that have an explicit mission to simultaneously create social impact and generate financial returns (which may be reinvested into the business or returned to the investors) in a sustainable way.

4. **Monitoring and measuring impact.** The initiatives funded need to report regularly on both their impact on social indicators and their financial results.

WHAT IS SOCIAL FINANCE?



WHAT ARE IMPACT BUSINESSES?

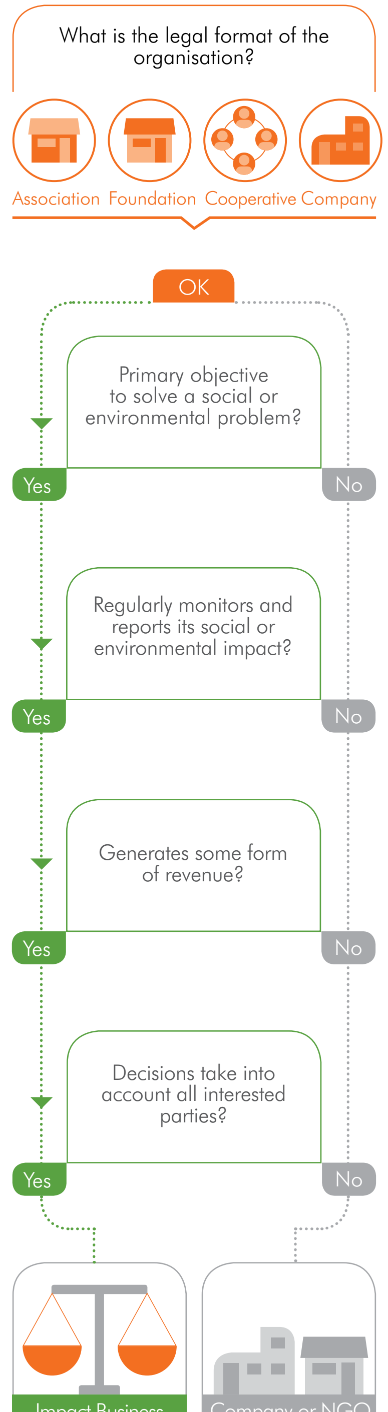
Organisations that need capital, receiving investments to implement solutions that contribute to a reduction in poverty and vulnerability of people and communities. The Social Finance Task Force, in partnership with organisations that work with the topic, created a set of guiding principles for Impact Business in Brazil, establishing four principles that differentiate impact businesses from NGOs and conventional businesses (independently of their legal constitution):

1. Clear purpose to create positive social impact, explicit in the organisation's mission;

2. Impact is known, measured and evaluated regularly;

3. Use of an economic model that allows some kind of revenue generation;

4. Governance structures that take into account the interests of investors, clients and the wider community.



WHAT ARE INTERMEDIARY ORGANISATIONS?

Professionals and institutions that help, connect, and support the connections between capital supply (investors, donors, fund managers seeking impact) and demand (organisations and businesses that create social impact), and that strengthen the overall social finance ecosystem. Intermediary organisations can be grouped according to the type of products and services offered.

SUPPLY OF CAPITAL

INTERMEDIARIES

Group	Financial resources and services	Management and access to investors	Monitoring, Evaluation and Certification	Knowledge and Information
Definition	Improve the circulation of financial resources from capital providers to impact businesses or to other intermediaries, contributing to risk management and reduction of transaction costs.	Improve the performance of the field, in terms of both facilitating investor decision-making, and of building and implementing business models for impact businesses.	Support impact businesses to develop, measure and validate their theory of change (the intended impact on the quality of life of the population).	Develop conceptual references for the field of social finance, by producing, disseminating and regulating knowledge, and by applying this knowledge in training human capital for the field.
Examples	• Investment funds • Social funds • Financial institutions and banking agents • Managers of Social Impact Bonds	• Accelerators & incubators • Investment consultants • Client access platforms • Marketing & Sales Support	• Impact measurement and tracking consultants • Certification bodies	• Higher Education institutions • Talent development organisations • Law firms

DEMAND FOR CAPITAL

2

Social Finance Task Force

In 2013, a group of 20 organisations came together to start a movement for Social Finance in Brazil. Inspired by the experiences of other countries it selected critical topics for development of the field, and invited individuals from diverse sectors to form the Social Finance Task Force. Launched in May 2014, the Social Finance Task Force (SFTF) works with the support of these individuals as a catalyst and connector for the field. Its purpose is to mobilise key players behind the belief that business models can solve social challenges. In other words, its challenge is to change the **OR** mind-set ("invest in businesses for financial returns **OR** donate to NGOs for social impact") to an **AND** mind-set ("invest in organisations that create social impact **AND** offer financial performance").

Global Agenda

The first Task Force on the topic of Social Finance was launched in the United Kingdom in the year 2000, followed by Canada in 2010. In 2013 the Social Impact Investing Task Force was launched, comprised of the G7 countries plus Australia. In September 2015 this movement was succeeded by a new organisation, Global Social Impact Investment Steering Group (GSG), which approved the entry of other countries – including Brazil – as members. This organisation has the mandate to be a global benchmark for concepts and best practices, and to contribute to the work of member countries in strengthening the field. The GSG's President is Sir Ronald Cohen, and its representative in Brazil is Antonio Ermirio de Moraes Neto.
www.socialimpactinvestment.org/

OUR BELIEF
Business models can solve social problems.

OUR MISSION
To weave a network that can bring together investors, entrepreneurs, government and partners, to develop profitable business models that solve social or environmental problems, and thus change the dominant paradigm for managing the needs and resources of society.

OUR VISION
The field of social finance will mobilise 50 billion Reais by the year 2020.

OUR WAY OF WORKING
- Producing knowledge
- Monitoring recommendations
- Tracking the global and local agendas
- Influencing strategic players

OUR GOVERNANCE

DECISION-MAKING BODY

EXECUTIVE BOARD
ICE
SITAWI FINANCE for GOOD

CONTINUOUS SUPPORT GROUP
Instância Consultiva
(70 organizações do ecossistema)

STRATEGIC PARTNERS
Deloitte.
Telefónica | vivo
Fundação Telefônica

SUPPORT
ICE
Telefónica | vivo
Fundação Telefônica
instituto península
LEW'LARA\TBWA

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Process For Developing The Recommendations

The starting point for developing the recommendations was a series of documents produced from 2012 to 1015, which were systemised and debated by the SFTF together with individuals and organisations working in the Social Finance and Impact Business field. Also analysed were 85 recommendations made by the G7countries, with specialists discussing those most relevant to the Brazilian ecosystem. More than 500 people were consulted through events and individual meetings, guaranteeing the diversity of views, interests and topics that the recommendations should explore.

Taking into account the connections in the ecosystem, four macro-levers were defined, which need to be pulled together over the coming years for the field to be strengthened.

Criteria for prioritising the topics and recommendations that could contribute to the 4 levers:

- Impact on the field vs feasibility of implementation (in relation to the vocation of the Social Finance Task Force, available resources, simplicity and speed)
- Contemplating and committing all players
- Systemic and dynamic view of the field (pulling all of the proposed levers)
- Global view (learning from other task forces, considering the Brazilian context)

LEVERS FOR STRENGTHENING THE FIELD

Increasing the supply of capital
Bringing more financial resources to the field of social finance and impact business – through donations, loans, service contracts or investments – signifies identifying those players that can contribute most in the short term, inviting new entrants to provide capital, and strengthening new and existing financial mechanisms that permit the flow of these resources.

Increasing the number of qualified and scalable impact businesses
A greater number of entrepreneurs, including those from the base of the pyramid, who are committed and equipped to solving social or environmental problems using economically sustainable operating models. Making more businesses happen will lead to more operating models being tested and to more success stories with demonstrable impact and proven financial results, thus attracting more investments and starting a virtuous cycle that can inspire new entrepreneurs and investors.

Strengthening intermediary organisations
Facilitating and improving the connection between supply and demand of capital is essential in aligning expectations and guaranteeing the continuity of partnerships. Increasing the number, technical ability and geographic reach of intermediary organisations will strengthen strategic pillars for the field – such as the preparation of entrepreneurs and their business models, the systemisation and dissemination of information, and the evaluation and certification of impact.

Promoting a macro-environment favourable to social finance
Engaging public and private sector leaders in the challenge of mobilising financial resources for impact, considering the opportunity to create regulations and standards that facilitate the development of the social finance ecosystem. A more simple and flexible environment for capital flow to businesses will lead to the emergence of more innovative ways to donate, invest and start new ventures.

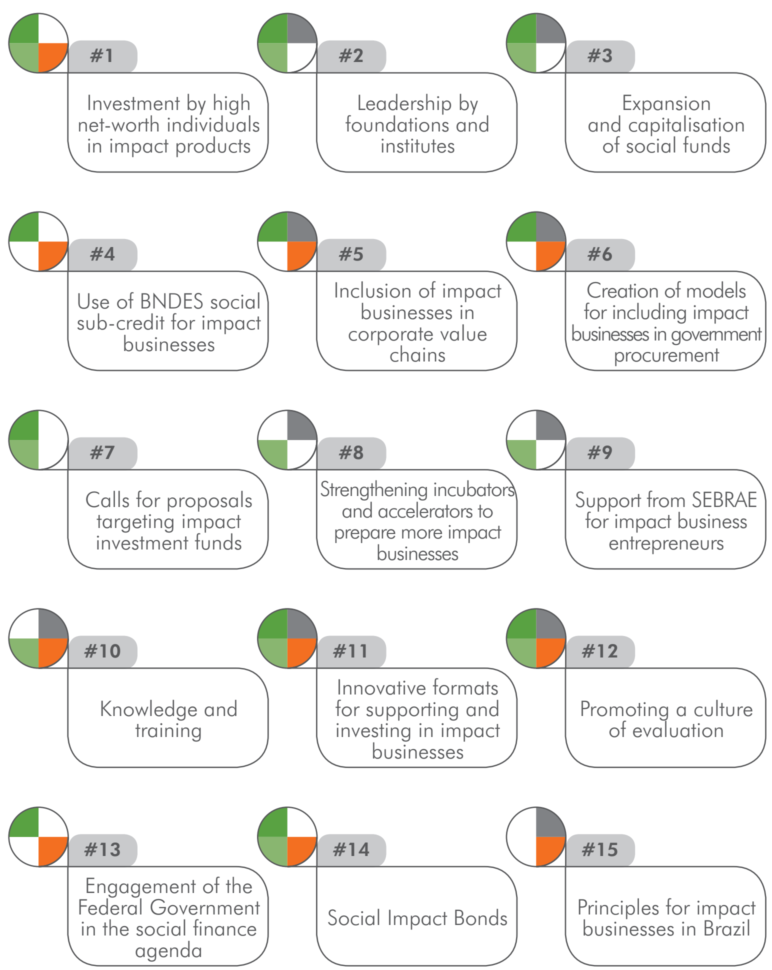
PRIORITY RECOMMENDATIONS

Among all of the possible recommendations, 15 were chosen as priority, along with respective suggested goals for the next five years and indications of players that can make each of them happen.

To arrive at this combination, the recommendations were checked carefully against the criteria, to ensure that they would have the power to pull the levers that will strengthen the social finance field.

- Increasing the supply of capital
- Increasing the number of qualified and scalable impact businesses
- Strengthening intermediary organisations
- Promoting a macro-environment favourable to social finance

THE RECOMMENDATIONS ARE FRUIT OF THE COMBINATION BETWEEN THE LEVERS AND THE CRITERIA FOR STRENGTHENING THE FIELD



MATRIX OF RECOMMENDATIONS VS KEY PLAYERS

Each recommendation is directed to one or more players in the social finance ecosystem, with no intent to exclude other organisations or individuals who may collaborate in dissemination or implementation of the suggested goals. Public entities, such as the federal government, national social development bank (BNDES) and relevant control bodies, must be included in the debate, guaranteeing better understanding and implementation. The Social Finance Task Force has the role of influencing, connecting, collaborating and walking together with the players indicated to implement each recommendation.

Key Players	Recommendations organised by key player														
	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11	#12	#13	#14	#15
Brazilian VC & PE Association (ABVCAP)							✔								
Research support bodies										✔		✔			
Anprotec								✔							✔
Independent evaluators, auditors and certifiers												✔		✔	✔
Central bank											✔				
Retail and investment banks	✔														
BNDES			✔	✔			✔								✔
Securities and Exchange Commission											✔				
Impact business entrepreneurs				✔	✔	✔			✔			✔		✔	✔
Corporations				✔	✔			✔							✔
Undergraduate and graduate students										✔					
Family offices	✔														
Finep (a public fund for innovation and research)							✔			✔					✔
Investment firms	✔									✔					
Foundations and institutes		✔	✔			✔		✔							✔
Investment funds							✔								
Social funds			✔												
GIFE (a group for institutes and foundations)		✔													
Governments (federal, state and municipal)						✔		✔					✔	✔	✔
Incubators and accelerators								✔	✔						✔
High net-worth individuals	✔		✔												
Higher education institutions						✔				✔		✔			✔
Public Prosecutor's Office			✔												
NGOs working with public-sector management						✔									
Public-sector control bodies						✔									
Multilateral credit organisations								✔							
Teachers										✔					
SEBRAE (a support agency for small businesses)					✔	✔		✔	✔	✔					✔

4 Recommendations of the Task Force

RECOMMENDATION #01

Investment by high net-worth individuals in financial products with impact

Description **The SFTF recommends that high net-worth individuals directly or indirectly (for example, through family offices) encourage financial institutions of which they are clients, and investment funds that manage their wealth, to create financial products that have social impact, and/or define a percentage of their investments to be allocated to existing products of this kind.**

As with any sector in its initial stages, social-impact financial products face a vicious circle: supply is low because of low demand from investors, and demand is low due to the small range of products offered by financial institutions. Additionally, given the lack of a long-term track record, it is easier to question if these products are capable of offering adequate financial returns.

There is evidence from several countries that this vicious circle is starting to be broken, above all by a group of high net-worth investors who have added social impact to their investment objectives and to their risk/return analyses. This type of investor has played a crucial pioneering role in stimulating the market for social-impact financial products, exerting a telling influence on the managers of their assets so that they offer such products.

Individual investors and their family offices should therefore demand that their wealth managers offer alternative investment opportunities, in which social impact and financial performance coexist. By meeting the needs of these clients, these intermediaries have an opportunity to anticipate a global trend, given that the new generation of investors – the so-called 'Millennials' - have expressed a desire to connect profit and purpose.

International experience

US-based bank JP Morgan created an area dedicated to Social Finance – Social Finance & JPMorgan Chase – which in addition to social-impact financial products also offers advisory services for clients who want to invest in this way. Swiss bank UBS launched an impact investing fund in the United Kingdom, in August 2015, managed by Resonance. It will be a pioneer in using tax benefits - introduced by the UK government in 2014 - for individual investors who invest directly or indirectly in impact businesses.

Local experience

The lack of products in the banking system has led families interested in making investments in impact business to create their own structures for investing and supporting the ecosystem. In addition to creating Instituto Alana, one of the largest shareholders in VOX Capital, Ana Lucia Villela also created Alana Participações with the aim of supporting the creation and strengthening of impact businesses and directly investing in these businesses. These investments go beyond the financial sphere, with Alanapar also supporting the management of these new businesses. Part of these resources, and those of other families, could be harnessed by banks and financial institutions offering adequate impact investment products.

Similarly, managers of resources (investment funds, investment distributors, etc.) should include adherence to social impact criteria in their choice of which assets will make up their portfolios.

At a later stage, when the impact investing industry is more consolidated, the aim will be for commercial banks and asset managers to extend the offering of investment products, financial mechanisms and strategies for impact to their entire client base.

Suggested goal **It is suggested that individuals and their respective family offices direct between 1 and 3% of the total value of their investments to funds / financial products with social impact by 2020[2].**

Key players **High net-worth individuals; Family Offices; Financial Institutions; Investment firms (managers and distributors).**

2 According to data from the Brazilian Association of Financial & Capital Markets (Anbima) the Private Banking industry in Brazil has 694 billion Reais under management (June 2015). For illustration purposes, if 15% of this asset base – approx. 100 billion – directed 1% to impact investment products, this would result in 1 billion Reais of new resources for the field.

RECOMMENDATION #02

Leadership by foundations and institutes in social finance

Description **The SFTF recommends that foundations and institutes (corporate, family-run and independent) make donations and investments to enable innovative pilot initiatives in the field of social finance and impact business.**

Foundations and institutes have a strong commitment to the development of the social sector and its impact. These organisations have the vocation and autonomy to finance and support innovation and knowledge agendas, helping to anticipate risks, opportunities and potential in untested areas.

Some foundations and institutes have started to experiment with investments in social finance and impact business, believing in the potential for impact and scale that the field proposes to reach. These organisations have made donations and investments in order to develop and strengthen other players in the ecosystem, to implement pilot initiatives and to create knowledge. The consolidation and dissemination of success stories will serve as an invitation for yet more foundations and institutes - as well as other investors, entrepreneurs and intermediaries - to get involved.

Considering the challenge of attracting new investors to the field, it is strategic that foundations and institutes play the role of guarantor (covering potential losses, in full or partly), and buyer of first lots (reducing the demand risk for innovative products), provided that this is done in a way that complies with their financial and legal obligations.

Another important way for foundations and institutes to get involved in the social finance field is to use their endowment funds. These funds, as well as increasing the long-term investment capacity of foundations and institutes, reduce the impact of situational variations. Once established, they can use their resources to invest in impact investment funds and in businesses offering products and services directly related to their respective cause (health, education, housing, etc.), that generate some level of financial return (mission-related investment: MRI).

Suggested goal **It is suggested that, by 2020, foundations and institutes direct 5% of their investments and donations to developing the field of social finance and impact business, preferably in strategies for strengthening intermediary organisations or for attracting new investors.**

Key players **GIFE, foundations and institutes (corporate, family-run and independent) and Public Prosecutor's Office.**

International experience

The Rockefeller Foundation has been supporting the development of the global impact investing industry since 2008, focusing on four priorities: 1) stimulating the creation of platforms that incentivise impact investors to act collectively; 2) developing infrastructure for the industry, for example, by creating standards for impact measurement such as GIIRS and IRIS; 3) supporting the creation and growth of intermediary organisations, such as impact investment funds; 4) contributing to research and advocacy.

In 2009 the Bill & Melinda Gates Foundation, together with the governments of Italy, the United Kingdom, Canada, Russia and Norway, operationalised an Advance Market Commitment to the value of US$1.5 billion, to supply 200 million vaccines against pneumonia in countries with annual per capita income below $1,000. The definition of a sales price and quantity of vaccines increased the attractiveness for investment by pharmaceutical laboratories. To-date, more than 100 million doses of the pneumonia vaccine have been delivered, and other diseases are being evaluated as potential new targets for investment.

Local experience

Potencia Ventures (previously Artemisia International) supports initiatives that contribute to building a stronger ecosystem for business that serves the base of the pyramid in emerging markets. It offers financial capital - grants, loans and equity investments – and intellectual capital, providing strategy, global contacts and knowledge. Active in Brazil since 2004, Potencia has been the first investor and principal strategic partner in the creation of several key initiatives in the impact business field, including ARTEMISIA (a pioneering organisation in the dissemination and promotion of impact business in Brazil), Vox Capital (the first Brazilian impact investment fund), Impact Hub, (a global community of impact entrepreneurs) and the Brazilian Chapter of ANDE, a global network of organisations that propel entrepreneurship in emerging markets. It also funds research and studies to disseminate knowledge about the field.

Foundations such as The Lemann Foundation and Telefônica Vivo Foundation have become investors in the development of the impact business field. The Lemann Foundation supported 10 edutech start-ups to improve their business models and deepen their knowledge about the public-sector education system. The Telefônica Vivo Foundation has been supporting accelerators, strengthening entrepreneurs and guaranteeing the purchase of products and services for public-school education from impact businesses. One example is the purchase of licences for Geekie Games, which has given free access to 1.3 million students from 12,000 schools in 2014, and 600,000 students from 5,100 schools in 2013.

RECOMMENDATION #03

Expansion and capitalisation of social funds

Description **The SFTF recommends that the BNDES directs a part of its annual non-returnable investments to capitalise social investment funds.**

Social investment funds raise capital in the markets and invest it in social sector organisations or impact businesses. Differently from impact investment funds, however, social funds do not expect to pass on returns to their investors, instead reinvesting in the same organisation, or in others. This model implies that financing for these funds should be via donations, from individuals, foundations, institutes or development banks, with emphasis on the potential of the BNDES, through its non-returnable financing lines.

The challenges faced by the BNDES in implementing its social agenda lie in mapping good projects in as wide a geographical area as possible, and in managing and monitoring the effectiveness of funds invested. In the same way that it has turned to large institutes and corporate foundations to support it with these challenges, the BNDES could also turn to social funds, which would have more freedom and agility in structuring new mechanisms for donations, loans and investments adapted to the specifics of the field. One example would be through collateral-free loans, or investments with rates of return that are inversely proportional to the social impact.

The use of donations can be justified by three primary reasons: (a) the "recycling" of initial capital results in multiplication of the social impact; (b) the freedom arising from not being obliged to return to the original investor allows for more flexibility in the risk/return/impact equation of resources available to impact businesses; and (c) the business' commitment to operational efficiency and results prepares it to receive impact investment or commercial credit in the future.

The availability of more resources for social investment funds would lead to more funds being created, which could in turn invest in more projects, with more potential success stories and more returns to be reinvested. This virtuous cycle can also inspire companies, institutes and corporate foundations to review their own social investment strategies and the manner in which they finance NGOs, cooperatives and impact businesses.

Suggested goal **It is suggested that, by 2020, the BNDES directs 5% of its annual non-returnable investments to capitalising social investment funds.**

Key players **Social investment funds, BNDES, high net-worth individuals, foundations and institutes (corporate and family-run).**

Local experience
SITAWI Finanças do Bem (`Finance for Good`) is a non-profit organisation whose objective is to experiment with new forms of attracting capital for social and/or environmental impact. From 2008 to 2015, SITAWI has raised around 1.8 million Brazilian Reais in donations to fund social/environmental loans. Using these resources it has loaned around 3.3 million Reais (its 1st loan fund demonstrated a multiplication factor of 2.3) to 16 impact businesses (10 of these non-profits) which together have impacted 150,000 people. Only one of the loans was not paid back in its entirety, and many of the loan-takers have gone on to receive funds from commercial banks and impact investors. *SITAWI Finanças do Bem* is a part of the Executive Board of the Social Finance Task Force. www.sitawi.net/

RECOMMENDATION #04

Use of BNDES social sub-credit for impact businesses

Description **The SFTF recommends that the BNDES makes explicit reference to impact business in its list of valid applications for resources that come from the social sub-credit line linked to its loans. Other development banks and agencies with similar mechanisms should also follow this recommendation.**

When the BNDES makes loans in excess of 100 million Brazilian Reais to companies, it suggests that at least 0.5% of the loan value is used for social investments in the geographical area where the resources will be spent, or which at a macro level benefit segments of the national population exposed to some kind of vulnerability. Historically these resources have been used for infrastructure works.

Although there is no obvious restriction, there is no explicit mention of the possibility of impact businesses being able to provide the expected impact among the criteria and objectives for using sub-credit. Making the term explicit among the rules that govern sub-credit would be an important indicator of the relevance of this field and of the BNDES' commitment to it, as well as an appeal to the companies that receive the loans.

Alternatively, the BNDES could permit and/or incentivise companies receiving loans to donate part of these resources to a non-profit social fund present in the region, or focused on social impact at the macro level. The company or corporate institute would make the donation to an organisation that would in turn loan to impact businesses or local social entrepreneurs. In this model[3], capital returning to the social fund can circulate several times, securing additional opportunities for impact relating to the respective region or target group.

Suggested goal **It is suggested that the BNDES validates the application of social sub-credit in impact businesses or social investment funds, and that by 2020, 5% of all resources invested through social sub-credit are allocated in this way.**

Key players **BNDES, Corporations, Impact business entrepreneurs.**

Local Experience
The CPFL Energy Group foresees in its social investment approach the development of actions that are structural and convergent with public policy. With the aim of giving scale to these investments, the group established a partnership with Geekie, one of the primary impact businesses in Brazil. Geekie has developed an adaptive teaching platform, recognised by the Ministry of Education, which allows students to discover in which topic areas they ned to improve, and elaborates individual study plans. One of the primary objectives is to improve municipal-level education indicators, such as the Basic Education Development Index and the rate of distortion between age and year of study, one of the biggest challenges in education in Brazil. In 2014, with the possibility of using resources from BNDES social sub-credit, CPFL Energy presented the bank with a project, in partnership with Geekie, meeting the criteria for this line of finance and guaranteeing a reduction in vulnerability and improvement in social inclusion. The project was approved by the BNDES in 2015, serving 2,800 students from public schools in Araraquara, Sao Paulo.

3 It is essential that a company applying sub-credit via a social investment fund verifies that the donations or loans meet development bank requirements, as they would still be subject to the same accountability requirements currently applicable.

RECOMMENDATION #05

Inclusion of impact businesses in corporate value chains

Description **The SFTF recommends that business leaders, executives and management board members incorporate the concept of impact business into their strategies, and that they ask their teams to include practical steps to incentivise such enterprises in their action plans.**

Companies, as represented by their investors and senior executives, are an important player in the development of the social finance field. In addition to making direct investments in impact businesses, they are potential buyers of their products and services. From this perspective, suppliers could be evaluated not only on the basis of cost, quality and delivery time, but also by the social impact that they create. This reflection is also valid for institutes, foundations and civil society organisations.

In the medium term, the integration of impact businesses into corporate procurement should not result in increases in costs. Companies need to see this as an opportunity to create value and protect their brands, whether through marketing strategies, improved relationships with priority stakeholder groups and/or licence to operate in low-income communities. Due to the size of the challenge of incorporating these additional values, it is important that sustainability (or related) departments work closely with their procurement counterparts.

One possible route to engaging large corporations would be to place greater emphasis on value-chain related indicators in self-assessment impact evaluation systems, such as Ethos Indicators, ISE (a Brazilian corporate sustainability index), GRI reports and B Impact Assessment. Another opportunity would be the creation of investment funds specific to strategic sectors, such as solid waste and reverse logistics, which would stimulate the emergence and hiring of impact businesses.

From the point of view of a company's social investment strategy, it is also worth evaluating possible synergies arising from the development of impact businesses with potential to be suppliers in its value chain. It is important that sustainability departments work closely with intermediaries in the field (such as accelerators and impact evaluators) and align expectations for quality and scale between entrepreneurs and procurement managers.

To meet the challenge of mapping potential suppliers, the emergence of online platforms and physical spaces – such as fairs – which connect public and private-sector buyers with impact businesses, is also welcome.

Suggested goal **We suggest that companies create strategies and internal policies to make it feasible that, by 2020, 5% of their corporate purchases come from impact businesses, and that they report periodically on their progress towards this goal.**

Key players **Companies, corporate foundations and institutes, impact business entrepreneurs, SEBRAE**

International experience
Social Enterprise UK (SEUK) works to promote impact business, conducting research, campaigns and lobbying, and forming networks of relationships between its members. The Wales Social Enterprise Brokerage platform - launched in 2013 - offers a package of services in one place. Those interested in hiring social enterprises from diverse sectors – primarily catering, cleaning, recycling and waste management services – can find them there, thus connecting different players along value chains and allowing for the inclusion of social enterprises in these chains.
http://www.socialenterprise.org.uk/

Local experience
One of the goals of cosmetics company Natura is to increase the proportion of its raw-material purchases from the Amazon region, from 10% to 30% in financial terms, by 2020. To reach this goal it has, among other initiatives, created a plant for soap in Benevides, Pará, which concentrates all stages of production. A large and complex investment, it brings the business closer to the origin of its inputs, and opens a range of opportunities for the local population. In a region where economic opportunities are limited, productive groups have become fruit oil suppliers for Natura's products.

RECOMMENDATION #06

Creation of models for including impact businesses in government procurement

Description **The SFTF recommends that academia, NGOs working with public-sector management, institutes and foundations give visibility to existing initiatives and help to consolidate alternative models for procurement of products and services from impact businesses, which can then be replicated and scaled by the various levels of government.**

The public sector is among the country's largest buyers, with its spending on purchases representing 10% to 15% of GDP[4]. Including impact businesses in public procurement policies would positively induce the market, give relevance to the topic, and reinforce the government's commitment to effective impact in serving the population.

The challenges, according to research[5], are related to the lack of awareness of the topic and to the legal complexity, which leave those responsible for public procurement insecure. As examples, it is worth mentioning the difficulty in differentiating a business for its social impact within bidding processes (Law 8.666/93), and the difficulty in classifying innovative technologies – where these have no direct competitors – in bidding rules.

The path to progress in this context includes studying relevant legislation, identifying opportunities, testing impact theses in advance and building success stories that can be communicated and multiplied, thereby informing and preparing public sector managers. It will also be necessary to work with the Public Prosecutor's Office and with control bodies (accounting, legal and audit tribunals), both to find ways of incentivising procurement from impact businesses that do not contravene legislation, and to reduce the legal complexity of innovations in the public sector.

The expected result is that more managers will seek to familiarise themselves with this agenda, looking for training and information on regulations (such as those on sustainability in procurement, or school catering), and analysing the need for adaptations or new legal formats, in conjunction with relevant controlling bodies, with the aim of bringing more quality and/or efficiency to the services offered by the state.

Suggested goal **It is suggested that academia, NGOs working with public-sector management, legal firms specialised in public law, institutes and foundations create, by 2017, a reference guide and a detailed legislative paper on purchases from impact businesses, and that they finance the first pilots that can then be replicated to the three levels of Government.**

Key players **Federal, state and municipal governments; control bodies; impact business entrepreneurs; institutes and foundations; higher education institutions and NGOs that work with public-sector management.**

International experience
The Department for Planning and Community Development of the State of Victoria, Australia, has produced three guidance manuals on public procurement procedures and the inclusion of social procurement by government. All are easy to access and available for download, such as the *Social Procurement Toolkit*, which offers a step-by-step guide for government to incorporate social procurement, taking into account five stages: establishing a suitable environment; 2) getting ready; 3) planning; 4) documentation; 5) analysing implementation.

Local experience
The city of Maringá, in Paraná State, has created a series of innovations in its procurement processes through small-scale legislative reforms. One such example is the Suppliers Directory, which centralises the procurement process for common items in one single place, leading to efficiency gains for government departments.

4 http://cpsustentaveis.planejamento.gov.br/compras-sustentaveis

5 Research from FGV-EASP Business School: "Inclusion of Impact Businesses in Corporate and Government Procurement", for the Social Finance Task Force, Sao Paulo, March 2015

RECOMMENDATION #07

Calls for proposals targeting impact investment funds

Description **The SFTF recommends that federal and state-level banks and development agencies (such as BNDES and Finep), as well as multilateral organisations (such as MIF-Fomin, IFC and DEG), incorporate impact investing into their criteria for receiving funding proposals from Venture Capital and Private Equity funds.**

Some of these players – such as BNDES, Finep and MIF-Fomin – are already playing a fundamental part in building and strengthening the Brazilian Venture Capital industry, and will therefore have a crucial role in promoting the country's impact investment funds, by incorporating social impact as an additional element in their risk/return analysis. These organisations have the vocation and the reach to be pioneers, acting as magnets to pull in other investors – both public and private sector –to the market.

There are as yet few VC funds in Brazil focused on impact investing, which for the time being prevents a call for proposals specific to this kind of fund (as for example the BNDES has done with the Criatec funds to promote the tech start-up industry). In the short term, these agencies could include fund-manager commitment to evaluating the social impact of investee companies, among their criteria for selecting Venture Capital & Private Equity funds.

Suggested goals **It is suggested that, by 2016, these organisations include the commitment of fund managers to defining social impact goals and measurement criteria, together with entrepreneurs, among their criteria for selecting VC funds. We also suggest that, from 2017 onwards, they launch annual calls for proposals for fund managers with specific social impact theses, or for non-specialist managers that offer impact investment funds in their product range.**

Key players BNDES, FINEP, state-level development agencies, multilateral agencies, impact investment funds, ABVCAP

International experience

According to the report Eyes on the Horizon – The Impact Investor Survey, published by JPMorgan, the global impact investing industry has total assets under management of US$ 60 billion, of which 18% are managed by development finance agencies. In earlier research conducted by the same institution, these organisations represented the largest share of total global assets under management. This change in the investor profile shows the pioneering role that these kinds of organisations can play, by attracting new investors, in the development of a new field.

Local experience

FINEP and MIF-FOMIN are already shareholders in a Brazilian impact investment fund. The BNDES – through its Entrepreneurship Capital Department – is already familiar with the topic, despite not yet having invested.

RECOMMENDATION #08

Strengthening incubators and accelerators to prepare more impact businesses

Description **The SFTF recommends that companies, foundations, institutes and government include within their social investment strategies support for incubators and accelerators that train and support impact business entrepreneurs.**

A significant proportion of impact businesses in Brazil need not only seed capital, but also support with infrastructure, technical guidance in building business and management models, and mentorship in order to grow and take advantage of larger funding opportunities. Incubators and accelerators have been responsible for providing these tools, offering diverse services to entrepreneurs and creating space for learning and experience sharing.

There are already businesses that promote social impact being incubated or accelerated in Brazil. The challenge is to stimulate more entrepreneurs to reformulate or reinforce their commitment to impact, and not only focus on risk/return variables, with the aim of: (1) having more people positively affected by their products and services; (2) creating products and services that directly meet the needs of the low-income population or that solve serious social problems. In order to do this they need to raise financial resources.

Considering the limited resources with which incubators and accelerators work in Brazil –the majority are non-profits and depend exclusively on donations – it is important that there is an intentional movement to propel this new topic. It is hoped that corporations, foundations and institutes - and even government, through university-run incubators – can provide training, competitions and direct investments that support the incorporation of impact variables into the strategies of incubators and accelerators.

Important potential partners in this regard are Anprotec (the National Association of Organisations that Promote Innovative Enterprises[6], with its mission to bring together and unlock synergies between its members), SEBRAE and regional entities. These organisations can help to legitimise the topic and guarantee the involvement of incubators and accelerators across the country.

Suggested goals **It is suggested that, by 2020, at least 10% of incubators and accelerators in Brazil declare themselves to be working with impact businesses in a relevant portion of their portfolios, and use indicators to measure the social impact of enterprises incubated and accelerated.**

Key Players **Companies, foundations, institutes, government, incubators, accelerators, Anprotec, Sebrae.**

Internacional experience

The Rockefeller Foundation Impact Enterprise Project was created to increase knowledge about acceleration strategies and processes, seeking to improve understanding of what works and what is most promising in the acceleration of impact businesses. It was carried out in three stages: in-depth understanding of the needs of impact businesses, especially when they seek to scale up; data collection on 160 accelerators from around the world, to understand what each of them offers; and financing five institutions to implement innovations in the acceleration process, in the USA, Africa and Asia. The initial reflections on the project can be found in the document 'Accelerating Impact: Exploring Best Practices, Challenges, and Innovations in Impact Enterprise Acceleration' – Rockefeller Foundation (Feb. 2015)

6 Created in 1987, Anprotec brings together around 300 member organisations, including business incubators and accelerators, technology parks, teaching and research institutions, public bodies and other entities connected to entrepreneurship and innovation. The association works to provide training, advance public policy and create and disseminate knowledge.

RECOMMENDATION #09

Support from SEBRAE for impact business entrepreneurs

Description **The SFTF recommends that SEBRAE evaluates the multiple opportunities to include or strengthen the topic of impact business in its training and support services for current and potential entrepreneurs, considering the challenge of connecting them to a network with a larger number of companies.**

SEBRAE, as a national benchmark in the development of small businesses, has a leading role to play in increasing the number of impact businesses in the country.[7] Starting with the challenge of preparing entrepreneurs, it is essential that SEBRAE offers products and services that improve management, promote access to financial markets and services, disseminate innovative, technology-based solutions, and open up access to knowledge and tools for low-income entrepreneurs.

SEBRAE's operating model already allows it to outsource to intermediaries in cases where it does not have suitable in-house products, or the required scale, to meet specific needs. This presents an opportunity for other players in the field, such as incubators and accelerators, consultants and organisations that evaluate impact, for example, to increase their operating base.

Considering the difficulties that social entrepreneurs face in accessing investment, there could also be exclusive forums for bringing impact businesses closer to large corporations, investors and government.

In the governmental sphere, it is recommended that impact businesses be included in the Fomenta programme, aimed at public procurement.

Observation: In its work with impact businesses, Sebrae prioritises organisations legally registered as companies and that distribute profits to shareholders. However, due to its inclusive nature, it also serves impact businesses constituted as associations, cooperatives and businesses that reinvest their profits.

Suggested goaks **We suggest that, in the next 5 years, SEBRAE includes content on social finance and impact businesses in its diverse training strategies, with a view to reaching 100,000 entrepreneurs.**

Key players **SEBRAE, impact business entrepreneurs, accelerators and incubators.**

Local experience

The Impact Business Marathon is a four-day competition organised by SEBRAE to support individuals and organisations that want to launch their ideas for impact businesses. Participants are put through a programme that includes to training modules, specialist consulting, and mentoring from experienced social entrepreneurs, culminating in a presentation of their business models to an evaluation panel made up of investors, funders, accelerators, incubators and service providers.

Seven editions have taken place since 2013, in the cities of Rio de Janeiro, Florianopolis, Campo Grande and Vitoria, with a total of around 280 participants, representing an average of 40 companies or potential entrepreneurs per edition.

More information at http://www.maratonadenegociossociais.com.br/

7 By its own statues and relevant legislation, SEBRAE can only provide services to organisations registered as companies – profit-seeking and with profits distributed according to articles of incorporation – which signifies a reduction in the universe of impact businesses that could benefit from these services.

RECOMMENDATION #10

Knowledge production and training in Social Finance, Social Entrepreneurship and Impact Business

Description **The SFTF recommends that institutions of Higher Education include the topics of social finance, social entrepreneurship and impact business in the curricula of diverse courses, structure specific courses on these subjects, and produce and disseminate knowledge related to these topics.**

It is essential that the topics of social finance, social entrepreneurship and impact business become a part of Brazilian academic literature, as has happened in recent years with philanthropy and sustainability. Academia has a central role in shaping concepts, forging consensus over nomenclature and legal parameters, conducting research to evaluate impact businesses, and creating cases of success and failure.

To help prepare teachers for these new topics, it is important that there are study centres, think tanks, research lines, field trips, seminars, etc., in which they can reflect on the opportunities and challenges of the field. This also requires public and private financers to direct resources into events, exchanges, collaborative spaces, etc. An emblematic result would be the inclusion of social finance, social entrepreneurship and impact business topics in higher education courses – not only restricted to Management and Economics – or even the creation of new, specific courses.

These action steps in training aim to increase the number of professionals interested in starting ventures or getting involved in the field, to strengthen their knowledge on appropriate financial instruments for impact business (for-profit and non-profit), and to enable those in conventional markets to develop a more nuanced vision of the "impact vs profit" paradigm.

The use of study grants from bodies such as Fapesp, CNPq and Finep (when linked to social innovation), and from consulates of countries where the topics are more consolidated, can incentivise more Masters and Doctorate theses on topics related to impact. Foundations and corporate funds should financially support the implementation of this recommendation.

Suggested goals **It is suggested that, by 2020, there is at least one undergraduate course, one graduate course and one specialist course in social finance, social entrepreneurship and impact business in every region of the country. It is also suggested that national and regional research support bodies explicitly include the topic as a line of research finance, and create specific calls for proposals. Finally, it is suggested that higher education institutions encourage their teachers to include these concepts in their own research, and propose special editions of academic publications.**

Key players **Higher education institutions, teachers, Finep, undergraduate and graduate students, national and regional research support bodies, national and international foundations, consulates of countries where the topic is more consolidated.**

Local experience

Respected institutions are already creating courses and study centres related to social finance and impact business. Examples include EAESP-FGV's Social Impact Business Nucleus; Insper's, Centre for Impact Evaluation; FEA/USP, whose CEATS centre created the first MBA in Socioenvironmental Enterprise Management in partnership with Artemisia and IPE, and ESPM's Social Business Centre, created in partnership with the Yunus Center.

In 2012, ICE – the Institute for Business Citizenship – created Projeto Academia in order to introduce the themes of social finance and impact business to academia in three areas: teaching staff, research and specialisation. In July 2015, ICE brought together academics from nine higher education institutions, in order to stimulate knowledge creation, dissemination of the topic to other states, and awards for academic work in these topics. ICE is part of the Executive Board of the Social Finance Task Force. www.ice.org.br

Internacional experience

Schools abroad are increasing their engagement with the topic of social finance and impact business, creating courses and centres, such as the research undertaken at the London School of Economics, and Columbia University's Tamer Center for Social Enterprise.

RECOMMENDATION #11

Innovative, financially sustainable formats for investing in impact businesses

Description **The SFTF recommends that financial market regulatory bodies, especially the Central Bank and the Securities & Exchange Commission (CVM), set standards for innovative business fund-raising platforms, in particular those aimed at early-stage businesses.**

In Brazil there is a lack of alternatives for financing businesses at an early stage in their life cycle. There is a particular moment in their development at which businesses are no longer incubated or accelerated, but do not yet have sufficient size to receive investment from Venture Capital funds, nor sufficient capital or guarantees to receive more traditional lines of investment and financing. The result has been an increased mortality rate among businesses in this phase.

To fill this gap, digital fundraising platforms are being successfully used in several countries. They allow individuals to make investments in companies, either through shareholding (known as 'equity crowdfunding') or through debt (peer-to-peer platforms).

In Brazil, however, neither of these two platform models is as yet subject to a clear regulatory environment, which has inhibited the operation of existing players and made it difficult for new entrants to get involved in the market.

Looking firstly at digital platforms for equity crowdfunding, there is a need for new guidance from the CVM regarding the legal nature of the service provider, the qualification of eligible investors and of investee companies, and the governance model.

Digital peer-to-peer lending platforms on the other hand require more flexible and modern regulation from the Central Bank.

Suggested goals **It is suggested that by the end of 2016, the Central Bank and CVM, together with private-sector players working in the field, define new regulations that will allow the growth of these platforms within a secure and modern regulatory environment.**

Players involved **Central Bank, CVM, intermediary organisations focused on the development of these instruments.**

Internacional experience
The major player globally in online lending platforms is the US-based Lending Club, which has brokered loans to the value of US$ 11 billion since its launch in 2008 (data from 30/06/15). Angel List is a global reference in online equity crowdfunding platforms.

Local experience
Broota is a pioneer in operating online platforms for equity crowdfunding in Brazil. Biva is one of the online platforms that allow individual investors to make loans to entrepreneurs.

RECOMMENDATION #12

Promoting a culture of evaluation among entrepreneurs and impact investors

Description **The SFTF recommends that higher education institutions, together with organisations for evaluation and certification, create and implement a plan to disseminate a culture of impact evaluation for entrepreneurs and impact investors in Brazil, following global trends of common language and evaluation standards.**

One of the pillars of social finance is a commitment to social and environmental impact that is measured and analysed periodically. Evaluating transformation allows entrepreneurs to understand their true contribution to fulfilling their mission, and to identify opportunities and actions to better serve their customers or to scale up their businesses. The communication of this impact reduces risk and uncertainty for investors, attracting more capital that can benefit more people and more communities.

Enterprises should be created and evaluated according to their theory of change (what and how they pretend to transform) and their impact goals (how much and in what timeframe the transformation will take place). In reality, however, not all entrepreneurs are able to clearly state their impact or include evaluation in their management systems. This is due to the lack of references on the topic, lack of technical preparation to follow the impact agenda, and lack of resources to implement evaluation processes. It is also a challenge to align expectations and effectiveness of impact between investors, entrepreneurs and end users.

The global movement for social finance has created performance indicators and metrics, which seek to create a common language for the impact investing sector and to offer guidance on measuring social, environmental and financial results. Examples of these new support tools include IRIS (Impact Report and Investment Standards), a catalogue of indicators and performance metrics, and GIIRS (Global Impact Investing Rating System), a platform for evaluation, analysis and comparison of social and environmental impact for companies and funds.

These international benchmarks cannot substitute the specific local perspective for each business, but should be tracked in order to maintain global alignment and to allow Brazil to contribute to the global agenda.

The maturing of the impact agenda in Brazil depends on increasing the number and integration of organisations discussing the topic. These may be higher education institutions or independent evaluation and certification bodies, which bring credibility and dynamism to the field. New centres for evaluation need to be created, and forums promoted for exchange of information and identification of synergies. These players should maintain the culture of evaluation among entrepreneurs and investors on their radars, working to create and open up access to tools, studies, training opportunities and discussion forums.

The challenge of raising funds for evaluation will be met partly by those business models that already include impact evaluation in their management systems, and also by raising awareness among investors of the need to finance impact evaluation, which in turn can help these investors in pursuing their exit strategies.

Suggested goals **It is suggested that institutes, foundations, impact investors, entrepreneurs and government finance higher education institutions and evaluation and certification bodies to create at least one impact evaluation centre in each state, committed to working in partnership with local players and systemising and sharing its learning. It is also suggested that investors create plans for financing impact evaluation for at least 25% of their portfolio companies, making use of diverse approaches and methods to understand the impact of these businesses.**

Key players **Higher education institutions, evaluation & certification bodies, impact business entrepreneurs, impact investors.**

Local experience
Instituto Inspirare, together with Plano CDE, Move and other players from the impact investing ecosystem, started a process to develop a set of indicators that can support evaluation of solutions in education. The aim is to create a tool that can be improved over time with feedback from other players in the field, thus becoming an asset for the sector. The idea is that the mechanism is adopted by diverse education businesses interested in collecting evidence for the impact that they aim to create The tool proposes to be a menu of suggested dimensions, indicators and questions that can be continually discussed and improved with the collaboration of entrepreneurs and specialists, primarily those working with education and evaluation. In addition, Inspirare has recently launched the platform apreender.org.br, which brings together a series of examples, information, quotes and tools to support impact businesses in education.

RECOMMENDATION #13

Engagement of the Federal Government in the social finance agenda

Description **The SFTF recommends that the government incorporates the topic of social finance into public policy-making, acting with a strategic vision to propel the field, through enabling impact-driven financial mechanisms and strengthening intermediary organisations.**

For ten years the topic of social finance has shown itself to be, primarily among the countries of the G7, a new alternative for attracting private capital to solve social problems, complementary to philanthropy and aligned with government policy. This makes the involvement of government, at federal, state and municipal levels, fundamental in enabling and guiding the field. International experiences highlight three roles for government: as regulator of financial mechanisms for impact, as promoter of concepts, models and pioneer organisations, and as buyer of products and services supplied by impact businesses.

Brazil's entry into the Global Social Impact Investment Steering Group – a body formed from the G7 Social Impact Investment Task Force – in September 2015 will create opportunities for common action and positions over specific questions, which the Brazilian government can take forward in the context of its work and leadership at the G20.

The existence of a global movement is another factor that reinforces the importance of their being an official government representative for the topic, with responsibility for: (1) following the international agenda and opportunities to leverage the local movement; (2) identifying opportunities for integration between ministers and current programmes; (3) formulating and advancing policies that build necessary infrastructure for the field to move forward.

Suggested goal **We suggest that the government identifies, by 2016, a secretariat linked to the Ministries of Finance or Planning, or to the President's Office, who will act as a focal point in following and supporting the social finance agenda, both nationally and globally.**

Key player Governo Federal.

Internacional experience
The benchmark globally in social finance is the United Kingdom, where for 15 years the government has been playing a leading role in building an ecosystem for social impact investments. The Secretary for Social Investment, who reports to the Ministry for Civil Society, is chief policymaker in this area. The government has implemented a series of initiatives, seeking to strengthen the infrastructure of the sector through three action areas: regulation, procurement and promotion. The most emblematic example was the creation of Big Society Capital, a wholesale social investment bank, in 2012. The bank started out with assets of 600 million pounds, and is focused on strengthening intermediaries that operate in the social finance field.

RECOMMENDATION #14

Social Impact Bonds

Description **The SFTF recommends that the Federal Government supports the development of a market for Social Impact Bonds, encouraging state and municipal governments to use this as an alternative tool for increasing the efficiency of resource use in social interventions.**

Social Impact Bonds (SIB)[8] are public-service contracts that include some form of mechanism for payment-by-performance. They are agreements between several parties: (a) government, which commits to paying for the achievement of a predefined social result (in some cases, the funder may be a philanthropic foundation or development agency); (b) an operating organisation with experience in the respective social field (generally a non-profit); and (c) investors that finance the organisation during the period of the contract. SIBs are generally structured by an intermediary, which designs them in a way that aligns expectations of each partner, and rely on an external evaluation body to verify the achievement of the contracted goals.

Such bonds provide the operational freedom that allows for innovative social technology models to be tested and refined, seeking to maximise the impact of the respective interventions, in some cases at lower cost. They represent an innovative investment tool, aiming to combine social impact with financial returns. SIBs are already used in more than 20 countries, including the G7, Portugal and India, in areas including reduction in criminal reoffending rates, job placement for at-risk groups, reduction in school absenteeism, reduction in child asthma attacks and reduction in teenage pregnancies.

Social Impact Bonds fundamentally alter the logic for managing government resources, shifting from a focus primarily on financial accountability to a focus on management of the social impact generated. Payment for performance guarantees that public money will not be spent on initiatives that do not bring results. Furthermore, management of the financial risk is transferred to the private investor – if results are not reached the investor loses part or all of their investment, preserving public funds. If results are achieved, the government uses part of its savings to pay the investor. Meanwhile, service providers that develop and operate social technologies have the security of continuous payment for their activities, and a more stable way to finance the fulfilment of their social mission.

Suggested goal **We suggest that the Federal Government creates one or more funds to promote the sector, which can co-finance the structuring of SIBs in Brazil (feasibility studies, definition of impact indicators, pilot projects, results sharing, etc.), together with state and municipal governments.**

Key players **Federal, state and municipal governments, organisations with track-record and proven social impact, impact investors, independent auditors/evaluators, social finance intermediaries, IADB and impact business entrepreneurs.**

Internacional experience
In September 2010, SIBs were launched for a project in Peterborough Prison, in the United Kingdom. Voluntary interventions were offered to short-term (less than 12-months), adult male inmates, both during their time in prison and for up to one year after their release, with the aim of reducing reoffending. The 'intermediary' was Social Finance UK, a non-profit organisation specialised in social finance, which raised 5 million pounds, primarily from individuals and foundations interested in the topic of reoffending, or in social finance. Payment would be received in the case of a reduction of 7.5% in the reoffending rate across the three groups studied, compared to a control group (inmates with the same characteristics from other UK prisons). Intermediate payments would be made if any one group reached a reduction of 10% compared to the control group. The first group recorded a reduction of 8.4% in comparison with the control group, and the expectation is that the investors will enjoy positive financial returns (limited by contract to 13% per annum – for comparison, annual inflation in the UK is around 2%).

8 Despite the name they are technically not bonds, as payment is conditional on the achievement of predefined results.

RECOMMENDATION #15

Principles for impact businesses in Brazil

Description The SFTF recommends that impact business entrepreneurs, accelerators, corporations, foundations and institutes, philanthropic organisations, financial institutions, academia and government use the 'Guiding Principles for Impact Business in Brazil'[9] as a reference in the definition of impact business.

The field for social finance and impact business in Brazil is still in consolidation, and its concepts and theoretical references are therefore also in the development process. One of the main points of divergence is the definition of "impact business", the very player responsible for delivering the solutions that will improve the quality of life of the population.

With this challenge in mind, and with the support of more than 50 people and organisations that operate in the field, the Social Finance Task Force created a document with four principles that differentiate impact businesses from NGOs and from traditional businesses: (1) a mission that includes an explicit intention to create social impact; (2) understanding, measurement and regular evaluation of impact; (3) an economic model that allows for revenue generation; (4) governance that takes into account the interests of investors, customers and the community.

The guiding principles are based on an inclusive vision, meaning that the definition of impact business is not contingent on the legal constitution of the organisation, which could be a non-profit association, foundation, cooperative, or a limited or unlimited liability company. It also presents different levels of development for each principle, offering a path for entrepreneurs to reflect on the current state of their business and go further in their aim to create and measure more impact.

Once these parameters are established, the challenge shifts to getting them communicated, validated and incorporated in practical steps – such as regulations for awards, grants or investor calls for proposals.

Suggested goal We suggest that investment funds, accelerators and incubators, corporate funding programmes and academic studies related to impact business all adopt the Guiding Principles for Impact Businesses in Brazil. The document should be adopted as a benchmark for future regulation and creation of relevant public policy.

Key player Impact business entrepreneurs, accelerators and incubators, corporations, foundations and institutes, philanthropic organisations, financial institutions, SEBRAE and government.

Local experience
Instituto Quintessa linked the selection of businesses for its 2015 acceleration programme to the parameters of the Guiding Principles for Impact Business. http://quintessa.org.br/quem-somos/criterios-de-selecao

9 Guiding Principles for Impact Businesses in Brazil and Usage Guidelines – produced by the Brazilian Social Finance Task Force, with the support of organisations from the ecosystem: www.forcatarefafinancassociais.org.br

5

Other Important Action Steps for the Field

In addition to the 15 recommendations, other important, structural action steps have been identified:

- Develop research and mapping of impact business, in order to understand the number, profile and focus for action of businesses in Brazil, as well as the impact generated, needs and opportunities. This mapping can be used for disseminating opportunities in the field, and to increase knowledge about existing businesses and organisations.
- Develop tools for accessing information about lines of financing and capital available to impact businesses
- Build a bank of information on the field of social finance and information, connecting international references with national knowledge production.
- Follow the evolution of the field of social finance and impact business, with indicators for the 4 levers proposed by the SFTF, using 2016 as the starting point and updating annually.
- Encourage the creation of digital platforms for access to clients, allowing the purchase of products and services from impact businesses via a canal that concentrates diverse small-scale enterprises
- Create, maintain and give visibility to a database on unitary costs for government social interventions (e.g. monthly cost per prison inmate), as a form of promoting the search for more efficient alternatives.
- Publish reports with information on sectorial challenges and opportunities for impact businesses (e.g. the report on the education sector by Potencia Ventures & Instituto Inspirare)
- Advance rapidly in the definition and implementation of measures that simplify and encourage foreign investment directly in Brazilian companies, or via local funds, especially in smaller companies
- Promote angel investment (individuals investing in start-ups, offering financial resources, intelligence and access to the investor's network of contact) by reducing the risk to the investor (for example, in relation to investee debts, especially relating to labour or tax law)
- Align efforts with the Sustainable Development Goals and the UNDP's platform for inclusive business

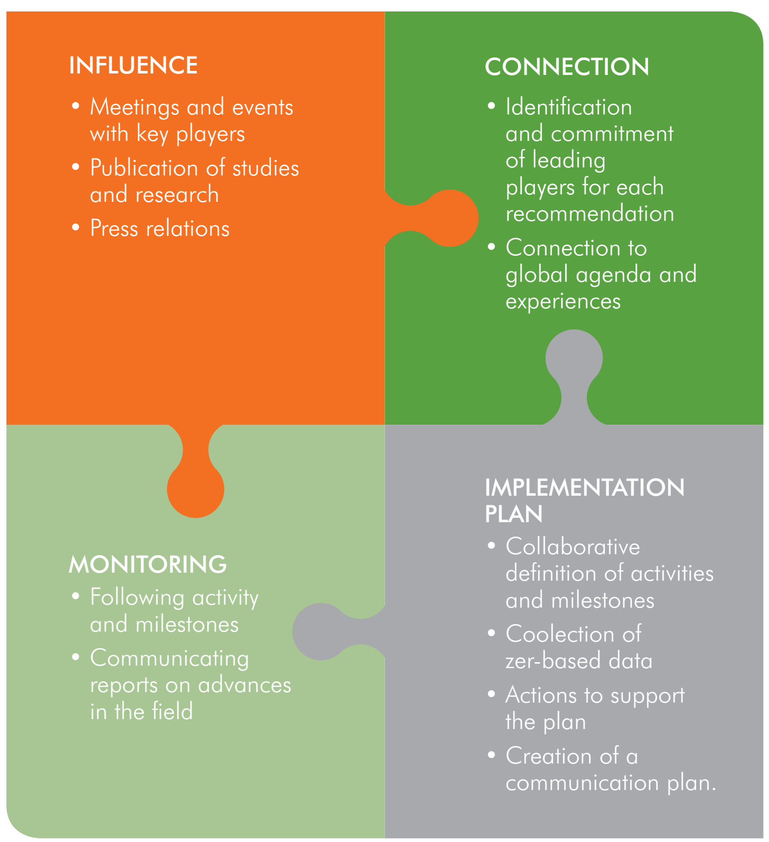
6

Next Steps

The publication of these recommendations is an important milestone for the Social Finance Task Force. It is the consolidation of dialogues with representatives from the field, about the concepts, reach and priorities of this agenda, and establishes goals that can direct efforts and monitor progress in the coming years.

The implementation of the recommendations will depend on various players in the ecosystem, but the mandate of the Social Finance Task Force is to disseminate the contents and to connect partner organisations and professionals that can collaborate in the realisation of the proposed goals.

PROPOSED ROLE FOR THE TASKFORCE AFTER THIS PUBLICATION



IMPACT BUSINESS EM 2020

Imagining Brazil, especially the market for social finance, in 2020 was a constant exercise for the Social Finance Task Force and all of its collaborators. The recommendations contained in this publication bring together the primary aspects considered viable by the working group, in order to become reality in the not too distant future. Without forgetting to be realistic, but above all remaining consistent and obstinate in the spirit of challenge that so much inspires these professionals, the news below is what we would like to see in Brazil in 2020.

7 Call to Action

The primary belief of the Social Finance Task Force is that business can solve social problems.

There are two starting points: on one hand, striving for social impact with the same discipline and energy with which financial return has traditionally always been sought; on the other, striving to incorporate business and finance models with the same enthusiasm and desire with which social impact has always been followed.

"If each one of us makes a small change in the way we look at the world, and if we back up this change with actions, the transformation of society will be inevitable"

Regardless of who you are or which organisation you represent, somewhere in this publication is a recommendation for you. If there is not, create a new one, share it with the Social Finance Task Force, and support the progress of the social finance field in Brazil.

The SFTF invites all players in the field to participate in the development and consolidation of this market, organising efforts, identifying challenges leaders and solutions, and celebrating collective progress and triumphs in the coming months and years.

We therefore encourage you to get involved in contact networks - or create your own – keep up to date, and play your part. The SFTF will always be available to support you.
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8 Glossário

The concepts referred to in this document were extracted from publications by respected institutions working with the topic, or built collectively by Social Finance Task Force

Accelerator, adapted from Artemisia
An accelerator is an intensive programme in which entrepreneurs are constantly challenged to test new revenue models and to refine their social impact, in an environment of intensive co-creation and collaboration with low-income communities, other entrepreneurs, mentors and investors.

Impact Evaluation, Insead– Partnering for Global Impact
The process of analysing, monitoring and managing the positive and negative consequences - intentional or not – of planned interventions (policies, programmes, plans, projects) and any social change resulting from these interventions.

Seed Capital, Practical guide to risk capital – iapmei/ apcri. 2006
Financing model aimed at enterprising projects at an early (or zero) stage, in the project or development phase, before installation of the business, where one or more interested groups invest the necessary funds to start the business, in such a way that it has sufficient funds to sustain itself until reaching a state in which it can maintain itself financially or receive new injections of finance.

Social Entrepreneur, Ashoka & Instituto Walmart – *mapa de soluções inovadoras*
Social entrepreneurs are people who, through their work and ideas, offer promising solutions to society's problems. They are agents of change, innovators that disrupt the status quo and transform our world. Entrepreneurs are ambitious, believe in their mission, are strategic and versatile, and go after results.

Social Finance
Private and public resources for investment in activities that aim to create social impact with financial sustainability. To allow the allocation of this capital, use is made of new and existing financial instruments - which may or may not generate financial returns on the capital invested – whose impact should be periodically measured and analysed.

Venture Capital and Private Equity Funds
Investment funds that buy shareholding in companies with high potential for growth and profitability, either through buying shares or other assets (convertible debt, stock options, among others), with the aim of obtaining significant capital gains in the medium and long term. While venture capital invests in early stage businesses, private equity concentrates on more mature companies that are in the process of restructuring, consolidating or expanding their business. The essence of this type of investment is the sharing of risk, sealing a partnership between managers and investors to add value to the investee company. Investments can be directed to any sector where there is potential for significant growth in the long term, in accordance with the investment focus defined by the respective investor or fund.

Endowment Funds, adapted from IDIS
Funds established under the condition that the initial investment value is maintained intact and invested to create a source of revenue for an organisation.

Social Funds (or Non-profit Social Funds), Sitawi – *Finanças do Bem*
Funds operating financial products aimed at social-sector organisations and impact businesses, who are commonly excluded from traditional finance. Resources are rotating, not being returned to the original donor, allowing such products to offer preferential conditions (interest rates, periods, etc.). The "Civil Society Organisation Law" (9790/99) defines as a valid social objective "non-profit experimentation of new social and production models and alternative systems for production, trade, employment and credit", allowing Civil Society Organisations to make loans and manage funds of capital sourced from donations.

Global Social Impact Investment Steering Group (GSG)
Global organisation created in September 2015, succeeding the Social Impact Investment Task Force of the G7, and comprised of the G7 countries plus Australia, Brazil, Portugal, India, Mexico and Israel, with

Sir Ronald Cohen as its Chairman. The organisation's objective is to lead the global development of the topic, sharing best practices and success stories and contributing to strengthening the ecosystems of member countries.

Social Impact, Idis
The transformation of the reality of a community or region resulting from an action that is planned, monitored and evaluated. It is only possible to measure the social impact if evaluation of results detects that the project produced the intended results and affected the particular characteristic of the reality that it wanted to transform.

Incubator, Ashoka & Instituto Walmart – *mapa de soluções inovadoras*
An institution, generally linked to a university, which supports the development of new businesses that are starting operations, helping in the process of technological innovation. It offers entrepreneurs technical and management support and training, as well as physical infrastructure. It is a developer that supports businesses in their initial stages.

Impact Investing, INSEAD– Partnering For Global Impact
Investment of capital in businesses and funds that create positive social and/or environmental impact, in addition to financial returns, where the social or environmental return is intentionally sought. The financial return on these investments may vary, from return of the initial capital to above-market rates of return.

Private Social Investment, Idis
Voluntary and strategic allocation of private capital, whether financial, in-kind, human, technical or management, for public gain. Included in this universe are the investments of companies, corporate foundations and institutes, and those founded by families or individuals.

Microcrédito, Ashoka & Instituto Walmart – Mapa de Soluções Inovadoras
Means of investment whose objective is to improve access to financial resources for small-scale entrepreneurs. The loaning of small amounts at lower interest rates for the population at the base of the socioeconomic pyramid.

Financial Mechanism for Impac, Social Finance Task Force
New and existing financial instruments that contribute to the circulation of financial resources linked to a project, initiative or enterprise with social or environmental impact, with an expectation of performance and eventual financial returns.

Impact Businesses
Enterprises that have an explicit mission to create social and environmental impact, and at the same time generate financial returns in a sustainable way.

Intermediary organisations, Social Finance Task Force
Specialist organisations that facilitate, connect and support the link between capital supply (investors, donors, managers in search of impact) and demand (organisations that create social impact), as well as those who improve the development of the ecosystem for social finance and impact business.

Social Impact Bonds
A form of results- based contract, in which the public sector commits to paying for significant social improvements (for example, reduction in offender or hospital admission rates), which result in a reduction in public spending.

Social Sub-credit, BNDES
Credit for supporting a social programme linked to existing BNDES financing. The use of the social funds is independent of the company project receiving the original resources.

Theory of Change, adapted from Move Social
É uma ferramenta que captura como uma A tool that captures how an intervention (project, programme, policy or strategy) contributes to expected or observed results. It can support planning and evaluation processes for impact businesses, explaining the flow of logic of the enterprise and connecting the medium- and long-term results (effects) for society.

9

References

We have registered below other practices/projects that stood out during our research for this publication. It does not aim to be an exhaustive list, but rather a few cases that we feel should be mentioned.

Recommendation #01 – Financial Products

UBS. Fiscal benefits for individuals who invest in impact businesses (directly or indirectly)): www.ubs.com/global/en/about_ubs/corporate_responsibility/cr_in_banking/products_services.html

Credit Suisse. Platform with diverse investment funds:
perspectives.credit-suisse.com/ch/private-clients/invest/en/alternative-investments/responsible-investments/product-range.jsp

JP Morgan. Area dedicated to the topic (JP Morgan Chase) with products and advisory services for clients: http://www.jpmorganchase.com/corporate/Corporate-Responsibility/social-finance-products.htm

Recommendation #02 – Leadership by Institutes & Foundations

Lemann Foundation.

Fundação telefônica vivo.

The Bill & melinda gates Foundation

The Bealight Foundation. Investment in impact funds and loans to for-profit and non-profit organisations that commit to hiring people with low employability.
www.rbc.com/newsroom/news/2014/20140317-rbc-social-finance.html; http://socialcapitalpartners.ca/

KL Felicitas Foundation. 85% of its portfolio of US$ 32 Bn allocated to impact products. http://klfelicitasfoundation.org/

Potencia Ventures: "Opportunities for businesses in health for the low-income population in Brazil" http://artemisia.org.br/img/conhecimento/Estudo_Oportunidades_Negocios_em_Saude.pdf;

Potencia Ventures, in partnership with Inspirare: "Opportunities for businesses in education for the low-income population in Brazil" http://porvir.org/wp-content/uploads/2013/06/Estudo-Oportunidades-de-Neg%C3%B3cios-emEduca%C3%A7%C3%A3o_Porvir.pdf

Recommendation #03 – expansion and capitalisation of social funds

Sitawi. www.sitawi.net/fundos-sociais-e-ambientais/

Recommendation #06 – creation of models for inclusion of impact businesses in government procurement

Government of the State of Victoria, Australia.
http://www.dpcd.vic.gov.au/__data/assets/pdf_file/0015/140523/Social-Procurement-A-Guide-For-Victorian-Local-Government.pdf
http://www.dtpli.vic.gov.au/local-government/strengthening-councils/social-procurement

Recommendation #08 – Strengthening incubators and accelerators

Rockefeller Foundation. Support for accelerators for including impact businesses in their agenda:
https://www.rockefellerfoundation.org/app/uploads/Accelerating-Impact.pdf
https://assets.rockefellerfoundation.org/app/uploads/20150201214323/Accelerating-Impact.pdf

Social Incubator Fund. Support for incubators and accelerators for including the topic of impact business in their agenda: (https://www.biglotteryfund.org.uk/socialincubatorfund)

Recommendation #10 – Knowledge & Training

EAESP-FGV. Social Impact Business Nucleus (GVcenn-NIS): http://cenn.fgv.br/pt-br/NIS

Insper. Centre for Impact Evaluation Metricis: http://www.insper.edu.br/nucleo-medicao-investimentos-de-impacto/sobre/

FEA/USP. MBA in Management of Socioenvironmental Businesses, in partnership with Artemisia and IPE (http://negociosocial.org.br/)

ESPM. ESPM Social Business Centre, in partnership with the Yunus Center (http://www2.espm.br/a-espm/espm-social-business-centre/home).

ICE- Instituto de Cidadania Empresarial. Projeto Academia www.ice.org.br/programaacademia

London School of Economics. Research Centre: http://www.lse.ac.uk/LSECities/research/measuring-impact-beyond-financial-return/Home.aspx
Columbia University. The Tamer Center for Social Enterprise: http://www8.gsb.columbia.edu/socialenterprise/; Courses: https://www8.gsb.columbia.edu/courses/mba/2013/spring/b9455-018

Recommendation #11 – Innovative formats for investing in impact businesses
Broota. Brazilian online platform for equity crowdfunding: http://www.broota.com.br/
Biva. Online platform for investors to lend to entrepreneurs: https://biva.com.br/
Lending Club. Largest platform globally in "peer-to-peer" loans: https://www.lendingclub.com/
Angel List. Global benchmark for online equity crowdfunding platforms: https://angel.co/

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Special Thanks

To the 20 organisations of the working group, who met throughout 2013 to map critical topics for the field: ANDE, Artemisia, BNDES, Cause, Derraik & Menezes, FEA-USP, Fundação Telefônica/Vivo, GIFE, GVces, ICE, Inspirare, Kaeté, JPMorgan, Mattos Filho, Mov Investimentos, Potencia Ventures, Plano CDE, SEBRAE, SITAWI and VOX Capital. Special recognition for GVces, for their support during this period.

To the specialists who contributed to creating and editing the recommendations: Aron Belinky (GVces), Daniel Brandão (Move), Edgard Barki (FGV-ceen), Eduardo Valente (Deloitte), Elias Souza (Deloitte), Fernando Burgos (FGV-EAESP), Graziela Comini (FEA-USP), Heloisa Helena Montes (Deloitte), Henrique Martins de Araujo (BID), Karim Harji (Purpose Capital), Krishna Aum de Faria (SEBRAE), Leonardo Pamplona (BNDES), Luciana Aguiar (PNUD), Luciana Ribeiro (Grupo RBS), Luis Fernando Guggenberger (Fundação Telefônica Vivo), Marta Garcia (Social Finance UK), Maure Pessanha (Artemisia), Rodrigo Menezes (Derraik & Menezes), Rodrigo Tavares (Granito Partners), Sheila Oliveira Pires (Anprotcec), Simon Rowell (Big Society Capital), Tim Draimin (MaRS), Vivianne Naigeborin (Potencia Ventures).

To the participants of the Continuous Support Group, for the technical support and specialist advice offered to help the Social Finance Task Force.

To the 220 participants in the open consultation to the recommendations, during the month of August 2015.

To Ana Maria Diniz, for the initial reflections on the positioning of the Task Force, and to **Ricardo Guimarães and the team at Thymus,** for helping to turn these ideas into words.

To Renata Nascimento, for supporting the Social Finance Task Force from the outset.

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