



Grupo Gaia

Hacking the financial system

The **Gaia Group** seeks to ensure that financial instruments and vehicles in the capital market become accessible to people, projects, and organizations that traditionally do not participate in it, and work towards achieving a social and/or environmental impact. Gaia Group offers securitization services and deal structuring in infrastructure, agroecology, and equality, employing traditional and non-traditional financial instruments such as credit certificates and tokens.

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**GEOGRAPHIC
LOCATION:**

Brazil



**FOUNDING
DATE:**

2009



**INVESTOR TYPE /
AREA:**

Financial entity.



SECTORS:

Agriculture, housing, income generation, education, and renewable energy.



CONTINUUM OF CAPITAL:

Impact investment.



MAIN PARTNERS:

- System B.
- Din4mo¹.
- Landless Rural Workers Movement (Movimento dos Trabalhadores Rurais Sem Terra, MST in Portuguese)².
- Veirano Lawyers.



**MOTIVATION OR PROBLEM
TO BE SOLVED:**

Provide access to capital market instruments to promote impact investment.



**NON-FINANCIAL SUPPORT
OFFERED:**

- Strategic and operational strengthening.
- Network access.



INVESTMENT INSTRUMENT:

Debt and hybrid instruments.

SDG:



**TYPE OF FINANCING / INVESTED OR
DONATED RESOURCES:**

\$ 3,8 M³ in financial operations provided and structured by the Gaia Group. Gaia invests a maximum of **USD 1,5 M** in each financial operation.



FINAL BENEFICIARIES:

People living in vulnerable conditions.



IMPACT:

- Provide **1518 individuals** access to the capital market.
- Construction of a building, as part of the Affordable Housing Organized System (SOMA), capable of housing 110 families living in poverty.
- About **200 debt certificates** have been issued between 2009 and 2022.

¹ For more information, visit: <http://www.dynamo.com.br/en/empresa>

² It is a social and political farmer movement with national scope in Brazil. For more information, visit: <https://mst.org.br/>

³ Amount in reais R 20,000 M (Exchange rate as of June 30, 2022).



OVERVIEW

The capital market plays a fundamental role in the economy by allowing capital flows between those who have it, and those who need it. A 'good' capital market allows economic growth by allocating savings more effectively, reducing the risk of capital accumulation, and providing access to a complementary credit market.⁴ Different players are involved in the capital market, such as companies, banks, governments, individuals, insurance companies, institutional investors, investment fund managers and stock brokers. Capital markets have also started to explore impact investments using environmental, social, and governance (ESG) criteria. According to the Global Sustainable Investment Alliance⁵, USD 35 trillion were invested worldwide using ESG criteria.

In addition to using ESG investment criteria, capital markets have a potential to promote sustainable development and impact by facilitating access to new players and broadening the investor base. For those actors who are already in the market and want to increase their impact, this implies a challenging transformation of their traditional system to further their impact beyond ESG criteria. For new players, the main challenge is to access financial and economic education with an impact lens. For example, according to the assessment of 900 entities⁶ made by ANBIMA⁷, about 67% of the Brazilian capital market see the concept of *sustainability* as something that is distant to them, or that it only refers to actions applicable internally in the work environment; that is, they do not see its role in the capital markets or how it relates to investing (figure 1). This denotes a great opportunity for the capital markets to continuing positioning and promoting *sustainability* and *impact* criteria to investments and transactions.



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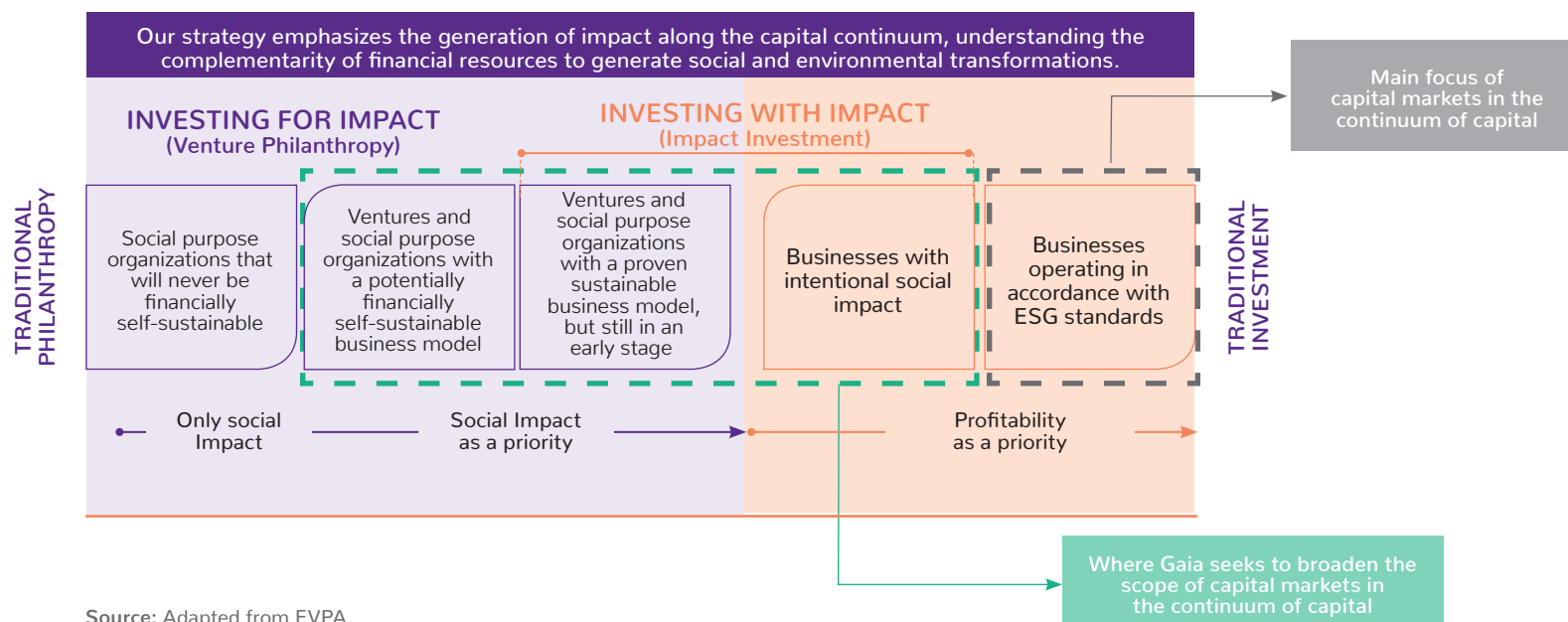
⁴ Jara, Diego (2019). 2019 Capital Markets Mission. Quantil. Information found at: <https://www.asofiduciarias.org.co/wp-content/uploads/2019/08/Presentaci%C3%B3n-Final-1-vFinalPDF-1.pdf>

⁵ ANBIMA (2021). A landscape of sustainability in the Brazilian capital market. (p. 4) Information found at: https://www.anbima.com.br/data/files/9D/11/CC/94/B1A8F710F62888F76B2BA2A8/A_landscape_of_sustainability_in_the_brazilian_capital_market.pdf

⁶ Investment management firms, banks, brokerage houses and insurance companies, among others.

⁷ ANBIMA: https://www.anbima.com.br/pt_br/pagina-inicial.htm

Figure 1. Gaia Group Approach



Source: Adapted from EVPA.

Gaia is a capital market securitization and consulting business group created in 2009. In 2014, given the trend in including sustainability criteria in investment practices, the group decided to adopt a social and environmental impact approach, and started the certification process as a B-Certified Company⁸. In addition to obtaining this certification, the group made the decision, in 2022, to sell part of the company that was focused on traditional investments, to fully focus on growing impact investments within the capital market. The group put an emphasis on five areas for investment:

⁸ These companies are certified for measuring their own social and environmental impact, and for committing personally, institutionally and legally to making decisions which consider the long-term consequences of their actions on the community and the environment. For more information, visit: https://www.sistemab.org/?gclid=CjwKCAjwo_KXBhAaEiwA2RZ8hJLzVz0939wkYOU2Vger0RMeaoyNcF2ylwa7iU-i-wdZ3jRprJKPxoCKPoQAvD_BwE

sustainable agriculture, decent housing, education, renewable energies, and income generation. As an added value, it uses its knowledge, expertise and networks in the capital market to promote the market's transition - and its actors - towards impact generating investments.

Grupo Gaia seeks to position a new idea about the meaning of *success* in the capital market, one that considers social and environmental impact variables in addition to the financial ones. To that end, it uses the existing market structure and seeks to incorporate new actors by using traditional and innovative financial instruments. For its securitization services⁹ and deal structuring, the group takes into account the following criteria:

- 1 Alignment with at least one of the five Gaia investment areas.
- 2 Contribution to Gaia's medium- and long-term financial sustainability, which, in most cases, it charges for the different services offered, although some pro bono projects have been developed.
- 3 Knowledge and experience exchange among investors, implementers, and people in the Gaia community.
- 4 Replication potential to generate systemic and non-isolated impact efforts, focused on business models designed for a larger scale of beneficiaries and geographical scope.

If these criteria are met, the project continues to the structuring phase, which involves the development of social and/or environmental impact objectives and a theory of change, the structure of the right financing instrument, and non-financial support to provide access to a network of capital market allies to assist with capital raising and investors, and support to prepare a replicable business model.

So far, Gaia Group has achieved its purpose by connecting capital market traditional actors, like Dexco¹⁰, Gerdau, Movida, and Votorantim Cimentos with new actors, such as farmers' associations of

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⁹ To this end, it is regulated by the Securities Commission (Comissão de Valores Mobiliários, CVM) of the Federal Government of Brazil.

¹⁰ It is a Brazilian company which has been listed on the stock exchange since 1951, and its shares are traded on the stock exchange (B3), under the ticker symbol DXCO3. For more information, visit: <https://www.dex.co/pt/quem-somos/a-dexco>

the Landless Rural Workers Movement (MST)¹¹, using traditional and innovative financial instruments like Real Estate Credit Certificates (CRI), and Certificates of Credit in Agribusiness (CRA). In addition, it has managed to provide individuals wide access to market participation by offering cheaper investment opportunities starting at USD 5 through the use of *tokens*.



INNOVATIVE FACTORS

Grupo Gaia is recognized for using the capital market to promote impact investment, which involves coordinating various actors and actions to create supply and demand of capital aimed at generating sustainable medium- and long-term impact.

Its innovation is reflected in the following: i) facilitating wide access to new actors (such as investors and issuers); ii) innovating in the use of traditional instruments, such as Real Estate Credit Certificates (CRI) and Agribusiness Credit Certificates (CRA) to generate social and environmental impact; and iii) implementing of innovative instruments (*tokens*) within a traditional market.

*“Gaia serves as a bridge between impact-oriented projects in need of resources and the financial market, which has the resources needed to invest. In this way, we use the tools offered by the financial market to raise funds.”*Rodrigo Ferreira, Alliances and Relationships activist manager at Grupo Gaia.

One of Gaia’s most emblematic cases is the Movement of Rural Landless Workers (MST) case, which has made raising resources in the capital market easier for farmer cooperatives with sustainable production practices. Gaia decided to support the MST because of its high potential for reaching direct beneficiaries, considering that the rural population in Brazil is approximately 27 million¹², such support fulfills the purpose of generating a systemic impact. Although it was controversial and disruptive to

¹¹ It is a social and political peasant movement with national scope in Brazil. For more information, visit: <https://mst.org.br/>

¹² In 2021, the rural population of Brazil was 27,140,788, according to the World Bank. For more information, visit: <https://datos.bancomundial.org/indicador/SP.RUR.TOTL?locations=BR>

open participation opportunities to a rural movement within the capital market, Gaia managed to structure the insertion of a new actor in the market system.

The group used a hybrid finance model with an instrument known as Agribusiness Credits Certificates (CRA) to structure the project in such a way that cooperatives access the capital needed for their sustainability and operation. CRAs are fixed income transferable securities backed by accounts receivable between local producers or their cooperatives and third parties.¹³ The CRAs can only be issued by regulated securitization companies¹⁴, which is the reason Gaia can issue them.

As a result, 1518¹⁵ people were able to participate in the capital market as investors, raising USD 3.3 million with a fixed rate of 5.5% over 5 years.¹⁶ The structuring and process provided Gaia a deep understanding of the way in which agricultural cooperatives and the MST work. Even though this rate was below the market rate¹⁷, it managed to attract new investors to invest in the social impact generation of the project. It should be noted that this project allowed a minimum investment amount of USD 19, which helps to explain to some extent, the high number of investors involved and the positive results achieved by Gaia in its pursuit of democratizing access to this type of investments.

Another project which demonstrates Gaia's adaptability in the use of different financial instruments within the capital market, is the Organized Affordable Housing System (SOMA)—an inclusive housing construction project which promotes social mobility and quality of life for people living in poverty. In this case, Real Estate Credit Certificates (CRI) were used—an instrument widely used in Brazil—, but it is usually managed with a traditional investment approach that can only be issued by a securitization



CRAs are
fixed income
transferable
securities backed
by accounts
receivable
between local
producers or their
cooperatives and
third parties.

¹³ Simplified Pavarini (nd). Agribusiness Receivable Certificates (CRA). Information found at: <https://www.simplificpavarini.com.br/006/en/cras.php>

¹⁴ Raymond, A; Egler, HP; Masullo, D. and Pimentel, G. (2020). Financing Sustainable Infrastructure in Latin America and the Caribbean: Market Development and Recommendations (p. 30). Inter-American Development Bank (IDB). <https://publications.iadb.org/en/financing-sustainable-infrastructure-in-latin-america-and-the-caribbean-market-development-and-recommendations>

¹⁵ 4,794 people opened accounts, but due to the capacity of the operation, only 1,518 were able to invest.

¹⁶ Information gathered from the interviews conducted with João Paulo Pacifico (06/28/2022) and Rodrigo Ferreira (05/13/2022).

¹⁷ At that time, the fixed market rate was 13%, that is, it was well above what Gaia offered through this business.

company, such as Gaia. A CRI “ is a security which offers a credit right to the investor, who will be entitled to receive remuneration (generally in the form of interests) from the issuer and, periodically, or at maturity of the security, will recover the invested amount (capital)”¹⁸. A CRI functions as a capital raising instrument to finance operations in the real estate market and it is backed by real estate loans, such as residential, commercial, or construction financing, and long-term leases.

Gaia issued these securities to carry out the construction of 110 apartments in SOMA’s first phase¹⁹. SOMA’s investors were Dexco, Gerdau, Movida, Votorantim Cimentos and P4. The debt capital contributed by these companies helped raise close to USD 3 million.²⁰ For SOMA’s second phase, the goal is to construct 12 more buildings, as well as raising approximately USD 48 million, which will significantly expand the scope and impact of the project. SOMA’s investment return expectation is set for 10 years. Yet, institutional investors from the private sector decided to get behind this impact investment commitment.

Another notable aspect is Gaia’s use of digital financial instruments to attract investors, such as *blockchain*— “a set of technologies which allow the transfer of a stock or asset, from one place to another, without third-party intervention”²¹. One of the tools used by this technology are *tokens*, a digital representation of a physical asset which has an economic value and can be traded, opening the door to practical, safe, and impactful investments. *Tokens* are innovative in the financial market, and they offer solutions to mobilize investments towards the Sustainable Development Goals²².

To this end, Gaia allied itself with Liqi²³, a *Fintech* company, aiming at offering a wide access to impact investments, to both the issuer and the borrower through *tokens*. This alliance uses *impact tokens*,



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¹⁸ B3 (nd). Real Estate Credit Certificates. Information found at: https://www.b3.com.br/pt_br/produtos-e-servicos/negociacao/renda-fixa/certificados-de-recebeis-imobiliarios.htm

¹⁹ Between 1 and 3 people can live in each apartment.

²⁰ The original amount is RLB 15 M (Exchange rate as of June 30, 2022).

²¹ BBVA (nd). Keys to understand the “blockchain” technology. Communications. Information found at: <https://www.bbva.com/es/claves-para-entender-la-tecnologia-blockchain/>

²² Uzsoki (2019). Impact Tokens: A blockchain-based solution for impact investing. International Institute for Sustainable Development. <https://www.iisd.org/system/files/publications/impact-tokens.pdf>

²³ A company which uses blockchain technology in combination with digital security offered by smart contracts, to offer great liquidity to different types of businesses. For more information, visit: <https://www.liqi.com.br/>

which aim to unlock investments for projects with a positive social and environmental impact. Its benefits involve increasing trust between the parties, the promotion of financial and social inclusion, the improvement of data collection and monitoring, reporting and verification processes, and the incentive for more sustainable practices²⁴.

Impact tokens allow anyone to invest from USD 5 and higher amounts in projects focused on small organic producers, housing, and clean energy, among others. This opens up investment opportunities for retail investors, which usually cannot reach the *minimum* tickets set by this type of businesses. The use of *tokens* also allow small businesses to issue securities in the stock market, considering the cost and complexity that this implies²⁵. *Impact* tokens manage to transform financial securities into issuances of CRI and CRA securities with digital blockchain *assets*, which are executed through smart contracts, guaranteeing asset ownership and payments settlement without intermediaries.²⁶ This allows combining the use of instruments, such as those used by Gaia in the MST and SOMA projects, with this digital technology, while facilitating access and the execution of impact investments. However, due to the recent and innovative nature of the use of this technology in the securities market, it is not yet regulated by the Real State Securities Commission (CVT) in Brazil, which represents an investment barrier.



LESSONS

The capital market prioritizes profitability over impact given its structure guided by the traditional capitalist economic model. Thus, it is challenging to attract and convince the more traditional actors about the importance of sustainable impact from their own different roles in the market. Gaia is fully aware of this traditional point of view; therefore, it uses its expertise and contacts network to promote impact investments in Brazil. On the one hand, the results are evident when looking at the

²⁴ Uzsoki, 2019, p. 4.

²⁵ Viri, Natalia(2021) Tokens de impacto: cómo Gaia quiere expandir el acceso al mercado. Reset. <https://www.capitalreset.com/tokens-de-impacto-como-a-gaia-quer-ampliar-o-acesso-ao-mercado/>

²⁶ Ibid.

contributions made by traditional corporate investors to impact-oriented projects, such as SOMA and MST. On the other hand, offering the possibility to new minority investors to make investments at very low prices, despite how expensive it is in terms of the minimum processing costs required for such transactions, has democratized participation in the capital market.

"We are adding an element of compassion to investments. The only way for us to survive as a planet and as a community is to make compassion a part of the way people think and act, as well as how they invest." João Pacífico, CEO, Gaia Group

In terms of the social results achieved, the MST financing project has impacted 38,104 families through CRAs issued in favor of cooperatives belonging to MST. Gaia will build on this impact model to extend its reach and continue to benefit more farming families throughout the country.

With respect to SOMA, the first construction stage made access to decent housing to 110 low-income families possible, and it also laid the foundation for consolidating an inclusive housing model, which can continue to grow. A second stage called SOMA 12, is being planned at the moment with 12 properties, which will house 1,800 families.

Implementing new investment approaches in the capital market has been challenging for Gaia. Mainly, the costs involved in structuring the projects required participation from all the capital market parties and the introduction of new actors, which entailed expenses in both cases, particularly when processing the smallest of legal requirements. Nevertheless, Gaia is committed to continue its efforts to democratize participation in the capital market, and it plans to continue using new technologies such as *blockchain*, to make procedures easier and decrease impact investments operations costs for different sizes and scopes.

"In Brazil, many investors say: 'If earned interests remain the same, then I will make an investment in impact'. Those investors are not interested in impact investments; therefore, we need to adjust the terms from the impact side -not from the returns side- when we sell these projects. We need to touch investors hearts and show them the impact the projects can have". João Pacífico.

Gaia's current challenge, considering that it is only going to participate in social and environmental impact investments, is to go beyond the securitization and structuring of projects to start managing funds as such. In this sense, it expects to create a new company within the group to make investments in future projects, projects like MST and SOMA, which have the possibility of replication.