



Din4mo and Programa Vivenda

Blended finance to fund house renovations

Programa Vivenda makes low-cost house renovations for low-income families in Zona Sul, São Paulo. This success model face a significant challenge: eligibility for these renovations—BRL 8000 (USD 2200) each—was limited to families that could pay up front and by its own ability to finance some of the projects. Din4mo, Grupo Gaia, and Tozzini Freire Advogados worked so that more families could renovate and improve their health, work, and well-being.

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LOCATION

National - Brazil



MAIN PARTNERS:

- Fundo Zona Leste Sustentável
- Professional investors Din4mo
- Grupo Gaia
- Tozzini Freire Advogados
- Itaú Private Bank



DURATION:

2018-2028

(maturity of the security issued)



SECTOR:

- Housing and community development;
- Financial services



TYPE OF INVESTOR/SILO:

Professional services firms



END BENEFICIARIES:

People living in poverty and extreme poverty



MOTIVATION/ PROBLEM TO TACKLE:

Access to capital in order to finance housing for low-income people



NON-FINANCIAL SUPPORT OFFERED:

- Business model and/or strategy
- Financial management
- Governance



SDGS ADDRESSED:



TYPE OF FINANCING:

Blended finance, debt security (one senior tranche and two private tranches).

RESOURCES INVESTED OR DONATED:

USD 1.4 million

IMPACT:

USD 1.4 million

raised from private investors. Fundraising involved private investors (individual persons) and a philanthropic investor—hence its characterization as blended finance. The impact of the renovations constitutes an improvement in the residents' perception of privacy, sociability, self-esteem, cleanliness, and health, as well as transformations in other areas of the beneficiaries' lives.





BACKGROUND AND CONTEXT

In Brazil, there are more than 40 million people whose homes are in need of some type of renovation to be considered appropriate housing. Many of these families inhabit the outskirts of large cities. Programa Vivenda operates specifically in the southern area of São Paulo by undertaking low-complexity renovations at affordable prices.

Renovations by Programa Vivenda are approximately USD 2200, which makes it difficult for families to pay up front. Payments in installments—which are financed by the traditional financial market—are often unviable because of their amounts and the high interest rates applied (they are basically non-existent due to a lack of credit supply in the market for those families).

Financing offered by Programa Vivenda also constituted a challenge because of its difficult access to the financial market, the size of the business, and the risk involved in its operations. It was then suggested that a framework be built—allowing for fair credit conditions that are directly accessible to low-income families and the use of private equity to finance the renovations.

The solution, which culminated in the issuance of a social bond, enables private investors to finance the Programa Vivenda renovations, while allowing them to receive interest payments.



DESCRIPTION

Programa Vivenda is a social business focusing on making the dream of a good-quality house come true in the outskirts of São Paulo. The main product of the business is the planning and execution of low-complexity renovations for the houses of low-income families. Since it was founded in 2014, Programa Vivenda has made more than 2000 renovations in the surrounding areas of the southern part of São Paulo, benefiting more than 6000 people.

The types of renovations offered include finishes (paint, floor, cladding, etc.), plumbing, mold and moisture treatments, window and door installation and replacement, space remodeling, and alterations to ensure accessibility for the elderly or people with disabilities.

Din4mo and Grupo Gaia, in collaboration with Tozzini Freire Advogados law firm, planned and organized the issuance of the social bond. The distribution among professional investors was handled by Itaú Private Bank. The end investors for this product are clients of Itaú Private Bank and Fundo Zona Leste Sustentável.

Din4mo is a B Corp venture builder that supports and invests in impact businesses and offers advice in hybrid and blended-finance instruments. Moreover, it closely supports non-for-profit organizations that offer social-housing solutions in urban centers and their outskirts.

Grupo Gaia, a B Corp founded in 2009, specializes in securitization for the Brazilian market. Among its business activities are real-estate securitization, agribusiness credit securitization, real-estate and agribusiness credit management, and financial credit securitization. It also has a social-impact investment arm.

Tozzini Freire Advogados is a law firm with a sectoral-group structure and international offices comprised of lawyers that are considered to be experts by the market and by major national and international publications. The firm, established in 1976, features a group exclusively devoted to sustainable and impact investment.

Itaú Private Bank is the private-banking arm of Itaú Unibanco. It is the market leader in Brazil, managing more than BRL 500 billion (USD 127 billion).

Fundo Zona Leste Sustentável (FZLS by its initials in Portuguese) is an association seeking to stimulate innovative social businesses and channel resources from natural persons and legal entities toward initiatives that may create local sustainability-driven businesses. FZLS features the participation of local actors and the public and private sectors in its management bodies. It was created in 2010 by Fundación Tide Setubal and Instituto Alana.



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IMPLEMENTATION



Tailored Finance

The financial instrument designed for the program was a social bond (a security whose main functions are intentionality and positive social-impact generation). An arm of Grupo Gaia—Gaia Cred II—attracted BRL 5 million with a 10-year term, a 5-year grace period, and a yearly interest rate of 7%.

The distribution followed a blended-finance model with two distinct types of investors in different offers: investors in the ICVM476 offer ([Instrucción CVM 476](#))—clients of Itaú Private Bank—allocated USD 821,000 to a senior tranche with more guarantees and a higher payment priority; private offers contributed USD 547,000—subordinated and without any guarantee—running a higher risk of loss in case of default and, thus, lowering the risk of the senior tranche.

The aforementioned gave Programa Vivenda's clients several direct-financing possibilities, with terms up to 30 months and interest rates of about 2% per month. This was in line with what it intended to provide, with monthly installments of USD 41–68, suitable for the families' average income. A mortgage company is in charge of the financing contracts and transfers the credits to Gaia Securitizadora, which in turn pays Vivenda for the services provided and takes the credit risk.

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Non-financial Support

The initiative required much non-financial support to all collaborators involved in the operations. Part of that support consisted in developing an innovative and strict credit policy drawing on Din4mo's experience. Derived from a model that was initially based on microfinance and was created as a separate area from the commercial section. A special algorithm was developed, together with a unique credit policy suitable for the clients' profile and even including the possibility of providing credit to people who were denied it at traditional offices. Lastly, a policy and a culture of default-rate follow-up were implemented.

“Entrepreneurs are well aware of the importance of the default rate. If the social-bond transaction appears to be unviable, there is no second chance. At Vivenda, success means knowing how to purchase right, making high-efficiency renovations, and knowing who to finance.” Marco Gorini, co-founder of Din4mo.

There is also strategic support that began before the bond issuance, as Din4mo was already investing in the initiative.

“They started to build capacity to ensure high efficiency and productivity and integrating technology, which allows for a new vision regarding the scalability of operations.” Marco Gorini.



RESULTS

Since it is the first Brazilian social bond, this case introduces several noteworthy innovations:

- 1...Exclusive use of private capital: This characteristic was internationally rewarded because of the unprecedented fact that a significant amount is raised for an innovative startup by only using private equity, without any intervention by the public sector or the need for legal innovation for its viability.
- 2...Blended finance: The use of philanthropic capital to assume part of the risk is another relevant factor. It lowers operational risks, facilitating distribution among private investors and multiplying the impact potential of the philanthropic capital.
- 3...Bottom-up design: The entire structure is designed so that granting credit to families is viable within the pre-set maturity, installment, and interest-rate parameters.
- 4...Securing resources before granting credit: Resources were captured and kept in a segregated, protected structure to be used once families are clear to receive the credit. This way, there is no risk of lack of resources or bearing the brunt of economic volatility—which often limits access to credit.
- 5...Long-term resourcing: The 10-year-maturity social bond enables resources captured through the repayment of a family’s debt to be used to grant credits to other families.

- 6 Securing resources with the same interest rates for both tranches—mezzanine and senior—even if risks are differentiated and higher for the mezzanine tranche. This aspect is highly relevant as it means that mezzanine investors' return perception goes far beyond the interest rates, incorporating the return of the impact generated as an element of the value-for-risk perception.

Vivenda frequently submits standardized reports as part of a pre-established agenda, including operational, financial, and default indicators.

"Vivenda does not formally measure impact. What it does measure is the number of renovations, and it visually communicates what is done." Marco Gorini.

Two thousand housing renovations have been made, serving more than 6000 people. The initial forecast for the debenture was 6000–8000 renovations, impacting 24,000–32,000 people over the next ten years.

In 2016, Instituto Phi did some research to understand the social impact of the renovations undertaken by Programa Vivenda. Of all the challenges that concern the residents of those neighborhoods (rent, sanitation, violence, etc.), the need to make renovations in their homes is the main one, given that homes are the primary space for safety, leisure, and comfort. The impact perceived by the beneficiaries includes more privacy, sociability, self-esteem, feeling of cleanliness, improved health, and the beginning of important transformations in other aspects of their lives.



LEARNINGS AND PERSPECTIVES

The suggested solution was to create a structure that allowed, on the one hand, for fair and accessible credit conditions for low-income families and, on the other hand, for the use of private equity to finance renovations. The cost of each renovation and the families' income revealed the need to develop a financing mechanism with terms of up to 30 months and interest rates of around 2% per month, with monthly installments USD 41 to 68—suitable for the families' average income.

This posed new challenges, the first being the design of the structure itself in terms of its legal viability and its attractiveness to investors. Law firm Tozzini Freire responded to this challenge after long deliberations and the assessment of potential mechanisms within the Brazilian capital market.

“What really made the issuance possible was finding the right collaborators, who bought the dream and agreed to get on board. Thus, the technical challenges were overcome, with people saying: ‘We can do this; we will find a way.’” Marco Gorini.

Another challenge was to attract private investors who generally avoid taking risks—to the transaction, with rates and installments that allowed for credit provision within the families’ payment capacity; also, with a vulnerable market, with high informality rates, and with unsecured loans in a context of great information asymmetries. The solution consisted of the rigorous structuring of an investment mechanism with risk and governance controls; it also consisted of blended finance, with one investor for impact taking the highest risks and thus minimizing the risk for private investors.

The challenge derived from blended finance was designing a model that adapted to the investor for impact nature and investment capacity and convincing this type of investor—who seldom buys debt or shares—that their participation in the business would leverage the impact of their capital by enabling the attraction of more capital.

Given the unprecedented nature of the operation, the entire process lasted 18 months long, from the beginning to the effective issuance of the social bond. The project showed that it was viable to opt for blended finance to boost social businesses in the Brazilian regulatory environment. The debt’s maturity is 10 years, which means it is too early to assess the full success of the operation.

Most stakeholders involved in the structuring and distribution stages of the process worked pro bono or at below-market costs for the sake of low-income families. Structuring this kind of operations while paying all stakeholders within traditional-market parameters remains a challenge.



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