Catalytic Capital

Case Study

ICE - Brazil

INOVAÇÃO EM CIDADANIA EMPRESARIAL

This case was developed by Latimpacto and the Catalytic Capital Consortium

Latimpacto

Catalytic Capital Consortium

EXECUTIVE SUMMARY

The ICE Impact Research program is a collaboration between ICE and the Inter-American Development Bank (IDB) to demonstrate the viability of investing in early-stage impact ventures in Brazil. Catalytic capital played a crucial role in supporting ventures that lacked the financial history and structure to attract conventional capital, in addition to validating the relevance of knowledge management that can share learnings with the ecosystem and to promote more investments through these financial vehicles.
This case study presents the management, results and lessons from the ICE Program Impact Investments, which distributed $1 million between 2017 and 2018 in sixteen companies in various sectors and subsequently reinvested the returned capital of the loans in 2019 to 25 new impact businesses through financial products managed by third parties with a total of BRL 1 million invested. The results show a 74% return on capital to ICE and a significant increase in the expansion of business activities, new investors and customers, as well as the creation of indicators by the companies. In addition, a change in the behavior of the impact investment ecosystem was noted, with an increase in the use of debt as an investment vehicle.

ICE Impact Research Program

Objective: Strengthen the Investment and Business Ecosystem with Socio-Environmental Impact in Brazil.

Scope: Brazil **Ventures:** 37 (16 ICE-IDB Portfolio + 25 Impact Research Portfolio) **Term:** 2017 – 2022	**Investment:** $1 million **Average Ticket ICE Portfolio – IDB*:** BRL 150,000 - BRL 200,000 ($30,755 – $40,980) **Research portfolio (Third Party Financial Products)*:** BRL 1 million ($200 thousand) *Currency exchange rate: BRL 1 = $0.20
Type: Seeding	**Vehicles:** Non-convertible loan (debt) and investment in impact financial products managed or structured by third parties
Catalytic Capital's Role: Price, patience, purpose	**Use:** Helping build track record, safeguarding mission
Program Hypothesis: It makes sense to invest in early-stage impact businesses.	**Actors:** • Inter American Development Bank (IDB) • ICE

ICE: STRENGTHENING THE IMPACT ECOSYSTEM IN BRAZIL

ICE is a nonprofit civil society organization established in 1999 by entrepreneurs, investors and philanthropists. Its goal is to promote social inclusion and reduce poverty in Brazil. Since 2012, ICE has focused on strengthening the impact ecosystem in Brazil, focusing on intermediaries, known as driving forces, including, among other actors, academies, accelerators and incubators.

This case analyzes the ICE Impact Research Program within which these lines of action are intertwined and focused on early-stage ventures which capitalize on lessons, systematizing and sharing the results with other actors in order to, in turn, strengthen the impact ecosystem.

ICE IMPACT RESEARCH PROGRAM

ICE and IDB LAB (Inter-American Development Bank) entered into a partnership in 2017 to develop a program that would allow them to demonstrate that it makes sense to invest in early-stage impact businesses. In the event of achieving positive results, it would be possible to respond to the need of these ventures that face meet various barriers to access investment because they do not have a financial history, do not have the appropriate internal processes or they require amounts that are not relevant to traditional banking and other ecosystem actors.

In this landscape, catalytic capital was fundamental since it allowed them to impact companies that were advancing with respect to being able to generate impact but did not have its own history or the structuring necessary to attract conventional capital. Generally speaking, early-stage companies often need time to test and refine their business models and/or to adapt to service delivery in new geographic locations or previously underserved populations. While grants are often a way to support these companies, the use of various investment vehicles, in this case non-convertible loans, allows for reinvestment into new projects, as evidenced in the ICE Impact Research program.

This program was divided into two portfolios:

1 ICE-IDB Portfolio

This was a $1 million investment, between 2017 and 2018, in sixteen companies in various sectors, business models and socio-environmental impact solutions. The bid sought to promote the strengthening of ventures focused on developing innovative and technological solutions with a positive social and/or environmental impact using seed and patient capital.

It also focused on strengthening the impact ecosystem through financial contributions to incubators and accelerators of impact companies, linked to the application of ventures that had previously participated in their programs for a maximum of three years. If the companies were chosen, then the incubators and accelerators received an investment as a donation of 15% of the amount in recognition of the companies' preparation. The ventures, for their part, received seed capital of between BRL 150,00 and BRL 200,000, in the form of a non-convertible loan (debt) for a term of five years, with the first two years being a grace period, that is, the ventures began paying quarterly in the third year with an interest rate of 2% and had the possibility to suspend payments for six months (March to October) due to the pandemic.

	Terms and Conditions
Loan interest rate	2%
Term of Loan	5 years
Grace Period	2 years
Non-financial support	Strategy, theory of change, measurement and connections

Source: Based on interviews

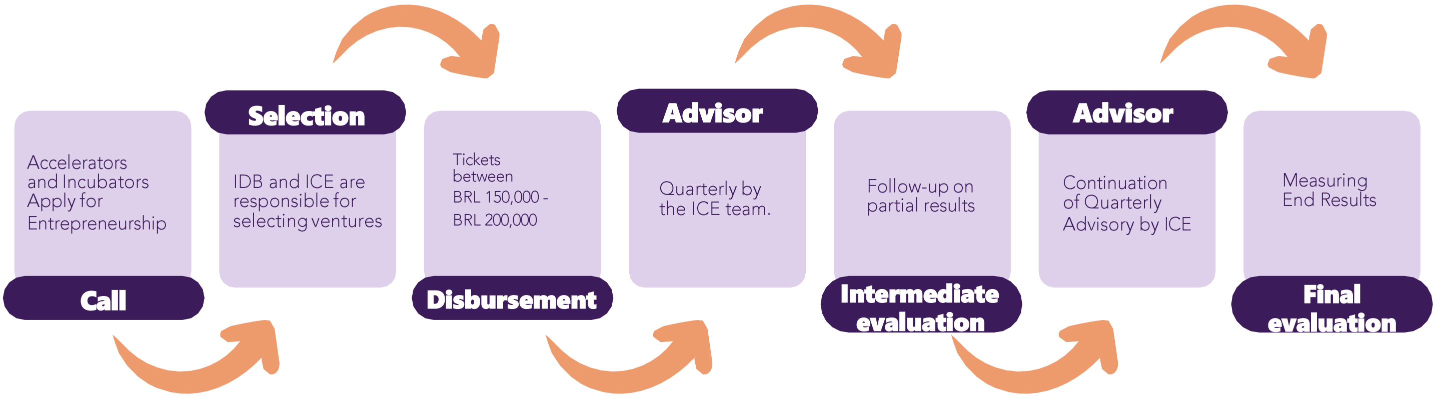
The selected ventures agreed to submit their financial information quarterly to the ICE team. During these follow-up forums, they received advice related to strategy, change theory and measurement, and facilitation of the management of connections with potential clients and investors. The latter as a way to promote ventures in order to leverage more resources, since the ventures committed to providing value equivalent to that received within one year of the investment.

The quarterly payment feature of the ICE-IDB Portfolio's impact businesses allowed the program to function as a revolving fund, in which investment in companies during 2017 and 2018 subsequently facilitated new impact entrepreneurs receiving funding in 2020.

2 Impact Research Portfolio

ICE's commitment was to reinvest the loan's returned capital within the ICE-IDB Portfolio entrepreneurs. In 2019, it was determined that these resources would not be invested directly by ICE in startups, but rather in financial impact products managed or structured by third parties. This contribution resulted in nearly BRL 1 million ($200 thousand) invested in 25 new impact businesses. BRL 780,000 ($159,823) in 17 companies through collective lending platforms, BRL 140,000 ($28,686) in a private credit fund to support four impact businesses with microcredits and BRL 100,000 ($20,000) as an impact token that financed four entrepreneurs.

DUE DILIGENCE PROCESS FOR LOANS (ICE-IDB PORTAL)



As has been previously noted, accelerators and incubators played a critical role in the call process, since they were in charge of nominating the ventures in their portfolios that they considered to be prepared to receive seed capital. Through this process, seventeen accelerators and incubators were involved in 2017 and twenty-six in 2018, and a total of 121 companies registered in both cohorts, of which sixteen were selected.

The companies were from various sectors and the program delivered patient capital to each of them, which did not require guarantees from the entrepreneurs and at rates below the market, in order to facilitate maturation of the business model.

Each quarter, the businesses are tracked and the impact information generated is summarized on a one page per business basis. A business tracking process to collect the data and progress every three months was designed. The quarterly follow-up was carried out through the analysis of financial, operational and impact indicators by entrepreneurs, followed by an update meeting to contextualize the data reported, which finally culminated in the preparation of a report sent to investors.

As part of the due diligence process, the ICE-IDB Portfolio had an intermediate evaluation and a final evaluation, performed by the Institute for the Development of Social Investment (Instituto para o Desenvolvimento do Investimento Social, IDIS) to measure the contribution of the program to internal processes - such as the creation of indicators or the management and governance of the company, among others - as well as connection processes - such as the acquisition of new customers and investors, among other items-.

RESULTS AND IMPACT

The program confirmed the thesis regarding the need to contribute seed capital and showed the advantages of ecosystem actors working jointly in an articulated manner. More importantly, based on experience and lessons, it established a process and tools that can be replicated by other actors for making investments in earlyۡstage impact ventures.

Among these tools is, the Impact X Financial Matrix that seeks to evaluate companies giving equal relevance to several factors, as displayed below:

Financial Impact Matrix

	Criteria	Valuation
Impact	• Adherence to the Impact Thesis • Impact Measurement • Commitment Solution Scale • Beneficiary population (Size - How much of the IMP?) • Profoundness and Term of Impact (Size How much of the IMP?) • Relevance of the Impact generated (Size How much of the IMP?)	50%
Financial	• Financial Situation • Payment Status • Cash Flow • Sales Traction: Growth of Invoicing • Sustainability	50%

This and other tools, which have been shared with various ecosystem actors and published in ICE reports, serve as practical guides for developing their own early-stage impact venture investment projects leveraging the ICE-IDB program lessons and best practices.

The foregoing evidences ICE's commitment to systematization and knowledge management in furtherance of ecosystem changes. For this, it was essential to have the IDB resources and in turn to have the knowledge and resources of ICE in order to have a greater impact to generate the enabling conditions for promoting investments by third parties that would not otherwise be possible.

The characterization of the impact investment ecosystem, and specifically of the vehicles used, presented in the 2023 ANDE Report shows a change in behavior, which, although cannot be fully attributed to the program, is indeed a reflection of the new dynamics where debt went from being only 8% of the instruments used in 2029, to 24% in 2021. In this manner, it could be said that the program served as catalyst to promote a greater willingness to invest through debt, by the establishing of an example.

With regard to the ventures that participated in the program, the results show those aspects that generated the most impact in internal (operational) and commercial terms, as presented in the results of partial evaluation 1 found in the Impact Assessment Executive Summary (January 2021).

Results

Resources were returned to ICE	75%*				
	% of Ventures by Contribution Type				
	High	Medium	Low	None	Does not know
Expanded their business activities	53%	35%	6%	6%	
Acquired new investors	47%	12%	12%	29%	
Acquired new customers	29%	41%	12%	18%	
Increased their financial sustainability	29%	41%	24%	6%	
Improved their management and governance	29%	35%	24%	12%	
Created metrics	23%	41%	24%	12%	
Paid off debts	12%		23%	59%	6%

Source: Impact Assessment Executive Summary (January 2021).
*Based on interviews

Quarterly tracking and collection of results facilitates the establishing of which variables are most impactful when conducting this seed capital program for impact entrepreneurs. In this sense, the perception of a medium and high contribution for most of the analytical categories is evidenced with the exception of the most recent 'balance debts'. This result makes sense since the resource was not intended to directly impact this category.

As evidenced in the chart, 59% of ventures considered that the program contributed to the acquisition of new investors. In this case, ICE's role was not only to deliver the resource but, as previously stated, to advise the ventures with respect to strengthening their processes and connecting them with potential investors.

1. Partial evaluation results are taken because they have a larger sample (17 ventures) and a lower margin of error (12%) than the final evaluation.

FINAL COMMENTS

ICE´s Impact Research program addressed several conventional capital investment gaps in Brazil. Overall, this program strengthened earlyꞔstage ventures, addressing various capital gaps, the most obvious of which would be the one related to the stage the ventures were in, since they did not have the history, structure and other requirements to access de investment from the traditional financial sector In addition to this, advisory services from ICE addressed the business model gap, because although the ventures had participated in accelerator and incubator programs, some did not have a clear impact thesis, an established strategy for sales channels or financial indicators that allowed them to make sound decisions, Finally, during the pandemic, the program stopped collection to promote the ability of the entrepreneurs to be resilient and flexible when addressing crises.

This evidences that by using catalytic capital it is possible to address several gaps simultaneously, which implies commitment and flexibility on the part of the program implementer, and a high capacity to read the capabilities of the ventures with which it works.

The program validated the thesis regarding the importance of patient capital and debt for early-stage impact businesses. The results of the program showed that there is a high probability of achieving return when investing in early stage, despite the adverse situations that come with going through a pandemic. Still, the ventures strengthened their internal capabilities and accessed new connections with customers and investors. Having access to patient capital gives them the possibility to mature their projects and put them into practice with the necessary cash flow.

Catalytic investing stands as a fundamental driver for the promotion of new projects within the scope of impact investing. As highlighted in the case, catalytic capital encourages the participation of investors who would not otherwise commit their financial resources, as well as taking the risk of testing new ways of strengthening and investing in order to reduce ecosystem uncertainty. The Impact Research Program promoted collaborative work with accelerators and incubators, and facilitated connections between entrepreneurs and other ecosystem actors.

By carrying out a rigorous knowledge management process, it not only tested its thesis about the importance of investing early, but also encouraged new actors to do so.

Non-financial support is a complement that is necessary when making early-stage impact investments. While funding is essential to bringing innovative projects to life with the potential to generate significant changes in society and the environment, non-financial support adds additional value that goes beyond monetary resources. In the program, for example, the quarterly follow-up forums were set up as advisory forums to strengthen the ventures' business models, their impact theses and their internal processes, all with the aim of making them stronger and giving them the tools to make better decisions. Another relevant aspect of this type of support is that it practically drives businesses by connecting them with other key actors in the ecosystem, since sometimes ventures do not have the share capital necessary to engage in investment dynamics or do not know the forums and channels for doing so.

In this regard, for impact investments it is advisable to complement the financing with non-financial support, in this case early stage, in order to provide additional knowledge, networks and resources that help entrepreneurs grow, innovate and maximize their positive impact on society and on the environment.

References

- Impact Assessment Executive Summary. Promotion of the Investment Ecosystem and Socio-Environmental Impact Businesses in Brazil (January 2021). ICE, IDB LAB, IDIS.

- ICE Impact Investment Program. The journey of ICE-BID partnership resources. ICE

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