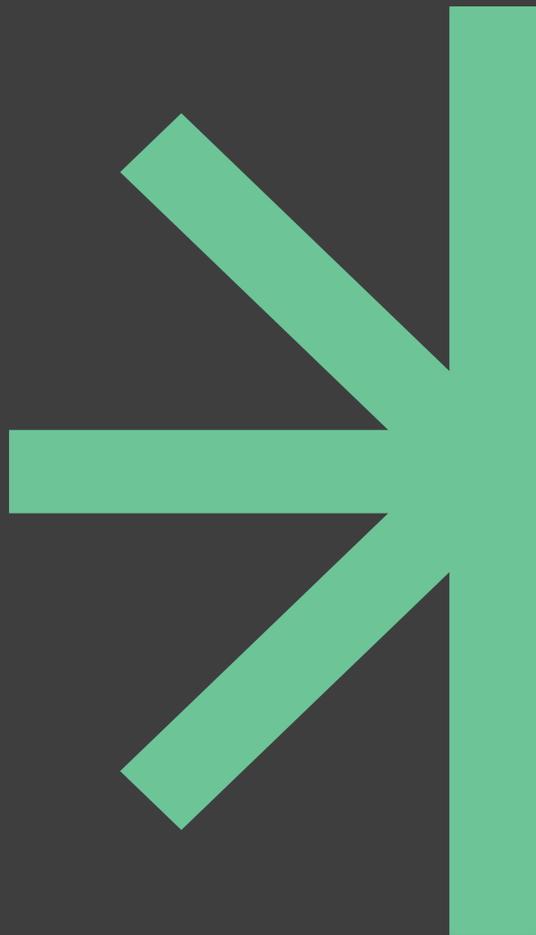


InsideImpacto

MARCH 2020

Impact Investing in Brazil



inBrazil



The Brazilian Private Equity and Venture Capital Association is a nonprofit organization that promotes the development of private equity, venture capital and seed capital in Brazil, by improving industry conditions and understandings and also fomenting best practices that are aligned with international industry standards.



The Brazilian Trade and Investment Promotion Agency promotes Brazilian products and services abroad and attracts foreign investments to strategic sectors of the Brazilian economy. Apex-Brasil coordinates actions designed to attract foreign direct investment (FDI) to Brazil, striving to allocate resources in sectors of strategic relevance for endowing Brazil and its businesses with a keener competitive edge.



The InBrazil Private Equity & Venture Capital Program is a joint initiative between ABVCAP and Apex-Brasil with the goal of informing and connecting international investors with Brazilian fund managers and portfolio companies. The main goal of the Program is to inform and empower the global investor community in respect to the Brazilian PEVC ecosystem and its many opportunities.

Overview

Impact investments are gaining momentum around the world, and Brazil is following this trend, as, in addition to financial returns, society has been addressing the need to solve problems such as social inequality as the lack of access of some populations to basic services from health and education to financial services, for example.

According to GIIN (Global Impact Investing Network) Investors Forum report, the investing market of global impact reached US\$ 502 billion of assets under management in 2018. And part of the composition of this number is for venture capital and private equity funds, which is gradually increasing its participation in the impact investing segment.

The private equity and venture capital market in Brazil has been quite resilient to economic turmoil. Data from the industry consolidated published by ABVCAP, together with KMPG indicated that in 2018 the local industry raised R\$ 13.6 billion, a volume almost three times higher than the R\$ 5.2 billion raised in 2017.

The stabilization of interest rates at low levels, considering the historical context of the country's economics, together with the various bottlenecks of social and economic development, create a favorable context for the development of initiatives with the purpose of generating social, economic and environmental impacts.

In the following pages, we highlight the main opportunities and challenges for impact investing in Brazil, as well as the perspectives of the main sectors that should catalyze these investments, followed by the point of view of industry experts.

This publication was elaborated and produced prior to WHO's declaration of the coronavirus as a pandemic.

Impact in Brazil

The term “impact investing” was first used in 2007, conceptualizing the practice as “investments made with the intention of generating positive and measurable social and environmental impacts, along with financial returns” [1]. It is a broad definition that has encompassed investment strategies from different players. The following table helps to clarify the scope to which it refers when impact investments are mentioned:

Scope of the Impact Investment [2]

TYPES	FINANCIAL-ONLY	RESPONSIBLE	SUSTAINABLE	IMPACT		IMPACT-ONLY	
OBJECT	Delivering competitive financial returns						
	Mitigating Environmental, Social and Governance (ESG) risks						
	Pursuing Environmental, Social and governance opportunities						
	Focusing on measurable high-impact solutions						
FOCUS	Limited or no regard for environmental, social or governance (ESG) practices	Mitigate risky ESG practices in order to protect value	Adopt progressive ESG practices that may enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that cannot generate a financial return for investors

This market has gained notoriety and pioneering organizations currently share space with major banks and financial institutions and have nearly doubled in size every year since the first census of the first census of ABVCAP in 2011. Impact has been defined as an asset class. Today, the industry is focused on startups that begin their operation with this purpose.



01 Players in Brazil

Impact investing is still an emerging market in Brazil that, in 2018 had US\$ 343 million in assets under management, according to a study by the Aspen Network of Development Entrepreneurs (ANDE) in partnership with the Association for Private Capital Investment in Latin America. (LAVCA) [4]. The study, launched in 2018, found 33 impact investors in Brazil between 2016 and 2017, of which 29 are considered active, i.e. they made some impact investing in the country within the period 2014-2017 and/or declared interest to perform between 2018-2019.

Self-definition Organization Type

Type of Organization	#	%
Impact Investor	21	72%
PE/VC fund manager	9	31%
Other	3	10%
Foundation	3	10%
Family Office	2	7%
Business Incubator/ Accelerator	2	7%

29 (total sample).

Remark: 10 respondents selected more than one type. The aggregate capital invested by respondents in 2016 and 2017 was allocated to 69 operations.

[1] GLOBAL IMPACT INVESTING NETWORK (GIIN). *What you need to know about impact investing*. New York, 2019.

[2] Adapted from BRIDGES FUND MANAGEMENT. *The Bridges Spectrum of Capital: How we define the sustainable and impact investment market*. London, 2017.

[3] MUDALIAR, Abhilash; DITHRICH, Hannah. *Sizing the Impact Investing Market*. GIIN, New York, 2019.

[4] Davidson, Abigail et al. *Impact Investment Sector Overview in Brazil*. ANDE / LAVCA, 2018.

Operations and value invested per impact sector

SECTOR	TOTAL INVESTED (US\$ M)	NUMBER OF OPERATIONS
ICT	\$54	16
Education	\$7	10
Health	\$4	7
Preservation and Biodiversity	<\$1	6
Income generation	\$26	5
Housing	\$2	5
Financial Inclusion (excl. microfinance)	\$10	3
Agriculture	\$9	3
Renewable Power	\$6	3
Power	\$10	1
Water and sanitation	\$2	1
Forest management	<\$1	1
Pollution prevention and waste management	<\$1	1
Technical Services	<\$1	1
Community development	<\$1	1
Other / Non-specified	\$2	5
Total	\$131	69

The sector with largest number of operations was information and communication technology (ICT) with 23% of all operations, followed by education (14%) and health (10%).

Considering the total volume invested, ICTs remains first with US\$ 54 million, followed by income generation (US\$ 26 million) and energy and financial inclusion (with US\$ 10 million each).

02 Key Challenges and Opportunities

Despite economic development, Brazil is a country with high rates of social inequality, placing it in a prominent position for impact investments. The opportunities in the country are enormous due to their territorial extension, economic development and diversity of climates and biomes.

Despite being among the 10 largest economies in the world, Brazil is also among the most unequal countries in the world.

As well, this economic vocation often contributes to widening the inequality. The Brazil's poorest 20% (42 million people) match to Uganda in both per capita GDP and population size (about 40 to 44 million people in one of Africa's poorest countries). On the other hand, the richest 20% in Brazil have average income slightly higher than in Spain [5].



Despite being among the largest economies in the world, in 2018 Brazil ranked 9th worst in terms of income inequality, as measured by the Gini coefficient in 189 countries, according to the UNDP (United Nations Development Program).

Brazil's per capita GDP of US\$ 9,821.42 is still relatively low compared to countries with slightly lower inequalities than ours, such as Chile (US\$ 15,346.45), Panama (US\$ 15,087.68) and Costa Rica (US\$ 11,630.68).

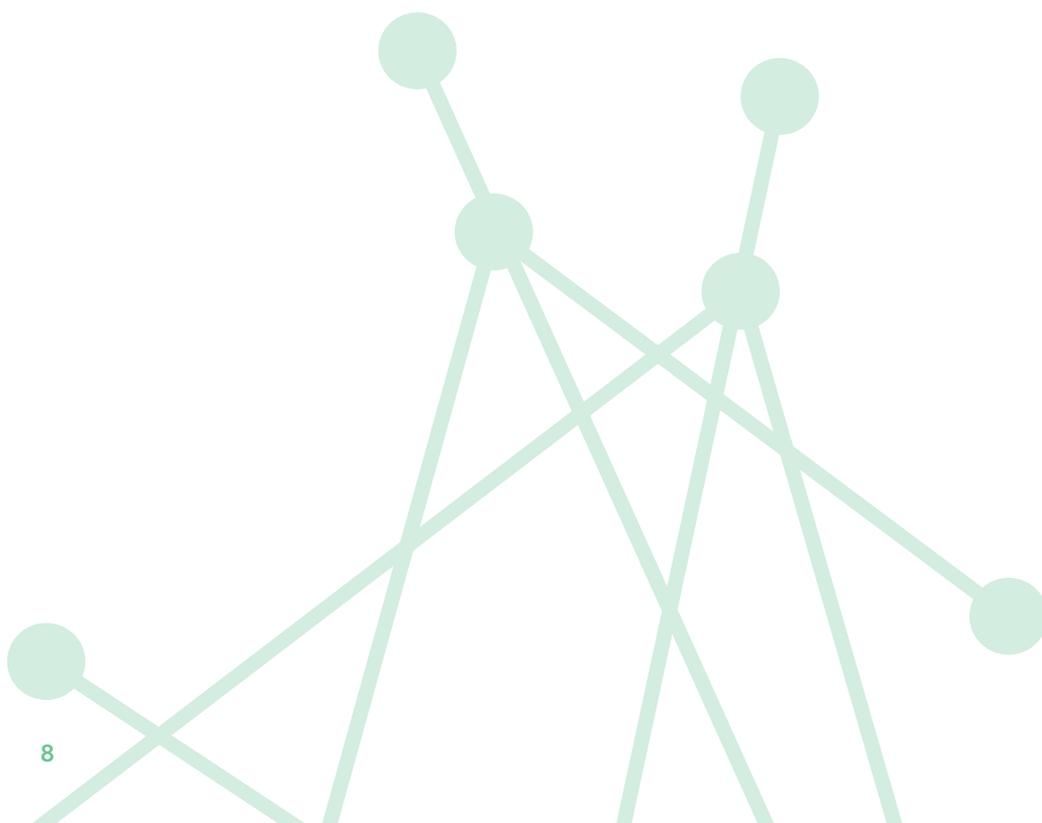
Data from the World Inequality Database, 2018, shows that in Brazil the richest 5% of the population receive each month the same as the other 95% combined.

The poorest population in the country is lacking in basic services. Data from the Brazilian Ministry of Cities indicated that in 2018 16.7% of the population has no access to treated water and 48.1% has no access to sewage collection.

Besides reducing inequality, providing products for this population means to meet a real and very significant demand, since the population with a monthly income of up to two minimum wages is about 44.8 million people.

There is, also, a great possibility of creating niches, since the products aimed at serving the upper classes seek to increase the average ticket and not to expand the public with a lower average ticket. Because they are not currently served, this public often has a high loyalty rate for products and services that really meet their needs.

[5] data from the Uganda article hereunder, published in Folha de São Paulo in October 2019 by the economist Pedro Fernando Nery.



Public Deals

YEAR	MANAGERS	TYPE	VALUE (R\$ MILLION)	TARGET COMPANY	SECTOR
2019	Yunus Negócios Sociais	Investment	Undisclosed	4You2	Edtech
2019	Kvív Ventures	Investment	5	Nutrebem	Nutrition
2019	Vox Capital and Kvív Ventures	Investment	6	VirtusPay	Financial Inclusion
2019	Astella Investimentos, Vox Capital and DOMO	Investment	Undisclosed	Grão	Financial Inclusion
2019	Vox Capital	Investment	6	Celcoin	Saas
2019	Performa Investments	Investment	Undisclosed	Home Agent	Services
2018	Vox Capital; E.bricks Ventures	Investment	Undisclosed	Editora Sanar	Edtech
2018	Imaginable Futures (F.K.A. Omidyar Network)	Investment	Undisclosed	Agenda Edu/ Agenda Kids	Edtech
2018	Vox Capital	Disinvestment	Undisclosed	TEM	Healthtech
2017	Vox Capital	Investment	4	Aondê Educacional	Edtech
2018	Vox Capital; Genera; Oikocredit; Kvív Ventures	Investment	46.3	Avante	Fintech
2016	Mov Investments	Investment	Undisclosed	Biofílica	Agritech
2016	Mov Investments	Investment	Undisclosed	Audsat	Agritech
2016	Mov Investments	Investment	Undisclosed	Tuneduc	Education
2016	Mov Investments	Investment	Undisclosed	Sollar	Power
2016	Yunus Negócios Sociais	Investment	Undisclosed	Assobio	Reforestation
2016	Yunus Negócios Sociais	Investment	Undisclosed	Moradigna	Land Regularization
2015	Mov Investments	Investment	Undisclosed	Órigo	Power

2015	Vox Capital	Investment	10	Magnamed	Healthtech
2015	Vox Capital	Investment	3	TEM	Healthtech
2015	Vox Capital	Investment	6	ProRadis	Healthtech
2015	Mov Investments	Investment	Undisclosed	Triciclos	Recycling
2015	Mov Investments	Investment	Undisclosed	Terra Nova	Land Regularization
2014	Vox Capital	Investment	Undisclosed	Tamboro	Edtech
2014	Vox Capital	Investment	Undisclosed	To Life	Healthtech
2013	Vox Capital	Investment	Undisclosed	WPensar	Edtech

Since 2013, among the impact deals conducted in Brazil, the main sectors in number of operations were education, health and financial inclusion, respectively. This information converges with data of Impact Investment Sector Outlook in Brazil 2016-2017, jointly conducted by LAVCA / ANDE, which also highlighted these sectors as having the highest number of operations.

The LAVCA / ANDE study also identified some sectors as priorities for 2018 and the most mentioned by investors (about 55%) was financial inclusion. In addition, the relevance of operations involving the financial sector among private equity and venture capital operations in 2018 is remarkable: considering the cut-off of 211 companies invested in 2018 by venture capital funds, about 40% and 19% of the total were Fintech or Insurtech companies respectively, according to data from the Private Equity and Venture Capital Industry Consolidation produced by ABVCAP together with KPMG.

Given the opportunities for these sectors in Brazil, more details on the education, health and financial services sectors will be provided in the following pages.

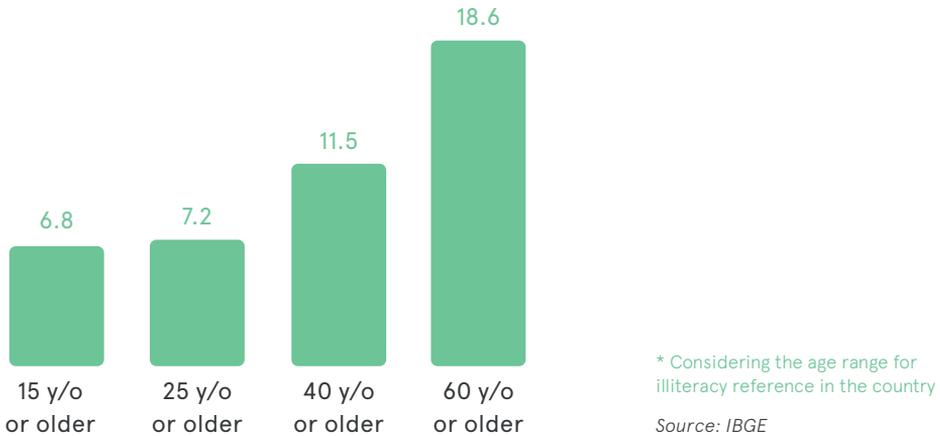
Sector Focus



Sector Focus [Education]

Brazil has made progress in reducing illiteracy within the last 20 years, however, there are still 11.3 million illiterates in the country in 2018 (equivalent to 6.8% of the population), according to the IBGE (Brazilian Institute of Geography and Statistics). In 2007 the number of illiterates reached about 10% of the population.

Illiteracy rate in Brazil in 2018 (%)

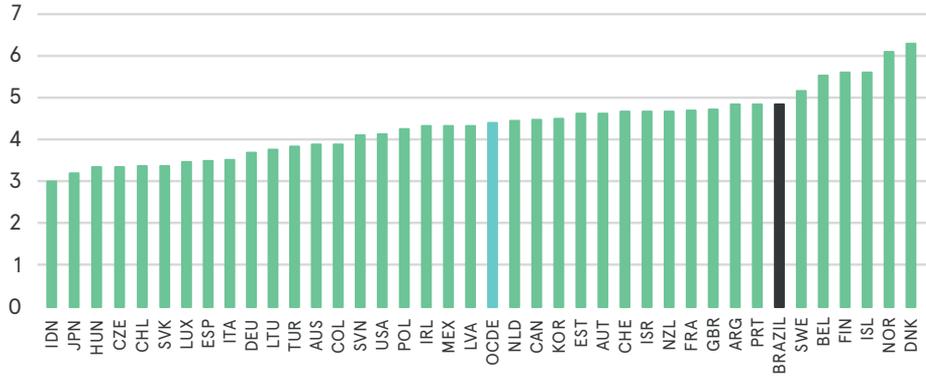


Government efforts to ensure access to children of literacy age have been successful and the illiteracy rate has indeed reduced. However, there is still a literacy challenge for adults and the elderly, for example.

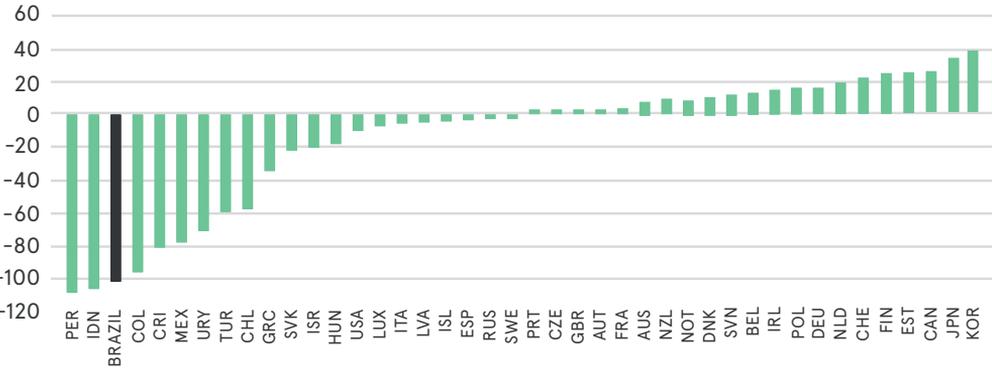
The sector needs reforms and private investment to address some gaps, such as misuse of public resources and low investment in training professionals and maintaining the infrastructure of teaching locations.

Brazilian government's investment in education is above the average of OECD countries and Latin America. However, countries that invest less per student have a better performance in OECD's PISA tests, where Brazil ranks 53rd in education among 65 countries assessed.

Public education expenditures, in % of GDP, 2014



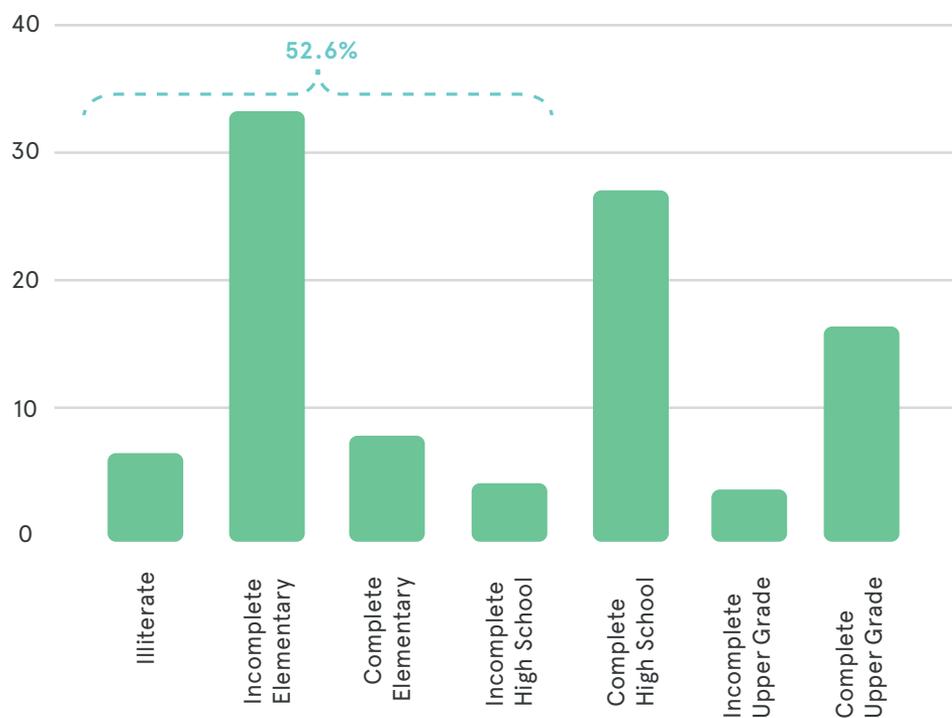
Average in science, mathematics and reading, OCDE average deviation



Source: OECD Education at a Glance 2017; OECD pisa 2015 Results (Volume I): Excellence and Equity in Education

The most recent PNAD figures show that more than half of the population aged 25 and over (52.6% of this population) have only attended up to incomplete high school.

Persons aged 25 years of age or over, per education level in Brazil (%)



Source: National Survey Per Continuous Household Sample (PNAD) of 2018, released by the Brazilian Institute of Geography and Statistics (IBGE).

One of the major problems in Brazil is the dropout in high school, which is due to the combination of the need for young people to enter the labor market associated with traditional education, with poor technology, poor infrastructure and poorly paid professionals (by poor management and excessive bureaucracy) and with little autonomy.

This result is supported by studies and research on the quality of education carried out by international organizations, such as the Organization for Economic Cooperation and Development (OECD), for example. In a ranking of 40 countries, Brazil ranks 40th in terms of the quality of elementary and high school education.

One of the most relevant issues when it comes to increasing quality is improving teacher qualifications. When we compare our teachers' salaries to those in other countries, the OECD data are alarming: the teacher's initial average salary was

US\$ 13,971 per year for early childhood education, elementary and high school in Brazil in 2018, while the average for OECD countries ranged from US\$ 30,807 for early childhood education to US\$ 34,943 for high school teachers (these figures were taken considering purchasing power parity across countries).

The difference is also evident when we compare with a closer country, Chile. There, the starting salary for early childhood education was US\$ 23,429 in 2018. However, public education spending in Brazil is higher than the OECD average and that of several countries best placed on the PISA test.

In this context, Edtechs are on the rise in Brazil and can help to improve the education system and reduce costs by bringing technologies that can make educational business management more efficient as well as to propose more up-to-dated and interesting formats for students.

In 2018, in Brazil, 364 initiatives were mapped by Edtech Mapping 2018, carried out by ABStartups with CIEB (Center of Innovation for Brazilian Education): 73% of the states have at least 3 and only 1 state has no initiative, even though there is a large concentration of initiatives in the southeastern and southern regions. It is estimated that 70% of them operate in the SAAS (software as a service) model.

Edtechs speciality operating in Brazil in 2018:

Content Production	61.6%
Data Collection and Processes	18.95%
Information Supervision and Management	4.94%
Content Distribution and Sale	4.67%
Virtual and Enlarged Reality	1.92%
Career Coaching and Planning	1.64%
Communication and Interaction Tools	1.37%
Analysis and Reports	1.37%
Hardware and Devices	0.82%
Didactic Preparation and Classes Planning	0.82%
Nock Trial and Evaluations	0.82%
Development of Practical Abilities	0.54%
Adaptive Teaching	0.54%

Source: ABstartups and CIEB

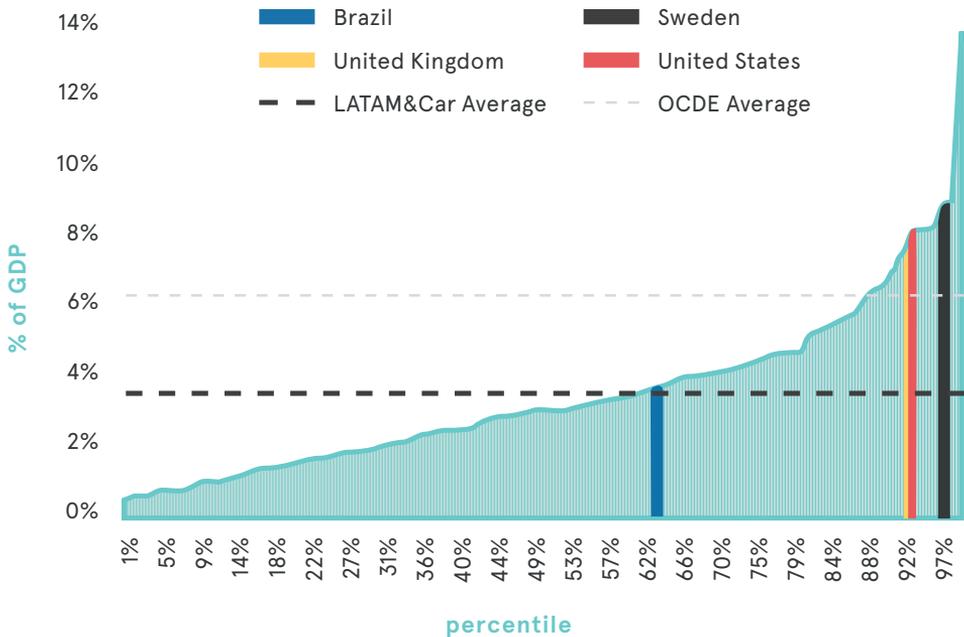


Sector Focus [Health]

The Brazilian population is aging at a fast pace, and growth is estimated at an average of 2.7% per year until 2060, much higher than the average annual advance of the general population (0.2%). According to IBGE projections, in the year 2030 the number of elders will exceed the total of children between 0 and 14 years old.

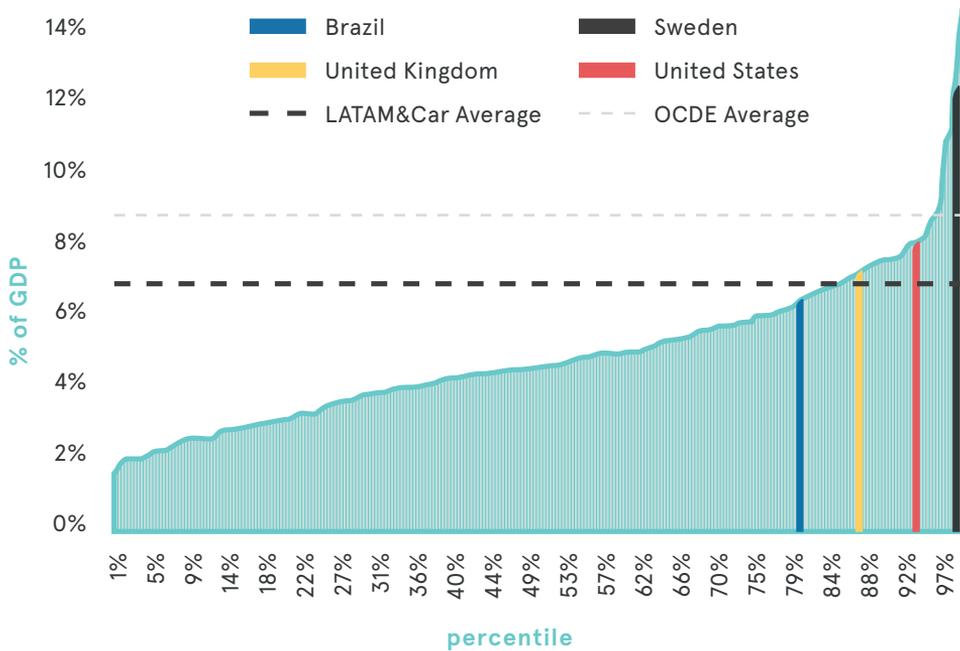
Currently, total health spending in Brazil is about 8% of GDP, with 4.4% of private spending (55% of the total) and 3.8% of public spending (45% of the total), according to data from the World Bank of 2015. Even though the country has an universal public health system, the expenditures differ from the pattern of developed countries with similar systems, such as the United Kingdom and Sweden (where public expenditures are higher).

Health public expenditures (% GDP) 2015



Source: own elaboration from data of the World Bank

Health total expenditures (% GDP) 2015



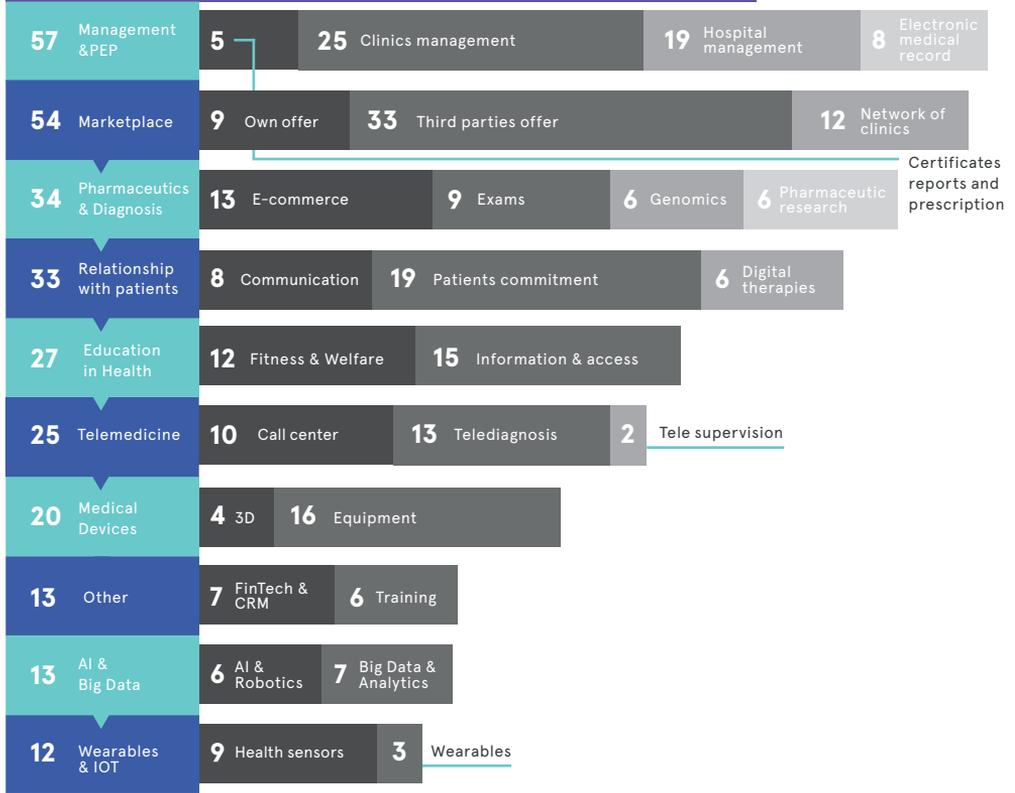
Source: own elaboration from data of the World Bank

A study published in 2018 by the Pan American Journal of Public Health estimated that, with current economic growth projected, Brazil could reach the goal of investing 6% of GDP in public health expenditure in the year 2064 alone.

Health management problems in Brazil, especially in the public network, where 75% of users are concentrated, are exactly the breeding ground where Healthtechs can bring disruptive solutions aligned with global trends.

In 2018, a study conducted by Distrito, an innovation hub, mapped 288 startups in Brazil selected for the survey, most of which were marketplace and hospital management / PEP (electronic medical records).

288 Selected Startups in Brazil



Source: Healthtech mining report, 2018, Distrito.



Sector Focus [Financial Services]

With an annual GDP of more than US\$ 2 trillion and a population of over 200 million, Brazil has one of the largest consumer markets in the world. A 2017 study conducted by the Brazilian Central Bank found that 86.5% of Brazilians over 15 years old have a bank account and 44% of the adult population carry out credit operations.

The high concentration and high cost of services offered by Brazilian banks are the main opportunities for new entrants that aggregate technologies and operate decoupled from banking institutions. New players, especially fintechs, are closing the gap left by traditional financial institutions and contributing to financial inclusion.

In parallel, regulatory changes are stimulating competition. In 2013, the Brazilian government enacted Law 12.865, authorizing Brazil's Central Bank to act as a regulator. At that time, a new regulatory framework was launched, introducing the concept of arrangement and payment accounts. The new regulations implemented since then aimed to create competition, with non-discriminatory treatment of participants and aiming on the protection of traders, free to choose the institution for depositing funds and the mechanisms to protect their receivables.

Taking advantage of the conditions created in this new scenario and matching services to market demand for increasingly digital services, Brazilian fintechs are playing an important role in creating future-oriented solutions for the future of businesses and consumers and benefit from their flexible structures at a lower cost, so they can pass on the gain to the user.

However, according to the Social Impact Thesis on Financial Services, a study developed by Artemisia jointly with ANDE, social impact fintechs differ in their ability to customize products for specific audiences. The study states that one way is to adapt conventional products, correcting difficulties of the product offered for low income; simplify inbound products - redesigning products to improve the architecture of choice from deep knowledge of target- audience -; and simplifying the language for consumers to assimilate product benefits and trust the system are some of the key assumptions.

Among the opportunities for entrepreneurship detected by the Social Impact Thesis on Financial Services are solutions for increased digitalization; construction of credit history; trust-building products; and products that empower the user for conscious financial choices.

Increasing digitalization

The scalability provided by digitalization has the potential to reduce customer acquisition costs and operation costs, making fintechs' services more accessible and attractive to low-income users.

Data for credit access

The low-income population using no banking services – or those who make little use of financial services – cannot access credit because they have no track record in financial institutions. Faced with this challenge, the second opportunity arises: the use of unstructured data to build history for this portion of the population.

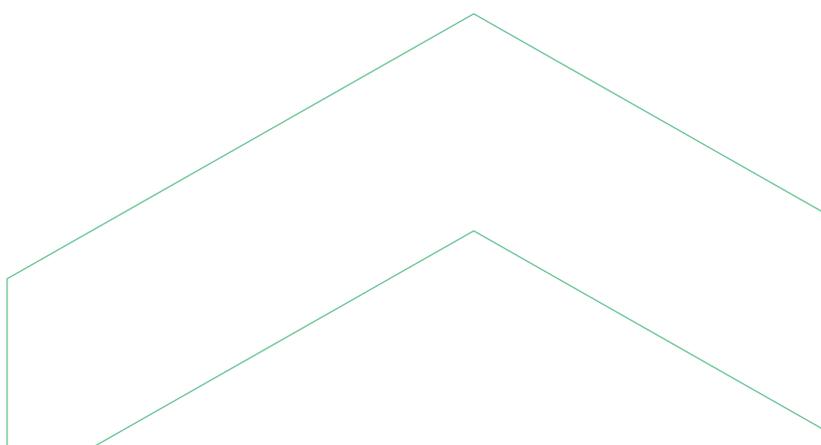
Trust-Building Products

Locally focused communication and solution services that generate identification and belonging with the population from low-income communities; and services with hybrid assistance (on + off), which create trust with the user in face-to-face contact to support the use of the digital solution.

Products that empower users to make conscious choices

Many of the financial problems faced by the population are caused by lack of understanding of services and unclear information that leads to not informed/healthy choices. The fourth opportunity proposes the use of selection architecture (nudges of behavioral economics) to support the good use of more informed services and decisions, improving aspects of savings, planning, credit taking, and so on.

Source: Social Services Financial Impact Thesis, sectoral mapping coordinated by Artemisia, with support from the Aspen Network for Development Entrepreneurs) Catalyst Fund, sponsored by the MetLife Foundation and technical consultancy by the CDE Plan.



Impact put into practice

The financial return on an investment is easily measured from a number of existing indicators common to other assets to make them easily comparable.

On the impact side, the Impact Management Project (IMP) [1] emerges as an important initiative to seek similar consensus on the different impact aspects generated by an organization.

Recognizing the multiple dimensions of the impact experienced by people and the planet is the basis for understanding the changes caused by products and services.

In addition, with the establishment of common impact objectives, funds and companies can align interests to achieve impact results.

In this sense, IMP proposes a global consensus that any type of impact experienced by people or the planet – intended and unintended, positive and negative – needs to be understood across five dimensions:

WHAT

What outcome(s) do business activities drive?
How important are these outcomes to the people (or planet) experiencing them?

WHO

Who experiences the outcome? How underserved are the stakeholders in relation to the outcome?

HOW MUCH

How much of the outcome occurs across scale, depth, and duration?

CONTRIBUTION

What is the enterprise's contribution to what would likely happen anyway?

RISK:

What is the risk to people and planet that impact does not occur as expected?

These dimensions bring to the table a broader perception of the impact and, from that, how we can best define the expected outcomes and manage processes in pursuit of objectives.

The impact management process requires some mutually influencing steps:

- To understand the intentions and restrictions;
- To design a deliverable model (or a portfolio of deliverable models) that generates effects on people and/or on planet by means of products and services, through distribution, operation, governance and/or the supply chain;
- To define impact objectives;
- To define the financial objectives;
- To collect, analyze and evaluate information on the effects experienced by people and/or the planet.

In the measurement layer of impact objectives, there are a few paths being drawn.

An approach that has received increasing attention, according to Insper (Insper Institute of Education and Research) is grounded on indicators of high relevance to the impact project and with additionality verification, i.e., not just analysis of the project outcome itself, but also what would have happened to the target population without the investment.

This model is based on two pillars:

- Indicators that are highly relevant to measure the project impact;
- Comparison with similar control groups were not contemplated by the investment.

Note 1: Impact Management Project (IMP) is a global initiative involving more than 3,000 practitioners, including entrepreneurs, fund managers, investors, resource allocators and intermediaries. The goal of this initiative is to build consensus on how we speak, measure and manage impact.

Given this context, there are some initiatives that developed objectives or indicators that have become increasingly widespread and helped to link investment theses to a globally relevant social and environmental agenda.

SDG – Sustainable Development Goals ONU

In September 2015, 193 global leaders committed to 17 goals for reducing poverty and inequality in the world, on an agenda that aims to address, on a global scale, issues such as hunger, access to education, gender equality and basic sanitation, among others, by 2030.

These goals, being global, suggest that companies or initiatives can rely on them (in just one or more) as a goal to have a positive impact on society.

Approaches like SDG also support investment criteria and the creation of these goals that can be pursued by any company.

Source: [<https://www.globalgoals.org/>]

ESG Criteria

The ESG criteria aims to support the investment analysis and measure intangible issues as a driver that can add or destroy value in an investment thesis.

The potential impact of these issues on companies' performance has been studied by different players such as corporate, activists and regulators, e.g.

Sample of ESG Issues:

ENVIRONMENTAL	SOCIAL	GOVERNANCE
<ul style="list-style-type: none"> - Climate change - Air and water pollution - Biodiversity - Deforesting - Energetic efficiency - Waste Management 	<ul style="list-style-type: none"> - Customer satisfaction - Data protection and privacy - Gender and diversity issues - Employee engagement - Relations with communities - Human rights - Labor rights 	<ul style="list-style-type: none"> - Composition of the board - Audit Committee structure - Corruption and money laundering - Executive compensation - Lobby - Political contributions - Investigation of complaints

Source: ESG Guide, from ABVCAP

In addition, it is already possible to design market instruments that multiply proven successful initiatives. One example are the so-called Social Impact Bond and Development Impact Bonds, which raise funds from investors to sponsor projects with social impact. Based on impact metrics, targets are set that, when achieved, generate a reward or bonus for investors. Therefore, we are not only finding tools to measure the impact generated by the investment, but also creating the incentive for its continuity.

Exit Alternatives

The divestment stage is a common challenge for private equity and venture capital investments and in the case of impact investments, another layer is added to address the company's social and environmental impact objectives so that they are in line with the objectives of the project buyer. Usually the most common way out in the asset class is by selling a stake to a strategic partner.

GPProfile

JESSICA SILVA RIOS
Vox Capital



Vox Capital is a pioneer investment management firm that offers attractive financial solutions through the integration of risk, return and social/environmental impact in its decision-making process. Vox Capital purpose is to develop financially attractive solutions that improve the human experience while nurturing the planet.

In order to do that, Vox identified three major problems of the low-income population in Brazil that translates into investment opportunities to cause positive impact and achieve competitive financial returns. Today, its investments centers around the health, education, and financial services sectors.

Give us an overview of VOX performance.

Vox was founded in 2009 and our first fund was launched in 2012 - Vox Impact Investing I. With R\$ 84 million under management, the fund was invested in 10 convertible notes and 10 equity deals. We are now in a stage of portfolio development and divestment.

In June 2018, we had the first major result of our operation in this fund: the sale of almost 30% of equity stake we held in Tem Saúde, a prepaid card company for health services, in a strategic move that enabled a joint venture with Generali, an European insurer, in the Brazilian market. With 24% IRR, the operation was considered the first successful exit in the impact investing market in Brazil, as it has

also improved Tem's product portfolio increasing its potential impact.

The second fund from 2016, Vox impact Investing II, has R\$ 50 million under management and is in the investment period. In this fund we have four active companies in the portfolio: Sanar, Celcoin, Virtus and Grão.

In addition to the initial investments, in both funds we have kept reserves for follow-on rounds on the better performing companies.

With the Vox Impact Investing I and Vox Impact Investing II funds, more than 30 million people were served by the companies in our portfolio.

How available are you for new investments and what types of assets are you currently looking for?

At Vox Impact Investing II we have room for one more investment and we are prioritizing opportunities in the healthcare sector.

Tell us a little about the latest investments and key criteria in your selection.

To ensure high impact potential and high financial potential, we aim for businesses that are providing or improving access and quality of essential services to the Brazilian population. We focus attention on 3 key aspects of our decision making about where to invest: the entrepreneurial team, the impact challenge and the business profile.

1 - For us, the entrepreneurial team is the key success factor of a startup. Certainly, over the course of the growth journey, the product or service will undergo updates and the startup will experience adjustments to its business model. Knowing it, our 10 years of experience have taught us not to fall in love with the business model and have a close eye to the team's impact intention and capacity to execute.

2 - When we think of impact challenge, we need to have a vision of the complex photography of our country. Brazil is a continental country, with the 5th largest world population and 8th largest economy in the world. On the other hand, we face a scenario of extreme inequality, being among the 10 most unequal countries. Problems in the provision of basic services are numerous. To help the reduction of inequalities, we need to focus on impact challenges that private enterprises are capable to operate in and which are within sectors with clear investment exit opportunities.

3 - Our investment targets are scalable and/or replicable businesses and using technologies to develop solutions to real problems of the population, such as Sanar, one of our companies invested by Vox Impact Investing II, which provides educational content for healthcare professionals.

The formation of the sector requires high investment from students and professionals. Access to quality content for health professionals is scarce, especially outside the major centers of the country. Available information is scattered and do not offer guidance on how to apply the knowledge gained. As a result, the quality and productivity of the sector is impaired.

With over 200 courses, books, an application and a platform called Sanarflix, which brings together diverse content for the student and practitioner, the company provides high quality content at affordable costs, actively contributing to the reduction of information asymmetry and development of healthcare professionals.

Sanar has been doubling its revenue every year and attracting the attention of investors in Brazil and abroad.

Because it is a very new concept, we still seek the ideal definition. What is impact investing for you?

We believe that impact investments are those where there is a proactive intention to address a social or environmental issue, along with the intention to have financial return.

Our investment thesis focuses on businesses that are using technology to provide access or improve the quality of life and human development to people under socioeconomic vulnerability.

How do you track performance, any specific impact indicators?

Our impact management approach is comprised of 3 supplementary steps, aiming to ensure the judicious choice and monitoring of solution efficiency.

The first is to have clarity about the problems to seek solutions that solve relevant problems and aligned to the global agenda of SDG.

Then we move to a broad understanding of the intentionality of the team and the potential positive and negative effects of the solution on users' lives.

The last phase involves measurement and supervision, with grounds on the definition of metrics that reflect impact performance and are useful for business management.

During the investment appraisal process, we structure business-specific impact assumptions where we interact with users to understand their perspective and the relevance of the solution proposed, we listen to industry experts, and build Theory of Change [1] together with entrepreneurs.

Which sectors do you consider having the biggest gaps in Brazil and that are worth investing in?

Brazil has a low - and middle - income population that is larger than many countries and does not have quality access to basic products and services.

Companies that are solving some real problems are the companies with the greatest potential for growth and financial results, precisely because they target a demand, with capacity and demand for consumption, which is not covered yet.

We have the largest health market in Latin America and over half of the population in our country has no access to private health.

The current scenario of the banking sector makes Brazil especially attractive for investing in fintechs. For an idea about the gap, almost a third of the population has no current account and faces various restrictions as they are at the margin of the financial system.

When we look at education, there are great opportunities of products offers that facilitate access to learning and prepare people for the labor market.

There are great opportunities in these and other sectors, related to providing basic services for human development, sectors that help to preserve natural environmental resources or allow access to cleaner energy matrices.

How to structure the support that will generate scale and value to an impact business?

It is important to know what are the relevant problems of the population and the environmental challenges faced in our country and above all, to understand how the technology can mitigate it.

In addition to financial capital, we support business development and growth by: (i) connecting and expanding contact networks across different industries and in the national and international impact ecosystem, (ii) strategic view of sectors and deep understanding of the pyramid base (iii) extensive knowledge of impact and (iv) governance strengthening.

LPerspective

MARIA SUSANA GARCIA-ROBLES

IDB Lab*

*This interview was conducted in September of 2019. Susana left the IDB Lab in February of 2020 to become Venture Partner at Capria Ventures and Executive Advisor at LAVCA.



IDB Lab or the Inter-American Development Bank's innovation lab, aims to finance and mobilize knowledge and linkages to drive innovative initiatives and promote inclusion in Latin America and the Caribbean, IDB supports innovative and venture capital projects with the potential to generate large-scale impact.

Tell us a little about IDB Lab's performance in Brazil and its most recent investments.

IDB Lab, FUMIN then, started investing in Brazil in 1998. We supported funds that had new managers, with the idea of building the industry and creating local capacity. We invest in Stratus, CRP, DGF, FIR, and many others, taking risks to learn and not afraid of failing. Some of these managers are no longer in the industry, but we all learned something that helped us make better investments in the following funds.

Together with FINEP, SEBRAE and PETROS, we designed the INOVAR program in 2000, which was a project that changed the threshold of investment in entrepreneurial capital in Brazil, training new managers and investors and early stage companies. In recent years our thesis of investment in Venture Capital funds in Brazil has changed. The industry is established and we are now looking at funds that are closely aligned with the BID Lab and its priority areas: knowledge economics

(fintech, edutech, innovation in traditional sectors using technology), inclusive cities (transport and mobility, recycling, basic services, etc.), and climate-smart agriculture (agtech and foodtech). Funds may already have a track record - being a manager's third or fourth fund - but they always need to search for impact on their investments: coming up with products and services to the vulnerable population, solving a challenge for a community or city, and/or using innovation and technology for inclusion. The funds we have supported in recent years have been: Finhealth, from biotechnology; VOX, impacto; Redpoint eVentures, of technologies and innovation for Brazil and other countries; and SP Ventures, in Agtech. Our financial support is accompanied by connections, knowledge of best practices in venture capital and an entry into the BID Group's network of managers that also allows fund raising for investees as they grow. Brazil, for the BID Lab, has always been a laboratory for learning and testing ideas and then taking them to other regions.

You can support these initiatives from debt, direct equity or through funds. What has fit you best?

We do not believe in debt instruments in funds with a small capitalization, between USD 20-50 MM, this could create potential problems between credit providers and investors. We have invested capital to share the risk and encourage other investors to do the same. Each year we make about 2 to 4 direct investments (still very few in Brazil) in companies that mostly, come from our funds and have great alignment and effect in our priority areas. For example, Macauba, for the climate-smart agriculture pillar. We reach many more companies investing in funds than if we were making direct investments. We have supported over 800 startups through over 80 funds in the Latin American and Caribbean region and over 20 funds in Brazil.

In venture capital, have you only looked at opportunities in impact investment? Tell us a little about the performance and criteria in selecting funds or start-ups.

We do not split between VC investing and impact investing. We think the impact has to be mainstreamed and we are looking for funds that invest in companies developing solutions that can mitigate market challenges, reaching vulnerable populations that do not have access to health, finance, education, decent housing, clean drinking water and good infrastructure, for example. Investments in these sectors also have the highest financial returns. This is our own brand of innovation, we are a region with many challenges, and entrepreneurs use technology and innovation to solve them. No one can solve these challenges better than those who suffer them. The LAC innovation label (for projects made in Latin America) has a lot to do with improving people's lives.

Thinking about acting with companies, how do you support them in order to create a favorable environment for innovation?

We try to invest together with other funds from our networks, and we try to open the doors of our contacts in the BID group as well, and the specialists of the sectors where they operate. We encourage a culture where failure is allowed if lessons are learned and restarts take place.

In selecting funds and assessing business opportunities, do you use the ESG criteria as a tool?

Going beyond ESG, we perform a due diligence where we look at the sectors and which segments of the population these potential investments will be directed to, whether there is a strategy to incorporate teams diversified by gender and diversity, if the fund has a climate mitigation or adaptation strategy, clear KPIs and know how to measure them. We also tried to align the fund's objectives with the ONU's SDG (sustainable development goals). If a fund wants to invest in startups having as target market the middle and upper classes, it's probably not a fund that is closely aligned to us.

Tell us a little about your vision on impact investing in Brazil and the main opportunities in this modality.

Impact can be found in all sectors related to basic health services, access to finance, education, housing, water, food, as well as those that focus on high impact industries that need a technology upgrade such as agribusiness, transportation industry. and mining. Brazil's biodiversity presents unique opportunities for conservation and preservation of the planet and mitigation of climate effects.

CompanyProfile

FÁBIO BOUCINHAS
Home Agent



Home Agent is a company that offers customer service based entirely on the home office model. Services, further to assistance, include some sales steps such as billing, e-commerce and business contingency plan, for example. In 2019, the company was capitalized in an investment round led by Performa Investimentos, along with Capria Ventures and Gávea Angels.

Tell us a little about Home Agent's performance.

Home Agent started as a customer service startup in October 2010, 100% based on the home office model, the first in Brazil.

The project emerged from consulting for an insurance company, when the team involved realized that issues outside the core business such as urban mobility, for example, disrupted call center services and, from that insight, developed a pilot project. with remote assistance.

The customer service market is the largest contracting party in Brazil, however this service in the country is highly inefficient and potentially stressful (both for the customer and the company providing it). Most problems arise from the difficulty of maintaining a skilled and well-trained workforce. At the time we wondered why these professionals needed to be in the office and we found out that in the US the Home Office

model was already fully consolidated: at the time, there were already over 300,000 people working in this way.

We specialize in customer service, sales channels, social media service, billing and other related services and currently have 18 clients such as Natura, Volvo, Ultragás and Delivery Center, for example.

In all, we have over 170 employees working remotely from their homes. They are trained in person and then monitored by a supervisor. Through technology we are able to implement very well-designed processes and closely monitor the operation to maintain the quality of service. We maintain 1 supervisor for 10 attendants, while most call centers have a 1 to 30 ratio.

The operation, being from home office, also allows us to easily diversify the operation to other countries, from professionals who live in Brazil, able to

be trained in person and speak other languages. We already have a bilingual operation (Portuguese and English) and we are interested in diversifying.

Comment on the main challenges in your story, under your point of view, from the beginning of the activities until now.

There were several challenges. At first, in 2010, broadband was not working well, which had a direct impact on our business. Today it had been equalized.

Once these technical issues are solved, the cultural barrier is still present. Making companies believe that we can build a team that adheres to their values remains one of the biggest challenges. No wonder our motto is - The voice of your brand welcomed - because we need to understand the customer's language.

In addition, a cultural change, which is still ongoing in Brazil, refers to the mindset of people who still believe that home office is unproductive. What we have already proved not to be true, because the professional profile of our team highly values this opportunity and our indicators show the success of this model.

By this belief, the sales process ends up being more expensive because we still need to make pilot sales to assure customers that the operation works.

I believe that in general, labor relations are changing a lot, including our recent labor reform started talking about home office what also helps to change the perception of contracting parties. When we co-work with other companies with a culture of innovation (our office is located at Cubo - Itaú's startup incubator), we also find it easier to find resonance with this culture.

What kind of positive impact do you intend to have on the company's operations?

As we begin to structure the operation, we understand the business's potential to generate social impacts.

The first of these is the economic inclusion and access to the labor market. We employ 170 people, 93% women, with an average age of 35 years old and 60% with higher education, all through CLT (Brazilian labor law). Many of them are mothers and represent in a part of the population that could not leave home to work because they need to take care of their children, that is, we are helping the autonomy of these women who were, previously, financially dependent of their partners.

Another aspect is urban mobility. In 2017, we estimate savings of 280,000 trips per year, which resulted in savings of about R\$ 500,000 in subsidies from the city of São Paulo.

In addition, we have a positive impact on the health of our employees and their families: 95% of our employees say they eat better from home and manage their family health better, are able to accompany their children to medical appointments and be available in case of illness.

According to the city of São Paulo, each job generated in the periphery generates four more other jobs, due to the local circulation of money (instead of being spent in shopping centers), which helps to reduce inequality.

The idea came without thinking about the impact our business would have, but the question of employability of housewives,

seniors, and even highly skilled specialists that we could not mobilize in a traditional working model was immediately clear. We understand that the impact would be inseparable from our business.

Talk about the investment round, led by Performa. How did the investors come to you and how did the company prepare to welcome the partners?

Since 2014, we understood it was time for investors to help us accelerate growth. It was a very dynamic process with which we had no experience. In 2016, we met the Performa team, but they had no vehicle to make the investment. When the opportunity to co-invest with Capria Network came up, we resumed the conversation.

At this point, we opened the round and brought in other investors, a process that eventually took longer than we would like, but which yielded a lot of learning and was completed in January 2019.

What is the purpose of these features? Tell us a little about the plans for the coming years.

The idea of this round was to accelerate growth by leaving the sales and delivery machine, which is responsible for deploying new customers more robust. We have already doubled sales revenue in October 2019 compared to January revenue in the same year.

With the super expressive result, we are already thinking of a new round to maintain this growth in the short term.

How do you see the participation of new members in the daily life of the company and what tools did you know through them that can help the operations?

We always look for a smart money contribution. Besides them, we have Gávea Angels as investors. It is very important for us to mentor and refer new customers. We share our growing pains, best financial management practices and are always discussing better processes.

In addition, we have our governance meetings where we have strategic discussions on business directions.

What is impact entrepreneurship for you? Was the company created with these guidelines or underwent an adaptation process?

We have the idea that the impact entrepreneur is someone who has a simple background and can develop a solution that has a positive impact on society.

I think it's beyond all that: everything is interconnected. Any business that benefits society on an individual level has the potential to improve society as a whole.

When we help to solve the problem of our closest employees and their communities, we are helping to solve a problem for the entire population. For example, each person who stops taking the subway in the city of São Paulo, daily, directly benefits at least another 20, in addition to the cost reduction or government subsidy to maintain this transportation.

Our experience helps us to participate in discussions that may benefit São Paulo, such as our participation in drafting a bill of law to encourage home office work, based on tax deductions, subject in the which we are very committed and can benefit a lot of people.

To measure the impact entrepreneurship, which indicators do you consider?

We have impact indicators like reduced carbon emissions, cost of transport saved, some hard data like that.

Turnover is one of the most relevant indicators of our business. Currently, ours is close to zero, which is unthinkable for other companies operating in the same sector where this indicator approaches 15%.

Other issues are more subjective such as quality of life, safety, health and dietary improvements. We periodically do researches with our team and receive feedback to understand the impact on people's lives. I recently heard from a mom that, thanks to her Home Agent job, she can see her child grow up and that's priceless.

Although we did not idealize the social impact at first, we knew of this potential and that this would be a competitive differentiator: more qualified and more engaged professionals and not overcharging for it.

CASE

TEM | VOX CAPITAL

Founded in 2014 with the mission of providing high-quality, responsive, low-cost healthcare services, TEM uses prepaid cards in a network of healthcare professionals, saving drug and medical expenses for more than 1.5 million of clients.

INVESTOR PROFILE: Founded in 2009, Vox Capital is the first and most active impact investing company in Brazil. Its goal is to encourage initiatives that foster positive social change and to this end, it invests in innovative technology companies with the potential to change the lives of low-income people with solutions in education, health and financial services.

DATE OF INVESTMENT: October 2015

DISINVESTMENT DATE: June 2018

INVESTMENT VALUE: R\$ 3 million

PARTICIPATION: 30%

FUND NAME: VOX IMPACT INVESTING I

FUND SIZE: R\$ 84.35 million

INVESTMENT PURPOSE: To generate access to affordable quality health for those unable to access a private network.

OPPORTUNITY

TEM is a company that acts as a prepaid card manager for the sole use of health and wellness payments provided by the company's accredited network. The company offers its clients access to a network of health care benefits such as low-cost medical

check-ups and drug discounts. The company's business model is based on three pillars: i) Network accreditation; ii) Payment intermediation; and iii) Beneficiary network management.

The goal is to cover an unmet demand from the huge share of 150 million Brazilians without access to private health services, as well as the nearly 3 million who have lost their health plans in recent years due to the economic crisis. In classes C and D, almost 80% of the population has no type of health plan, being dependent on the SUS.

TEM's disruptive model represents an excellent investment opportunity for Vox, so that together they can build a solution that will help most of the Brazilian population suffering from the lack of the public health system, bringing more quality of life and well-being to these people.

PATH & RESULTS

Since 2011, when they had contact with a health access project in Brazil, entrepreneurs Igor Pinheiro and Tuca Ramos began to study the sector, with the idea of creating a business that would offer alternatives to consumers without private health insurance. Founded in 2014, TEM was an initiative of the two entrepreneurs in conjunction with Fernanda Ferraz and Gláucia Saffa who, considering their expertise in the financial area and their own resources, created a product that met the needs of a population sometimes excluded from access to a quality health system.

The product was formulated to ensure low-income population access to consultations, exams and pharmacies. The prepaid card offered by TEM is distributed in retail stores and works similarly to the current account. There is a package hire and the monthly price varies according to the convenience services offered. The card allows access to medical consultations and private health examinations at prices more affordable than those practiced in the traditional market.

In 2015, TEM bet on partnerships with realtors, taxi drivers linked to the EasyTaxi application, customers of BIG supermarket and Camisaria Colombo store chain. In addition, it has formed an alliance with Avante, which specializes in financial services for the low-income population. The partners' estimate was to earn around R\$ 1 million in 2015 and invest over the next 2 years from R\$ 3 million to R\$ 5 million, mainly in technology and maintenance of the accredited network.

In October 2015, TEM received a contribution of R\$ 3 million from Vox Capital with which the company made some transformations in the business model, evolving from a card manager to a data analysis fintech.

In 2017, TEM was already present in 26 states, with 108 thousand registered members and more than 14 thousand accredited units. The company earned R\$ 6 million in the year,

Showing a 140% growth compared to R\$ 2.5 million in 2016. With ContaSaúde, TEM was one of the winners of the Febraban Pitch Championship, held during CIAB 2017, with the objective of encouraging business between financial institutions and developers of innovative and disruptive solutions.

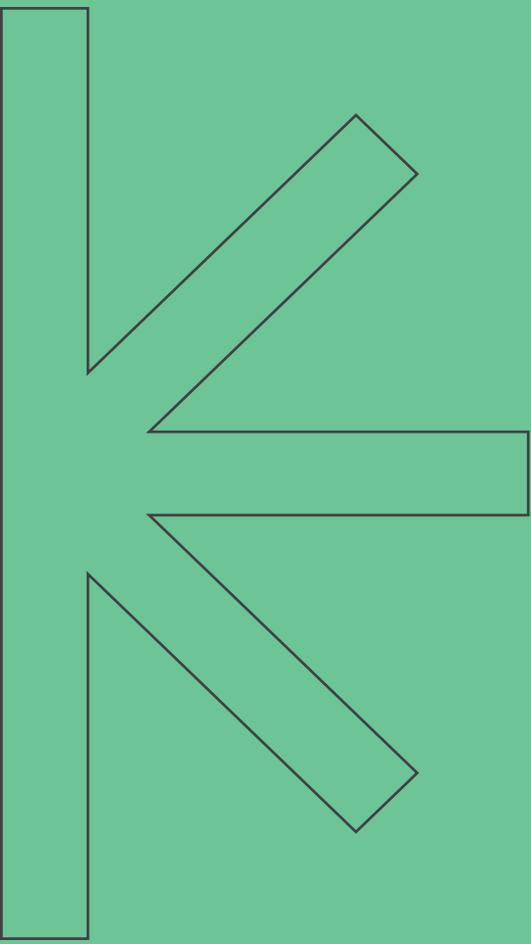
In January 2018, TEM entered into a partnership with Natura to distribute 1.2 million benefit cards to consultants throughout Brazil, enabling savings in access to health services and the purchase of medicines. With this, Natura began to offer its Beauty Consultants access to medical and dental examinations and consultations with reduced prices and TEM expanded its business throughout Brazil with expected revenues of over R\$ 10 million.

In June 2018, Vox Capital sold its 30% stake in TEM back to the founders in a move that allowed the entry of Generali Brasil Seguros, a subsidiary of the Generali Group from Europe, and obtained a TIR (internal rate of return) of 24%, in which it has become the first successful exit from impact investing in the country.

Having generated a 75% return on the R\$ 3 million investment made by Vox Capital, the exit operation showed that it is possible to invest in impact business in Brazil and in a very profitable manner. With the entry of the insurer - which operates in Brazil within the personal and property insurance segments - TEM will be able to expand its portfolio for hospital services, serious illness insurance and funeral services, important differentials for the lower social classes.

The operation with Generali consisted of a financial contribution that can be converted into shares within 24 months. The intention is to establish a commercial and marketing partnership, aiming to increase product distribution and bring more service options to the portfolio. For Generali, the operation marks the insurer's entry into one of the fastest growing markets in the country, the popular health care market, made up mostly of startups. TEM believes that it will be able to capture, in the coming years, 6% to 7% of people without plans, reaching the milestone of 10 million policyholders.





Sample of GPs active in Impact Investing in Brazil

- › Antera
- › Axxon Group
- › Mov Investimentos
- › Kaete Investimentos
- › LGT Impact
- › Performa Investimentos
- › Vinci Partners
- › Vox Capital
- › X8 Investimentos
- › Wright Capital

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