Venture Philanthropy and Impact Investing – A BMW Foundation Workshop for Brazilian Foundations and Institutes
Introduction

On October 26–28, 2016, the BMW Foundation brought together representatives of 13 Brazilian foundations and institutes to share experiences and challenges around venture philanthropy and impact investing.

The BMW Foundation is part of the Innovation Lab on Social Finance, an initiative of the Social Finance Task Force, represented by its executive board composed of ICE (Instituto de Cidadania Empresarial), SITAWI Finance for Good, and Aoka Labs.

In 2015, the Brazilian Social Finance Task Force laid down fifteen recommendations to strengthen social finance in Brazil. As a result, the Innovation Lab on Social Finance was founded to deal more closely with four of these recommendations. One of them proposes that foundations should allocate five percent of their annual investments by 2020 to support the emerging field of social finance.

All in all, seven prototypes have emerged from the Innovation Lab, one of them addressing the role of foundations in this area. To initiate the project, a group of foundations was gathered to pull together resources and form a pool of capital that would facilitate experiments with new financial mechanisms for investing in impact businesses.

The Venture Philanthropy and Impact Investing Workshop for Brazilian Foundations and Institutes is part of this project prototype. A selected group of Brazilian foundations and institutes was invited, like Instituto Votorantim, Instituto InterCement, and Instituto Sabin. The main goal was to give an overview and reflect on the role of foundations and institutes in the field of venture philanthropy and impact investment. The aim was also to learn about possible mechanisms to provide funding to non-profits and impact businesses and share successful approaches, from equity crowdfunding to recyclable grants, and decide how they would like to allocate the pool of capital they created together.

“We want to move away from a situation where each organization thinks about the five percent goal individually, to an approach where we can encourage the field as a whole to experiment with new investment mechanisms and new mental models. And better still, we are doing it collectively.” – Celia Cruz (ICE – Corporate Citizenship Institute; Brazilian Social Finance Task Force).

Given the desire for innovation among the participating organizations, the BMW Foundation recognized this as an ideal time to encourage and empower them to adopt a venture philanthropy attitude to their investing, as a way of increasing the scale, depth, and sustainability of their impact.
Workshop Objectives

- Align understanding of venture philanthropy and discuss challenges and opportunities in Brazil
- Align understanding of impact investing and the project structure
- Select investment mechanisms and intermediary organizations
- Define project governance structure and next steps

Learning from the practical experience of the project was also highlighted as an important objective by the participants. Also, maximizing learning potential was a recurrent theme throughout the two days, appearing as an important consideration in many of the decisions taken.

Location and Facilitation

The location for the workshop was Sinal do Vale, a retreat space situated in a reforested Atlantic rainforest close to the city of Rio de Janeiro. Founder and director Thais Corral welcomed the workshop participants by explaining that her motivation was to explore the role of spaces in promoting collaborative transformation. The second day of the workshop began with the participants walking for around 20 minutes through the forest in silence, helping them to disconnect from their daily routines, focus their minds on the objectives of the workshop, and connect with their organizational and individual mission and values.

The workshop discussions were facilitated by AOKA Labs, a social enterprise based in São Paulo, that helps people and organizations to rethink reality, seeking new paths to build together a better future. They co-designed the workshop with a design base to tap collective intelligence through the Theory U. In addition to conceptual discussions and practical decisions, the agenda also included activities to deepen listening capacity and to reflect on the contribution of each organization and individual to the project as a whole. These moments, combined with structured and participative decision-making processes and the peace and tranquility of the location, were fundamental in helping the group to achieve all of the proposed objectives. This context also helped the participants to connect with each other on a deeper level, increasing trust and commitment as the prototype moves forward after the workshop.

Venture Philanthropy: Concepts, Challenges and Opportunities

“Venture philanthropy is about matching the soul of philanthropy with the spirit of investing.” – EvPA

Venture philanthropy is a high-engagement and long-term approach to generating societal impact, which can be expressed through six characteristics to support social purpose organizations:

- High engagement
- Tailored financing
- Multi-year support
- Non-financial support
- Organizational capacity-building
- Impact management/measurement

While presenting the conceptual framework, Sandra Ortiz Diaz from the BMW Foundation was careful to emphasize the importance of approaching venture philanthropy as a mindset to investing, rather than as a set of rules. When participants were asked before the presentation what came to mind spontaneously about venture philanthropy, responses ranged from purpose and impact, to adventure and innovation, to systematization.

“This is a great opportunity for foundations and institutes to experience new approaches to social purpose organizations, using a toolbox of financial and nonfinancial resources to help these organizations achieve a sustainable growth and long-term social impact.” – (Lorhan Caproni, Phomenta)
Observations on the current state of venture philanthropy in Brazil included:

- Very few organizations currently apply all six characteristics to their activities.

- The characteristics most commonly lacking are multi-year support and organizational capacity-building.

- The maximum timeframe currently considered for investments is around three years.

Several potential difficulties were highlighted:

- Organizations are reluctant to commit resources over the medium term, out of concern that investees may become dependent.

- Some participants explained how external and internal pressure to maximize resources reaching final beneficiaries has led to a reluctance to allocate funding to organizational capacity-building.

- Organizations operating in smaller municipalities in more remote areas have often chosen a development approach focused on communities rather than individual institutions. This approach means that they need to spread available resources over a range of organizations and projects within a specific community.

- As well as potential opportunities:
  
  - The venture philanthropy approach allows foundations and institutes to identify connections and potential synergies between their activities.

  - In a situation in which entrepreneurs may choose between different investors, the availability of non-financial support can be an important differentiating factor.

  - Measuring impact against targets that have been co-created with investees can provide a basis for decisions about continuity of funding, providing more clarity to both investors and investees, and helping to direct resources to where they can achieve the most impact.

“Venture philanthropy offers a systemic way of looking at our role as a foundation.” Cristieni Castilhos – (Fundação Lemann)

“Venture philanthropy offers a useful framework to integrate many of the ideas that foundations and institutes have already started to discuss and implement in Brazil, and allows them to identify connections and synergies between different kinds of support. The potential risk lies in organizations following one or two of the principles and already believing/communicating that they have fully implemented Venture philanthropy.” Ana Carolina Valesco (GIFE – Group of Institutes, Foundations & Companies)
Each foundation or institute will contribute 33,500 BRL (approx. 10,000 USD) to the project. They will transfer this amount to two intermediary organizations - one receiving grants, the other investment capital - who will make the investments in the impact businesses using one of the mechanisms outlined below. The financial returns on the investments will accrue back to the fund, and can then either return back to the contributors (in the case of those foundations that chose investment capital), or stay in the fund to be loaned out again.
Impact Investment Mechanisms

To support the group in deciding which investment mechanisms should be prioritized in the project, specialists from SITAWI and Broota – Brazilian investment managers – introduced several options:

- **Debt**: loans made to impact businesses. Loans are repaid over a specified period of time, with an adjustment for interest. The timing of repayments and interest rate applied vary according to a variety of factors, and in some cases can be adjusted over time to reflect financial and impact performance.

- **Loan guarantees**: agreement to cover payment of a loan to another lender, in case the recipient is not able to repay.

- **Equity**: purchase of an ownership stake in the business. Return on the investment depends on increase in value of the company, and is received when another buyer is found for the stake.

- **Convertible debt**: Also known as quasi-equity, this investment starts out as a loan, but can be converted into an equity stake later on if both parties agree.

- **Crowdfunding**: Funds from various investors are combined into one investment. Can be used for debt, equity or convertible debt investments.

In evaluating the available mechanisms, participants considered timeframe, potential for learning, business development stage, and investment size. The first and second criteria came up frequently as critical factors, and as such, the group decided to split the available resources between three different mechanisms: debt, loan guarantees and crowdfunded convertible-debt.
Intermediary Organizations

Intermediaries manage the investment process on behalf of investors. This involves identifying businesses to receive investment, calculating expected returns, negotiating investment terms with the potential investees, and monitoring financial and social performance. By accumulating experience and expertise in these processes, intermediaries help maximize the effectiveness and efficiency of the investments.

To select the intermediaries that would allow the group to make investments most aligned with the project objectives, the participants discussed several criteria:

- **Management fees**: collected by the intermediary as compensation for their work. Can be a fixed amount, a percentage of the amount invested, or linked to the financial and social returns achieved.

- **Ticket size and mechanisms**: Intermediaries tend to focus on specific mechanisms or investment ticket sizes, for strategic, operational, and financial reasons.

- **Social impact focus**: Some intermediaries focus on specific market sectors or types of social impact, allowing them to build up specific knowledge and networks in these areas. It is also important to understand how the intermediary measures the impact of the investments.

- **Possibility of adapting selection criteria to the specific needs of the project**: Some participants expressed an interest in having a say over the specific investments that the intermediaries would make. Since this would slow down the process, it was agreed with the group that, for the purposes of this project, the intermediaries should be free to invest in the companies already in their respective pipeline.

- **Experience of the organization and its team**: Some participants preferred to work with new intermediaries, as a form of contributing to the development of the social finance field, while others preferred to trust in more experienced players that would maximize potential for learning from the investment experience.

Due to the legal difficulties for foundations to invest, the group chose two ways to transfer the investment according to their needs and possibilities: through donation via SITAWI or investment via Brotta. Ultimately, they also chose three intermediaries that will manage the investment process: BemTeVi for loans, SITAWI for debt and loan guarantees, and DIN4MO for crowdfunded quasi-equity.
Project Governance and Next Steps

The participants worked together to design a governance structure that would allow for participative decision-making, maximize potential to learn through the experience while respecting the desired timeframe, and consolidate as well as disseminate learning to inspire others. As such, it was agreed that a part of the resources invested will be reserved for additional meetings and for knowledge production and dissemination.

The group defined four committees that will work interdependently to drive the project forward after the workshop:

- Coordination: guarantee the rhythm of the project and interaction between the other groups, and check if overall objectives are being met.
- Finance and operations: monitor the project budget, manage contact with intermediaries, and follow investment process.
- Knowledge management and external communication: consolidate learning for internal reflection and disseminate externally to inform and educate other players.
- Administrative support: manage internal communication to ensure alignment between participants, manage logistics for subsequent meetings.

Each group created a tasklist and timeline for the coming months.

The group defined the following timeline for the project overall:

November 30: final date for other interested foundations and institutes to confirm participation in the project.

December: the budget will be finalized once the total amount available is clear.

Until January 31: Participants transfer funds to the intermediaries.

Text: Rob Parkinson
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Participating Foundations and Institutes

Workshop participants
ANDE
BMW Foundation Herbert Quandt
Broota Brasil
Fundação Grupo Boticário
Fundação Lemann
Fundação Otacílio Coser
Fundação Telefônica Vivo
Fundo Vale
IDG-Instituto de Desenvolvimento e Gestão
Instituto Ayrton Senna
Instituto de Cidadania Empresarial (ICE)
Instituto EdP
Instituto InterCement
Instituto Oi Futuro
Instituto Phi
Instituto Sabin
Instituto Samuel Klein
Instituto Votorantim
SITAWI Finance for GoodPhomenta

Joined the group but could not participate in the workshop
Instituto Cyrella
Instituto Coca-Cola
Fundação Tide Setúbal

Joined post-workshop:
Childhood Fund
Fundação Raizen
Instituto Holcim
Instituto Vedacit