

Catalytic Capital | CASE STUDY

Yunus Social

Business Brasil



SUMMARY

Yunus Social Business Brazil (YSB) provides catalytic capital to sustain and accelerate the growth of social businesses. YSB's main goal is to finance and boost social businesses' impact and sustainability, offering flexible concessional loans with affordable interest rates and long-term maturity, along with non-financial support such as mentorship and networking.

The due diligence process incorporates global guidelines and takes into account various factors such as sector, business, and company risks, as well as the financial model projected over five years, and involves a Theory of Change (ToC) with defined outcomes and outputs. YSB targets Small Businesses (SBs) with, at least, US\$ 202K¹ sales per annum, validated business models, recurring sales, and no cash burn) but are ready for growth. The loan helps SBs to grow and sustain themselves over time. It also serves as a pedagogical tool to strengthen the capacity of SBs and their administrative and financial information, enabling them to access formal credit, new investors, and new clients with more sophisticated contractual structures.

Assobio, a social business focused on reforestation and forest monitoring services in Brazil, received a loan from YSB in 2016 consisting of a single tranche of 260.000 BRL, equivalent to less than 65.000 USD. During the term of the loan, Assobio grew 5X and maintained a 0 % default rate. YSB also provided non-financial support through its NFS network, including mentorship, legal support, branding, and connections to new clients, which resulted in Assobio securing a US\$ 202K reforestation contract in the Brazilian savannah with high commercial value. In terms of impact, Assobio has planted more than 920.000 trees, contributing to the preservation and restoration of the environment. Assobio's success with YSB positioned them for further expansion, and they worked with a consulting firm to identify additional investors.

1.
1BRL= 0.20241 USD
Reference exchange
rate on April 17, 2023.



Country: Brazil

Total assets under management:
4.5 million USD
disbursed from
2016-22.

Form: Price, Patience, Purpose

Ticket size* (Assobio):
US\$ 53K

* Currently YSB offers loans
from US\$ 101K until US\$ 809K

Role: Scaling (Strengthening and accelerating social enterprises)

Use: Working capital, investment for growth (sales, marketing, technology)

Results:

Expanding and amplifying positive social and environmental outcomes

BACKGROUND

In 1983, Professor Muhammad Yunus, Nobel Peace laureate, founded the Grameen Bank in Bangladesh. The bank was revolutionary in its approach to microcredit, providing small loans to poor women at much lower interest rates than those offered by traditional lenders. Prof. Yunus went on to conceive the concept of social business, which involves creating businesses to solve social problems and reinvesting any financial returns to multiply the impact of the business.

Over time, the initiatives led by Prof. Yunus expanded to address various challenges faced by the poorest

and the planet. In 2011, he and Saskia Bruysten founded Yunus Social Business Global (YSB) to expand the success of social business from Bangladesh to the world. YSB's impact investing funds focus on businesses that direct their products and services to the bottom of the pyramid, particularly emphasizing job creation, education, agriculture, health, water, and clean energy. YSB manages patient capital, with a focus on growth and post-investment support, and is managed by a local team of professionals with extensive experience in consulting, banking, and manufacturing.

In 2013, Yunus Social Business Global expanded to Brazil with the creation of Yunus Negócios Sociais. Like YSB, YSB Brazil focuses on providing patient capital with a focus on growth and post-investment support. Their goal is to create a sustainable alternative for entrepreneurs, investors, and large corporations committed to businesses that generate positive impact. Their investors are primarily local high-net-worth individuals and families. YSB Brazil manages around USD 4.5 million and seeks to generate impact and returns below market rate, with an average ticket size per investment of around USD 500,000.

As of 2022, YSB Brazil has invested in 13 social enterprises working in education, employability, health, and the environment. They tend to invest in service firms since they have light assets and higher margins. YSB Brazil seeks to provide donors and investors with an alternative to grants, ensuring that their resources have the potential to be reinvested to generate more impact. In the future, they plan to create a blended vehicle that will allow them to use philanthropic capital to attract more investors and double the amount of assets under management while providing higher returns.



Theory of Change

YSB's Theory of Change (ToC) is focused on the power of business to create social and environmental impact and to end poverty and the climate crisis, while also supporting decent work and economic growth. To achieve this change, YSB is always focused on the base of the pyramid population, which is defined as people who are typically excluded from mainstream economic activities. YSB targets this population by investing in social businesses with proven business models that provide basic services such as education, financial services, and sanitation, or services that promote employability, such as agriculture.

To implement its ToC, YSB uses two key approaches: Yunus Investments and Yunus Corporate Innovation. Yunus Investments provide flexible loans, or "catalytic capital," to social businesses that prioritize impact over financial returns, helping them to scale and grow sustainably. YSB's focus on patient capital and non-financial support such as mentorship and connections help social businesses to achieve long-term success and greater social and environmental impact.

Yunus Corporate Innovation, on the other hand, helps corporations to transform their operations into a force for good by developing sustainable and socially responsible business models. By doing so, corporations can create positive social and environmental impact while also generating profits.

Overall, YSB's theory of change recognizes that social and environmental challenges require innovative approaches that combine business with social impact. By providing catalytic capital and support to social businesses and working with corporations to create sustainable business models, YSB is contributing to the larger goal of creating a more just, equitable, and sustainable world.



YSB's Theory of Change

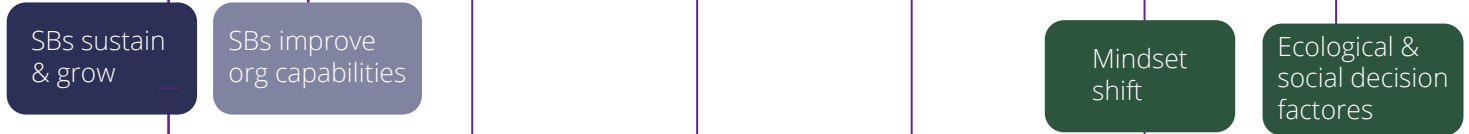
Activities



Output



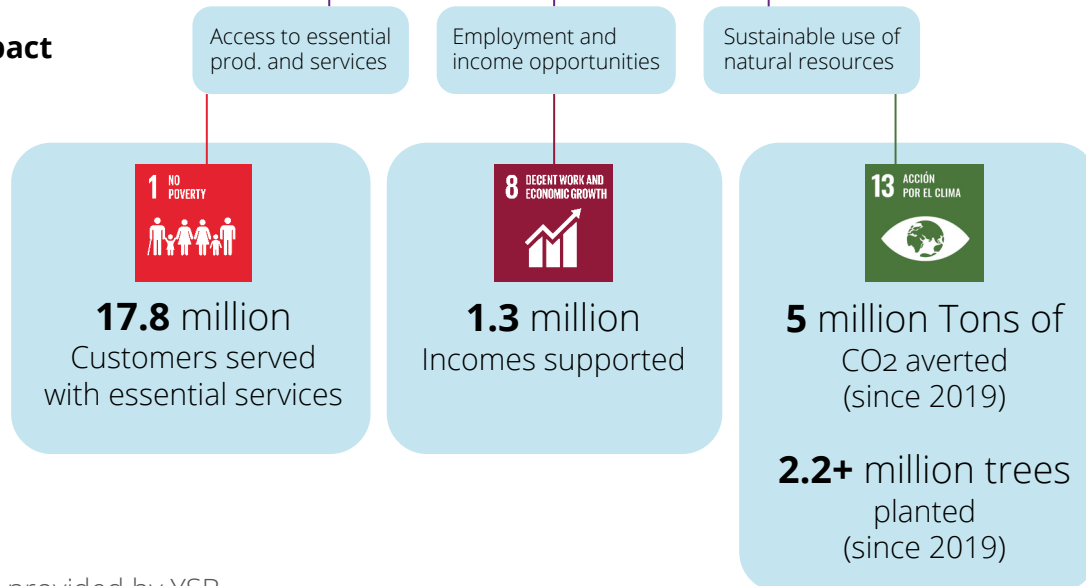
Outcome



YSB Impact



Portfolio Impact



Sourced: provided by YSB -
(Blue: Funds, Green: Corporate innovation)

Snapshot of what a social business model is.

A social business works like any other company with the difference that it is created to exclusively solve one or more social or environmental problems.

Products and services created with this focus generate revenue to cover operating costs and make the company financially self-sustaining. Depending on its financial modeling, a social business can solve the problem it was created for and be very profitable. In any case, the profit obtained is always reinvested in the business itself, or in another, to give more scale to the solution found and ensure the circulation of resources.

Social businesses combine the positive impact of philanthropy with the means and financial sustainability of entrepreneurship.

Success is not measured by the financial return to shareholders, since there is no distribution of dividends, but by the positive impact caused in people's lives combined with the financial sustainability of the company, which multiply as the

business grows - after acceleration or investment, for example.

The 7 principles of Prof. Muhammad Yunus for a social business:

1. Purpose is to solve a societal problem (such as poverty and health), not to maximize profit;
2. Financial and economic sustainability;
3. Investors receive only what they invested, without the right to dividend distribution;
4. Profit must be 100% reinvested in the company to expand operations and increase its social impact, rather than distributed as a dividend;
5. It must be environmentally conscious;
6. Employees get wages compatible with the market and good working conditions;
7. Do it with pleasure!



Geysa Borini e Marina Andrade

Assobio

BACKGROUND ON INVESTEE

Assobio is a social business focused on reforestation and forest monitoring services in Brazil. It was founded with a social and environmental mission to preserve and replant forests, with a particular focus on using native seedlings. It has preserved over 600.000 hectares of forests, and it works with local communities, involving them in the process of planting and maintaining the forest. The company provides education and training opportunities for the most disadvantaged people in the local community, offering training courses for children and youth in the reforestation chain and socio-environmental education activities.

It also generates revenue by helping companies invest in reforestation projects, either because they are required by law or wish to compensate voluntarily for their negative impacts. In turn, it provides local employment opportunities by hiring people that plant and look after the plants and ecosystems. The company's focus on the reforestation of forests with native species is part of its business model, which proposes to work with the entire value chain of reforestation locally and regionally.

Assobio is a self-sustaining business that generates profits, but its main concern is not profit maximization. The company was designed as a social business that aims to potentialize its social impact. In 2015, it was selected to participate in the Yunus Social Business Brazil acceleration process, which aimed to consolidate its business model as a social business. In 2016, they received investments from the Yunus Brazilian Investment Vehicle, which helped establish the Center for Reference and Multiplication of Knowledge in Native Forests in the Botucatu Technological Park.

The voluntary market was not mature at first, but after five years it began to grow, with more companies using Assobio, more government regulation, and a more mature and trustworthy carbon market.

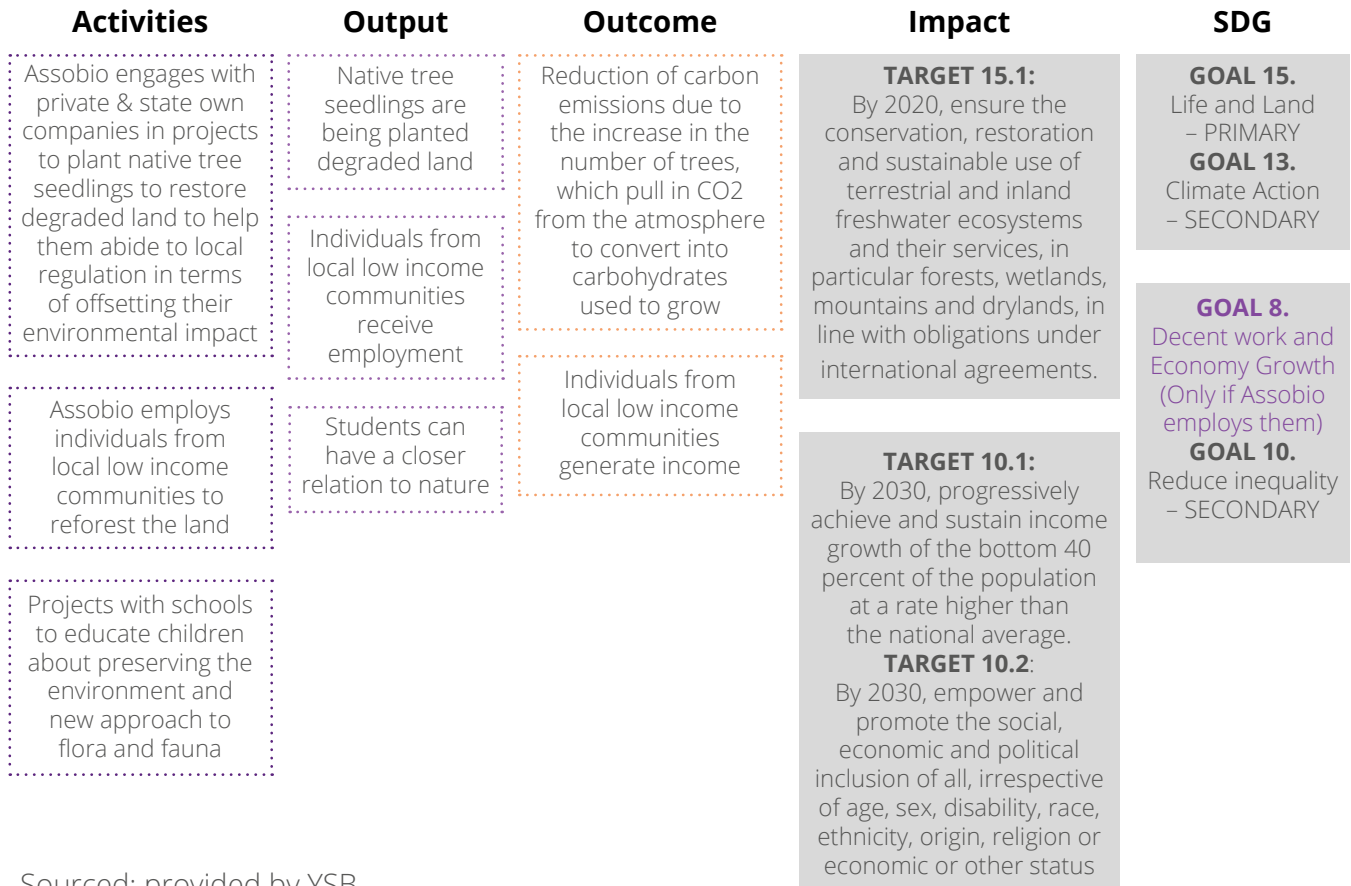
It was very important for Assobio that in a similar period of time, the support of Yunus and increased government regulation on environmental issues created the conditions to think about new business lines. This, in turn, demonstrates the importance of working with dynamic companies that are pioneers and constantly analyze their environment to find new opportunities.

Revenue Lines

1. Reforestation compensation. Reforestation of areas to offset carbon emissions. Especially for companies in the energy and construction sectors that, by government order, must mitigate their impact.
2. Voluntary compensation. Reforestation or carbon credits for organizations that decide to invest in environmental conservation.

Sourced: Based on interviews

YSB's Theory of Change



Sourced: provided by YSB



DUE DILIGENCE

Yunus Social Business Brazil (YSB) provides catalytic capital to sustain and accelerate the growth of social businesses in its portfolio, including Assobio. YSB's main goal is to finance and boost social businesses' impact and sustainability. To achieve this, YSB offers flexible loans, which are concessional loans with affordable interest rates (10% annually) and long-term maturity (5 years). Additionally, YSB provides non-financial support to financed enterprises, including mentorship and networking. YSB prioritizes the growth and impact of the social businesses in its portfolio.

Investors with philanthropic interests can invest in YSB and support social entrepreneurs that generate social and environmental impact. In return, the investors will not receive market-based financial returns, but they will have an alternative to preserve their capital while financing sustainable and high-impact social businesses. YSB aims to offer simplicity in matching investors' impact goals and risk-return expectations with sustainable and high-impact social businesses, providing additionality to investors.

The due diligence process, which takes three months to complete, incorporates global guidelines. It takes into account various factors such as sector, business, and company risks, as well as the financial model projected over five years. An investment committee approves the loans, and the company provides personal and debt guarantees to ensure

its commitment and seriousness. The process also includes a review of legal risks, although they do not require audited financial statements, credit history, or real-asset guarantees.

The process also involves a Theory of Change (ToC) with defined outcomes and outputs, such as key performance indicators (KPIs) on education and employability in the forestry sector. Impact KPIs are reviewed every six months. The process targets Small Businesses (SBs) with at least US\$ 202K sales per annum, with proven sales traction, interesting models, and business model potential for scale-up. The process requires a validated business model, recurring sales, and enterprises that have no cash burn but are capable and ready to grow.

Given these limitations of a small business, the loan also serves as a pedagogical tool to strengthen its capacity, as well as its administrative and financial information. The acquisition of greater maturity in legal, financial and commercial matters allows them to access formal credit, new investors and new clients with more demanding contractual structures.

Professional staff that are close and familiar with the SB's business model carry out the process. Overall, this process involves a rigorous and detailed evaluation of small businesses to ensure that they have the potential to grow and succeed in their respective sectors.

Deal Structure

The deal structure between YSB and Assobio involves a loan in 2016, consisting of a single tranche **of 260k BRL, which is equivalent to less than US\$ 53K** . The loan is subject to monthly amortization. YSB accepts more risk per financial return relative to the social Businesses’ financial projections, and no asset-based loan guarantees are required.

The instrument or vehicle type used for this deal is flexible loan including a 10% interest rate spread over the inflation rate and a six-year term, with a grace period of one year. In addition, YSB also provides non-financial support to social businesses, which includes connections, mentorship in marketing, impact management, and measurement, as well as legal support. YSB also introduced Assobio to future clients, such as Grupo SOMA.

Overall, the deal structure involves a combination of financial and non-financial support designed to help social businesses succeed and grow. The financing is provided by a diverse group of investors, with a focus on HNWI, family offices, private banks, and corporations with an endowment.

The table below shows the terms of the YSB loans, demonstrating two fundamental aspects of catalytic capital: (1) the assumption of greater risk by prioritizing the impact on return, and (2) the use of concessionary capital at lower interest rates and for a longer period of time:

Terms and conditions		
Categories	YSB	Traditional banking
Loan interest rate	Inflation + 10 points	Inflation + 30 points
Loan duration	5 years	2-3 years
Grace period	1 year	Up to 6 months
Non-financial support	Provided	Is not provided
Collateral	Personal guarantees, receivables	Real assets (ex. house)

Sourced: Based on interviews

In order to protect YSB portfolio from default during COVID, it provided 4-6 months payment grace periods. Donations of US\$ 202K were made to the portfolio companies in order to provide short-term working capital and to avoid bankruptcy

RESULTS AND IMPACT

Assobio experienced significant growth during YSB's loan, growing 5x and maintaining a 0 % default rate. YSB also provided non-financial support acting as a catalyst for various processes, such as:

- Strengthening or creating new skills in the entrepreneurs and their social business through mentoring and accompaniment, YSB strengthens Assobio's financial, legal, and administrative skills, enabling it to present itself to other types of investors at a later stage.
- Strengthening its business model, impact measurement, and management practices. In this way, it helps Assobio to be more solid and to establish its growth plan in an orderly manner, in addition to preparing it to face more demanding negotiations.
- Give visibility and credibility. The YSB brand provides a "seal" of reputation and credibility, which is useful for Assobio when seeking new clients or participating in prizes
- Enable new connections that allow the social business to grow. In the case of Assobio, these connections allowed them to obtain a US\$ 202K reforestation contract in the Brazilian savannah.





Results	
Growth	5x
Loan interest rate	0%
Loan duration	US\$ 202K

Sourced: Based on interviews

In terms of impact, since its inception, Assobio has planted more than 920,000 trees in 600 hectares of reforested area, contributing to environmental preservation and restoration. The impact is being measured by the number of trees planted and the area reforested.

Assobio's success with YSB positioned them for further expansion, and they worked with a consulting firm to find additional investors. However, they exited the YSB portfolio in 2022, and they have not required follow-on investments to continue their growth.

Overall, YSB has helped them achieve significant growth and impact while maintaining a sustainable business model. Impact is measured by the number of trees planted and the area reforested, and Assobio's success has positioned them for further expansion.

SDG	KPI	2014-2022	
Sustained, inclusive and sustainable economic growth	 8 DECENT WORK AND ECONOMIC GROWTH	Number of lives impacted	1.864
		Quality jobs for local communities	134
	 10 REDUCED INEQUALITIES	Women employed	38%
Environment preservation	 13 ACCIÓN POR EL CLIMA	CO2 Captured	179.154 tons
	 15 LIFE ON LAND	Hectares preserved	550 per month
		Number of native trees planted	926.295

Sourced: Based on interviews

LESSONS LEARNED

- **Deploying financial and non-financial resources generates significant growth outcomes for social businesses.**

While the focus on catalytic capital is on the capital itself, Assobio emphasizes that the loans that allowed them to scale enabled their growth not only because they had the necessary economic resources, but also because of the relationship that developed between them and YSB. They mention the value of these relationships in strengthening their skills and management practices, their business model, and signaling legitimacy, which led to introductions to other investors and new clients.

While access to capital is critical for small businesses, it is often not enough on its own to ensure long-term success. Non-financial support can provide small businesses with the tools and resources they need to effectively manage their finances, operations, and growth.

- **In emerging and developing markets, many social businesses face a significant challenge in accessing the capital they need to succeed.**

In some emerging and developing markets, the legal and regulatory environment can be uncertain or unstable, making it difficult for investors to navigate the legal and administrative processes required to invest in social businesses, which can lead to delays, additional costs and increased risks.

In addition, many social businesses often face a lack of access to investors or intermediaries, particularly if they operate in sectors or industries that are perceived as risky or unproven, such as healthcare, education or renewable energy. This perception of risk can make it difficult for investors to allocate capital to these businesses, particularly if they are relatively small and lack the track record, collateral or creditworthiness required by traditional lenders. As a result, they may have difficulty obtaining loans or other types of financing from formal financial institutions, and even when they are able to connect with investors, they may face additional challenges, such as a shortage of knowledge or experience in effectively processing financial information, which can hinder their ability to secure financing.

- **There is a great opportunity for investors to provide patient capital to help small social businesses bridge the gap between grants and commercial loans.**

Patient capital allows small businesses to focus on long-term growth and impact without the pressure of meeting short-term financial deadlines. It enables them to experiment, innovate, and invest in building their businesses for sustainable growth. This type of capital also helps to bridge the gap between grant funding and commercial financing, providing entrepreneurs with the resources they need to scale their businesses and bring positive social and environmental impact.

Furthermore, patient capital aligns with the values and goals of many small business owners who prioritize impact alongside financial returns. Patient investors are willing to accept lower financial returns in exchange for the potential for higher social and environmental impact. This type of financing can help small businesses to achieve their impact objectives while also creating sustainable business models that generate long-term financial returns.

- **Explore the potential of concessional loan vehicles with returns just above inflation rates as a way to balance impact and financial sustainability.**

The approach taken by YSB can serve as a model for others looking to trade returns for impact and create a sustainable financing mechanism that can be scaled up over time.

It is essential to continue to experiment with different financing mechanisms and partnership models to find effective ways to mobilize financing for impact and address the financing gap for the missing middle.

- **When scaling a business, it is important to be close to break-even.**

When scaling a business, it is important to be close to breaking even because it demonstrates that the business model is working, and it is sustainable. A company that is not profitable and relies heavily on external funding may face challenges when trying to scale up its operations. To make a real impact on a company's growth, it is necessary to analyze its maturity before granting a loan. Investing in scaling a venture when key resources, such as the work team, are not available to leverage momentum can lead to the loss of the investment and irreversible damage to the business.

- **Having local teams allows organizations to better understand the needs of the environment, the opportunities, and the unique characteristics of social enterprises to enable their growth.**

Local teams bring valuable knowledge, expertise, and understanding of the community that can help ensure that the project is tailored to meet the community's specific needs. They can help build trust and credibility with local stakeholders, create employment opportunities, and ensure the long-term sustainability of social projects. In addition, local teams are often more cost-effective than bringing in staff from outside and can help achieve meaningful and lasting impact for communities in need. to leverage momentum can lead to the loss of the investment and irreversible damage to the business.

- **Non-traditional strategies to mitigate risk contribute to ensuring capital reaches social businesses in adequate terms.**

Due diligence is a critical step in the social business lending process. It involves a thorough evaluation of the business to determine its financial and operational stability and potential for success. By identifying and assessing the risks, the viability of the business, and its potential for success, YSB was able to make informed decisions about granting the loan and the terms of the loan, including the interest rate and repayment schedule, to avoid defaults and significant losses.

Similarly, due diligence ensures that the loan is used for its intended purpose and contributes to the growth and achievement of social and environmental impact goals. For this reason, YSB established monthly meetings to guide Assobio in its scaling process, moving from a strictly transactional relationship to non-financial support.



Latimacto

Latimacto, 2023