

### INNOVATIVE FINANCING MECHANISMS FOR SOCIAL IMPACT PERSPECTIVES FROM LATIN AMERICA AND EUROPE

June 10<sup>th</sup> 2020

#### 1. Context

Latimpacto and the European Venture Philanthropy Association ([EVPA](#)) launched the translation of EVPA's report *Financing for Social Impact – The key role of tailored financing and hybrid finance* into Spanish and Portuguese. The report analyzes how funding can be shaped to better support social purpose organizations to maximize their social impact and focuses on both tailored and hybrid finance. Additionally, two guest speakers were invited in order to show how hybrid finance was being put in practice in Latin America: Alexandre Lindenbojm from Wright Capital, Brazil, and Marta García from Social Finance, UK. This document identifies the main insights from this webinar.

#### 2. Why is this report is particularly important for the Latimpacto community?

- Tailored finance is one of the three core elements of Venture Philanthropy/Investment for Impact.
- There is a huge opportunity to learn and apply innovative finance instruments in Latin America as a way to maximize impact.
- Hybrid finance tools can be used to unlock more capital from other players across the continuum of capital (from grants to investments).

#### 3. Key Terms

##### What is Venture Philanthropy?

According to EVPA, Venture Philanthropy is a high-engagement and long-term approach whereby an investor for impact supports a social purpose organization (SPO) to help it maximize its social impact. This approach follows three core practices: 1. Tailored Financing, 2. Non-Financial Support, 3. Impact Measurement & Management

##### What is tailored finance?

Choosing the most suitable financial instrument(s) to support an SPO. These instruments include grant, debt/loan, equity, and hybrid financial instruments. The choice of the financial instrument(s) depends on a number of factors, such as the investor for impact's willingness to take risk, or the SPO's business model and stage of development. The report offers a three-step approach that allows venture philanthropy organizations select the adequate finance mechanisms.

##### What is hybrid finance?

Allocation of financial resources to impact-oriented investments combining different types of financial instruments and different types of risk/returns/impact profiles of capital providers. Hybrid finance seeks to increase both effectiveness and resources provided to SPO's, while reducing risks for investors. The report differentiates between financing vehicles and mechanisms.

## KEY TAKEAWAYS

### HYBRID FINANCING VEHICLES

→ *at fund level*

Funds developed to provide finance to SPOs in a more efficient way, while satisfying different risk/return/impact profiles of investors

### HYBRID FINANCING MECHANISMS



→ *deal-by-deal*

Financing schemes developed to increase the resources brought to impact-oriented investments by de-risking traditional capital (i.e. retail, commercial or public)

## What are some examples of financing mechanisms?

Guarantees schemes and outcome base mechanisms (including social impact bonds, development impact bonds, and social success notes) are all examples of financing mechanisms.

## 4. Speaker Key Insights

Speaker	Insights
 <p data-bbox="214 1052 344 1104">MARTA GARCIA Social Finance UK United Kingdom</p>	<ul style="list-style-type: none"> <li>▪ <a href="#">Social Finance</a> is a non-for-profit organization and member of EVPA that partners with the government, social sector and the financial community to find better ways to tackle social problems.</li> <li>▪ The first social impact fund in the world was launched in 2010 in the UK by Social Finance. Social impact funds enable national and local governments to partner with high-performing service providers by using private investment to develop, coordinate, or expand effective programs.</li> <li>▪ 75 social impact bonds have launched in the UK since 2010, and about 174 impact bonds have also launched in 27 countries, mobilizing USD450 million. Buenos Aires employability social impact fund is an example of this - a cross-sector collaboration aligned to promote employment opportunities for vulnerable youth.</li> <li>▪ In 2018 the Inter-American Development Bank launched a regional network around payment by results in order to promote this instrument, as well as to share best practices. Some lessons learned to date include:             <ul style="list-style-type: none"> <li>➢ Latin America tends to have larger scale social impact bonds than those launched in the UK.</li> <li>➢ Limited data available in Latin America limits impact measurement.</li> <li>➢ Rigid regulations impede more deployment of capital.</li> <li>➢ There is some negative perception that social issues should not have profitable business models.</li> <li>➢ Public sector has high turnover and low fiscal capacity.</li> <li>➢ Some distrust across sectors (private, public, NGOs) impede collaboration.</li> </ul> </li> </ul>
 <p data-bbox="214 1864 418 1919">ALEXANDRE LINDENBOJM Wright Capital Wealth Managemer Brazil</p>	<ul style="list-style-type: none"> <li>▪ Wright Capital is an independent wealth manager committed to wealth preservation of families and institutions. It requires clients to invest at least 1% of their liquid portfolio in impact investing funds.</li> <li>▪ Alexandre highlighted three case studies in Brazil:             <ul style="list-style-type: none"> <li>▪ Din4mo's Programa Vivenda was Brazil's first social impact debenture supporting the renovation of low-income housing. It used blended finance mechanisms to support the risks of the investment (first loss). The total amount of the offer was R\$ 5 million. The initiative is expected to have an impact on the lives of more than 32,000 people.</li> </ul> </li> </ul>

## KEY TAKEAWAYS

	<ul style="list-style-type: none"> <li>▪ Omidyar Network’s investment in EduK, a Brazilian edtech, allowed EduK to receive a second round of financing: Without this investment they would not have received additional funding since the expected returns were below market-based levels.</li> <li>▪ BTG Pactual, a wealth and asset manager, provided a guarantee scheme that allowed the government to purchase ventilators during the Covid-19 pandemic.</li> <li>▪ Alexandre also identified the following opportunities for the region:             <ul style="list-style-type: none"> <li>➢ Strengthen the venture philanthropy ecosystem in Latin America in order to increase risk capital.</li> <li>➢ Promote successful case studies in order to attract more investment capital for impact.</li> <li>➢ Promote existing funds that are not being taken advantage of (ex. Partnership for Forests, USAID, Althelia Biodiversity Fund Brasil, etc.)</li> </ul> </li> </ul>
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## 5. Resources

For additional information please see below some additional resources:



[Webinar presentations](#)

[Financing for Social Impact Report](#) (Spanish and Portuguese versions will be available next month at Latimpacto.org)

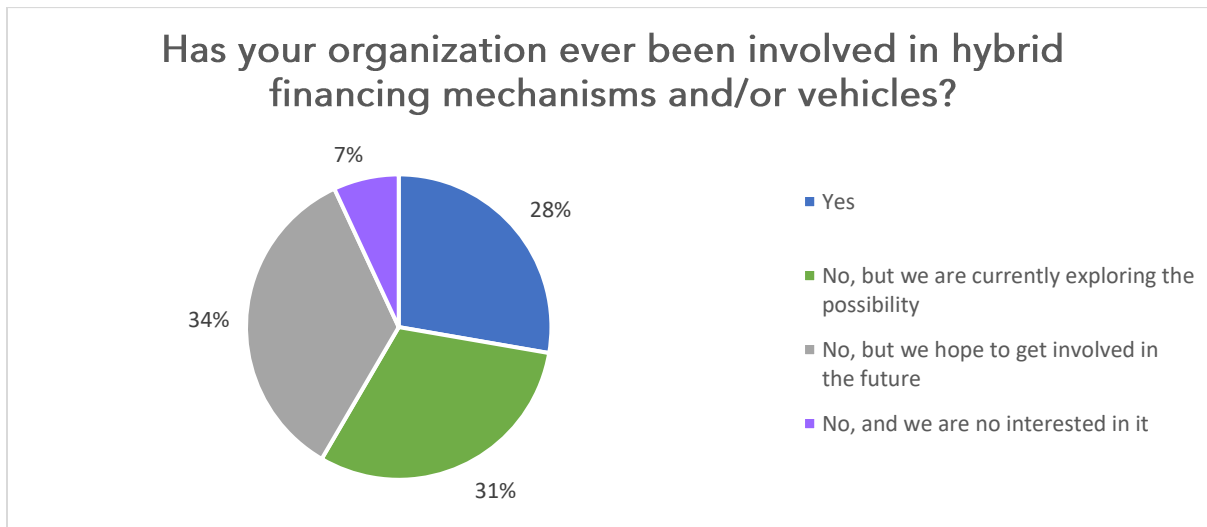
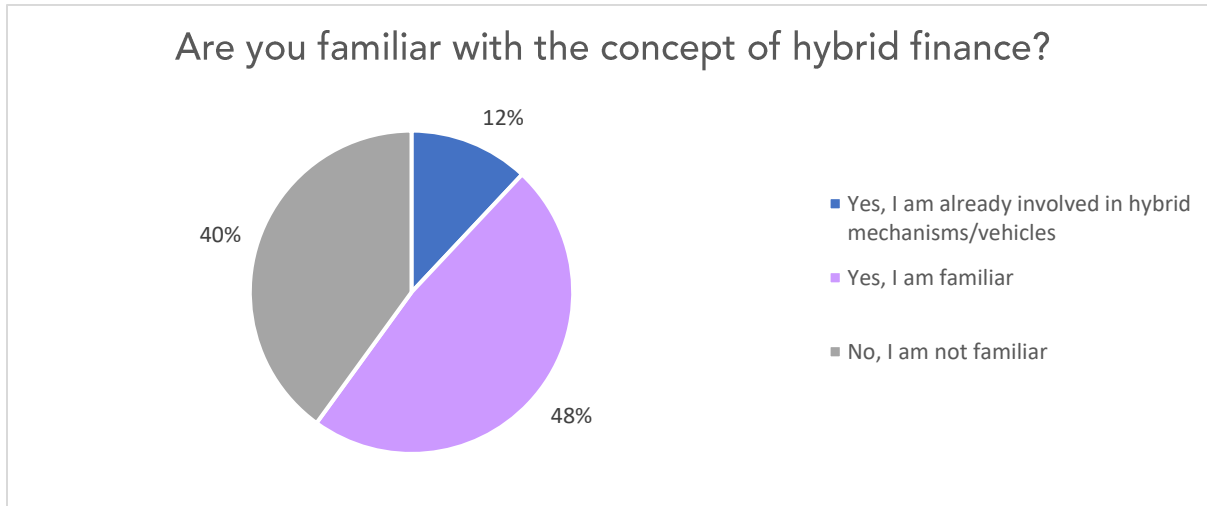
## 6. Next steps

Latimpacto has launched an innovative finance community of practice. This group will be offering public events and sharing insights via Latimpacto’s website. A series of infographics explaining different concepts will also be made available.

## 7. Poll findings

During the webinar, the 147 participants were surveyed in order to better understand their experience with hybrid finance. The findings were:

## KEY TAKEAWAYS



Additionally, most participants who have been involved in hybrid financing mechanisms have primarily had experience with outcome-based mechanisms (43%) and 86% are focused in Latin American.

### About Latimpacto

Latimpacto aims to mobilize capital (human, intellectual and financial) directed at scaling social and environmental solutions in Latin America by fostering greater collaboration and co-investment along the entire continuum of capital (from philanthropic grants to impact investment). It also promotes the exchange of knowledge on the most innovative and effective models of social investment, management and impact measurement.

### About EVPA

[The European Venture Philanthropy Association](#) (EVPA) is a lively community of organizations sharing the same vision and a common goal: creating positive societal impact through venture philanthropy. EVPA helps investors and grant makers connect and learn from each other in their pursuit of deeper societal impact.