FIIMP

A laboratory to experiment with investing for impact

The Fundações e Institutos de Impacto (FIIMP) group was born in 2016 as a laboratory where organizations could invest for the first time in impact businesses. Its initial challenge was to test investment instruments and their relevance for the third sector.

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LOCATION:

National - Brazil

MAIN PARTNERS:

- Instituto de Cidadania Empresarial (ICE)
- InterCement
- Fundação BMW
- Fundação Grupo Boticário de Proteção à Natureza
- Fundação Lemann
- Fundação Otacílio Coser (FOCO)
- Fundação Raízen
- Childhood
- Fundação Telefônica Vivo
- Fundação Tide Setúbal
- Fundo Vale
- Instituto Ayrton Senna
- Instituto Coca-Cola
- Instituto Cyrela
- Instituto EDP
- Instituto Holcim
- Instituto Phi
- Instituto Sabin
- Instituto Samuel Klein
- Instituto Vedacit
- Instituto Votorantim
- Oi Futuro
- GIFE
- Phomenta
- Aspen Network of Development Entrepreneurs (ANDE)
- SITAWI Finanças do Bem
- AOKA
- Escola Mais
- Broota

MOTIVATION/ PROBLEM TO TACKLE:

Lack of experience by foundations and institutions regarding investing for impact.

TYPE OF INVESTOR/SILO:

Foundations

FINAL BENEFICIARIES:

No criteria established

SECTOR:

Economic and social development

NON-FINANCIAL SUPPORT OFFERED:

- Business model and/ or strategy
- Impact management and mediation
- Governance
- Operation (marketing, logistics, IT, sales, purchases, legal)
- Theory of change (for businesses and intermediaries.)

SDGS ADDRESSED:

TYPE OF FINANCING:

Donations, debt, equity, and hybrid finance

RESOURCES INVESTED OR DONATED:

USD 400,000

DURATION:

FIIMP 1: from

2016 to 2018

FIIMP 2: from

2018 to 2020

IMPACT:

USD 400,000

invested in various businesses, with learnings published and a second edition **(FIIMP 2)** focusing on new challenges.

BACKGROUND AND CONTEXT

Historically, foundations and institutes in Brazil have preferred to directly manage their projects through service providers or by providing donations.

In 2015, the then-called Força Tarefa de Finanças Sociais (Social Finance Task Force) published the report "Social Finance: Solutions for Social and Environmental Challenges." The report gathers the results of various studies and research on the subject with the conviction that there was an opportunity to respond to various socio-environmental challenges in Brazil and the world through impact businesses. One of the recommendations of this report led to the creation of the Fundações e Institutos de Impacto (FIIMP) group: "The FTFS recommends that foundations and institutes (corporate, family, and independent) make donations and investments to make pilot and innovative initiatives in the field of Social Finance and Impact Businesses viable."

At the time, the 22 institutions that came together to create FIIMP, had limited experience in traditional investment (purchase of shares or debt) or blended finance, a topic that was definitely new for them.

That is why, after several meetings, Fundação BMW organized in October 2016 an intensive workshop that led to the consolidation of the first FIIMP, a laboratory where organizations could invest for the first time in impact businesses to test investment instruments and establish their relevance for the third sector.

DESCRIPTION

The first FIIMP group consisted of Childhood, Fundação BMW, Fundação Grupo Boticário de Proteção à Natureza, Fundação Lemann, Fundação Otacílio Coser, Fundação Raízen, Fundação Telefônica Vivo, Fundação Tide Setubal, Fundo Vale, Instituto Ayrton Senna, Instituto Coca-Cola, Instituto Cyrela, Instituto de Cidadania Empresarial (ICE), Instituto EDP, Instituto Holcim, Instituto InterCement, Instituto Phi, Instituto Sabin, Instituto Samuel Klein, Instituto Vedacit, Instituto Votorantim and Oi Futuro.

GIFE, Phomenta, and ANDE (Aspen Network of Development Entrepreneurs) provided technical support. Finally, the group received voluntary contributions from SITAWI Finanças do Bem, AOKA, Phomenta, Escola Mais, Broota, and ANDE for its structuring.

From the beginning, the group has operated without its own legal identity and through a self-governance scheme. An assembly with all members was created, as well as some committees that divided tasks.

> *"The great aspect of FIIMP is the foundations' 'do-it-yourself' style, without hired consultants, with us having to do things ourselves. FIIMP is more an ecosystem initiative—to respond to the FTFS recommendation—than a perennial, scalable platform that addresses this recommendation."* Fábio Deboni, Executive Manager, Sabin Institute.

For the execution of the investment decisions, a fiscal auditor was chosen. In FIIMP 1, the subject of this case study, that institution was SITAWI Finanças do Bem. The investments were made through intermediary organizations that already worked in impact investment and that included SITAWI, Bemtevi, and Din4mo Ventures.

IMPLEMENTATION

The initiative was structured based on two clear objectives. First and foremost, to learn how a foundation or institute can invest in impact businesses; the second objective was to generate knowledge on the subject for participants and the sector as a whole.

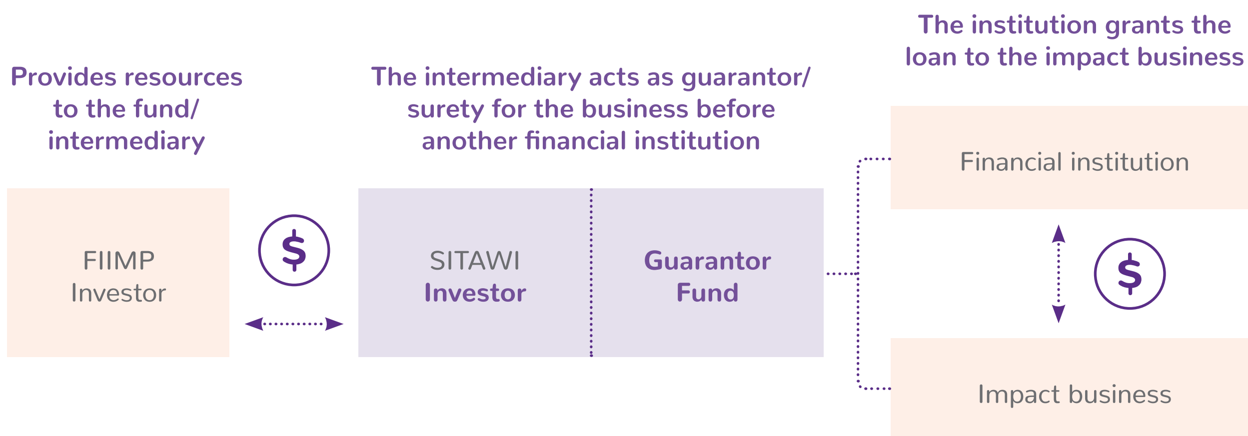
Tailored Finance

The 19 initial members committed to invest USD 10,000 each. The total amount was divided into three major parts, plus a fourth to cover the expenses of the process. Each of these three amounts was to be invested using a different instrument, and each foundation could decide in which investment they wanted to participate.

The instruments defined for the test were: loan guarantee, loan, and crowdequity. Based on that, the intermediaries that could manage each investment were defined, choosing SITAWI, Bemtevi, and Din4mo, respectively.

SITAWI designed, with FIIMP resources, the first socio-environmental loan guarantee for an impact business in Brazil. The idea was to use FIIMP's philanthropic resources to improve the credit conditions offered by the market to an impact business, as a guarantee for the operation. USD 48,600 was allocated to SITAWI, which would act as guarantor, with a two-year term and a potential return of 4.8%, plus other yields linked to the financial instrument. After a long selection process, guided and documented by FIIMP, it was not possible to make the operation viable, leaving the resources available for further attempts.

Graph 1: **Socio-environmental loan guarantee**



Source: Kalo Taxidi/SITAWI

The 19 initial members committed to invest USD 10,000 each. The total amount was divided into three major parts, plus a fourth to cover the expenses of the process.

FIIMP resources were also invested in the Bemtevi Fund (see the Bemtevi-Acreditar case in this study), which grants loans to social businesses, in addition to other investor resources. Since then, the Fund has carried out several operations, including loans to Agencia Popular Solano Trindade and Descarte

Correto. USD 48,600 was contributed in a general partnership (SCP), with a four-year return-of-capital expectation. FIIMP decided to waive this return, leaving the resources available within the SCP to invest in other initiatives.

In the Din4mo process (see the Din4mo-Vivenda case in this study), convertible debt securities were purchased for USD 48,600 and a direct investment for USD 9700 was made through the platform. Din4mo, operating as a lead investor, opened a fundraising round on Broota (a crowdequity platform now called Basement, after changes in its structure) to invest in Programa Vivenda and Mais 60 Saúde. The regulatory challenges regarding the possibility of a foundation or an institute participating in crowdfunding were overcome by changing the instrument to a loan contracts (mútuo simples) between Din4mo and each of the investors, with a ten-year term and an annual interest rate of 4%, with the exception of the investor that contributed USD 9700 to the Vivenda investment through the platform. Other FIIMP organizations did not participate directly in the crowdfunding. In July 2018, Din4mo opened a third offering to raise funding for the Simbiose Social business.

The minimum ticket for the investment via the platform was USD 730. A total of 400 individual investors were reached. There is a 20% rate of return on the return in excess of the IPCA (a traditional indicator of inflation in Brazil). When it comes to securing resources for Programa Vivenda and Mais 60 Saúde, 15% of the funds raised stays in Din4mo and 5% is kept by the platform. In the case of Simbiose Social, the entire fixed fee remains in Din4mo. There is no administration fee but entrepreneurs are charged for using the platform as follows: USD 1161 at the time of funding approval to cover the cost of structuring the offering; in the event of success, 1% to 2% of raised funds if it is private or 2% to 4% if it is public. In total, USD 663,000 were mobilized for the three investment opportunities at the time of publication of the *Guia FIIMP2 - Nossa jornada de aprendizado em Investimentos e Negócios de Impacto Socioambiental continua.*

The instruments defined for the test were: loan guarantee, loan, and crowdequity.

Non-financial Support

Members participated—directly or through intermediary organizations—in some impact businesses supported by FIIMP. The intermediaries responsible for the operations provided non-financial support in various ways (see the Din4mo-Vivenda and Bemtevi-Acreditar cases in this study).

RESULTS

The entire investment process was documented and published by FIIMP from the outset, widely disseminating the lessons learned from this journey.

Two reports were made in June 2018 and January 2020, detailing the process step by step. *Guia FIIMP – Nossa jornada de aprendizado em finanças sociais e negócios de impacto and Guia FIIMP2 - Nossa jornada de aprendizado em Investimentos e Negócios de Impacto Socioambiental continua* provide almost two hundred pages of content produced during the first two years of the initiative, detailing the mechanisms, governance, and challenges. The following lessons illustrate some of these conclusions, but it is recommended that those who are interested read the aforementioned documents, which provide a number of aspects that could not be summarized here.

How to invest in impact businesses

Instrument	Structure	Term date	Expected return	Risk	Lifecyle of organizations	Type of organizations	Investment objective
Guarantee	Philanthropic fund	1 to 5	Similar to a money market	Medium	Growth and maturity	All types (NGO´s, startups, cooperatives, traditional businesses)	Scale-up

Instrument	Structure	Term date	Expected return	Risk	Lifecyle of organizations	Type of organizations	Investment objective
Debt	*Crowdlending*	1 to 5	Medium (interest rates are predetermined)	Medium (monthly interest payments and capital)	Growth and maturity	All types (NGO´s, startups, cooperatives, traditional businesses)	Scale-up
Debt	Microcredit	1 to 3		Medium (monthly interest payments and capital. De-risking through other investors)			Scale-up
Debt	*Crowdequity*	1 to 3		Medium (monthly interest payments and capital)	From startup to maturity	Microenterprises (characterized by limited income)	Consolidation
Convertible Debt	*Crowdequity*	2 to 5 no conversion	High (distributed after succesful exit)	Medium to High (depending on the stage of the business) in case of conversion, return upon exiting the investment, risk spread among other investors	Start of operations until there is growth	Companies only; high-growth profile	Focus Depth and/or scale
Convertible Debt	*Crowdequity*	+7 conversion					
Convertible Debt	Direct	2 to 5 no conversion					
Convertible Debt	Direct	+7 conversion					

Instrument	Structure	Term date	Expected return	Risk	Lifecycle of organizations	Type of organizations	Investment objective
Equity	Seed Money Venture Capital Private Capital	7	High (return only upon exiting the investment)	High (return only upon exiting the investment)	Growth	Companies only; high-growth profile	Focus Depth and/or scale

Source: Table adapted by FIIMP from the SITAWI Finanças do Bem product matrix.

Given that the central objective of the initiative was to learn about investing in impact businesses, it is worth mentioning some of the major developments:

1. Relevant experience was gained with regard to the possibility for third sector institutions to invest in impact businesses. Throughout the process, many of the members made statutory modifications aimed at making investments viable, modernizing their mandates based on the need for capital. There is still a challenge for these institutions—establishing a pattern of investment in impact businesses.

   "Making direct investment is still difficult for institutes and foundations, although nowhere does it say that it cannot be done. The interpretation varies greatly according to the legal team in charge." Fábio Deboni.

2. The importance of blending different types of capital—a central concept in investing for impact—was clear to participants. Many expanded their activities in this field, including investments, research sponsorship, direct donations, creation of acceleration programs, among others.

   "There was a view that philanthropy was something from the past and that impact investment is more evolved. All types of patient capital is needed. As philanthropic capital understands that impact investment, it will be able to better adjust its application." Fábio Deboni.

The entire investment process was documented and published by FIIMP from the outset, widely disseminating the lessons learned from this journey.

3. In addition to the money invested directly by FIIMP, other resources were attracted for impact businesses within the same investment processes, achieving a leverage effect due to the presence of philanthropic capital. In 2018, a total investment of USD 1,414,000 was made via FIIMP in three investment rounds for 15 impact businesses. Moreover, institutes and foundations donated or independently invested another USD 2.2 million in the local impact business ecosystem.

4. Based on FIIMP 1 learnings and diagnoses, several of the original participants and new collaborators joined forces to organize FIIMP 2. The importance of experimenting with a greater diversity of intermediaries, types of businesses and support, and phases of the entrepreneurial journey was determined then.

LEARNING AND PERSPECTIVES

FIIMP 1 and 2 were designed so that, in the end, the institutions could operate individually based on the lessons learned. There are no plans for FIIMP 3 at this time. Some of the investments were made through donations that continue to be reinvested in the sector; others are nearing maturity and have to be recovered by investors.

> *"It is important to understand FIIMP as a stepping-stone network, a laboratory of experiences and learnings. It was never meant to be a business. It was decisive to have a very well-calibrated cost-benefit ratio: USD 10,000 for two years of experience, with publications."* Fábio Deboni.

Since it was an autonomous group of 19 investors, the lessons learned were diverse, with different degrees of participation and varying levels of collaboration between the impact investment processes and their cultures.

> *"Some foundations and institutes really participated and learned, while others engaged from a greater distance. Some engaged in FIIMP 1 but realized that it did not make sense for them, while others continued to FIIMP 2."* Fábio Deboni.

Deboni suggests some important precautions for a similar experience. First, everything has to be done in a collaborative way, with members of the groups involved in each stage. Second, it is important to strengthen intermediaries, leaving a legacy for the sector, regardless of the future decisions of the organizations. Additionally, the fact that organizations of different sizes came together was a determining factor in the speed and relevance of the process.