

## TC ABSTRACT

### I. Basic project data

▪ Country/Region:	Brazil/CSC
▪ TC Name:	Financial Instrument to Promote Private Sector Diversity and Inclusion in São Paulo
▪ TC Number:	BR-T1323
▪ Team Leader/Members:	Judith Morrison (SCL/GDI), co-team leader; Martin Corredera Silvan (SCL/SCL), co-team leader; Edson Mori (SCF/CFI); Raquel Scarpari (SCL/GDI); and Lina Uribe (SCL/GDI)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	IDB, Sector Social/ Gender and Diversity Division (SCL/GDI)
▪ Reference to Request <sup>1</sup> : (IDB docs #)	IDBDOCS#
▪ Date of TC Abstract:	June 16, 2015
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Municipality of São Paulo, Brazil
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program) {If Bank: Contracting entity} {If the same as Beneficiary, please indicate}	Inter-American Development Bank
▪ IDB Funding Requested:	US\$330,000.00 (US\$195,334 for 2015 and US\$135,000 for 2016 or flex)
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes execution period):	36 months of execution
▪ Required start date:	September 1, 2015
▪ Types of consultants (firm or individual consultants):	Firm and individuals
▪ Prepared by Unit:	SCL/SCL and SCL/GDI
▪ Unit of Disbursement Responsibility:	
▪ Included in Country Strategy (y/n); ▪ TC included in CPD (y/n):	Y (Country Strategy 2012-2014): (i) stimulate social and productive inclusion; (iv) improve the institutional capacity of public entities; and (vi) promote development through the private sector. The proposed operation is consistent with the strategy's inclusive nature and emphasis on diversity in operations and other activities.
▪ GCI-9 Sector Priority:	(a) Social policy for equity and productivity

<sup>1</sup> A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

## II. Objective and Justification

- 2.1 This Technical Cooperation (“TC”) aims to promote a more equitable and competitive São Paulo by harnessing a public sector socio-economic development forum to design an innovative financial instrument<sup>2</sup> to improve diversity and inclusion within Brazilian firms. This TC will support the design and implementation of targeted diversity programs within firms for Afro-Brazilians and other vulnerable ethnic groups. These programs will be focused on specific small and medium size enterprises (“SMEs”) along with Brazilian multinationals (“BMs”) based in São Paulo (together called “Target Companies”). The Target Companies will be firms that are suppliers for larger multinational firms that prioritize diversity. Target Companies often have limited experience promoting racial and ethnic inclusion through stand-alone programs due to inexperience, smaller budgets for key areas such as recruiting and training, and lack of demand from national shareholders. The diversity programs will be financed through a results-based investment mechanism, which will provide oversight for better targeting of resources and will provide service providers with much needed working capital to implement programs. This structure is expected to align incentives between the investors and service providers to sustain high quality services for the Target Companies.
- 2.2 Several recent studies by McKinsey and Deloitte<sup>3</sup> have found a statistically significant correlation between diversity in firm leadership and governance, on the one hand, and financial performance on the other. This relationship is not causal, meaning that the research has not been able to isolate the causal impact of increased diversity on firm profitability. Preliminary evidence suggests that diversity may improve corporate decision making through what McKinsey has recently quantified as the “diversity dividend.”<sup>4</sup> Other important motivations for pursuing diversity that emerged from a recent survey of 245 companies include improving employee engagement, serving customers more effectively, and increasing organizational innovation and agility.<sup>5</sup>
- 2.3 Afro-Brazilians account for 37% of São Paulo’s population. Mean incomes are higher in São Paulo than in the nation as a whole, however, the ethno-racial gap in earnings between whites and Afro-Brazilians is high, with whites earning 2.5 times what Afro-Brazilians earn. Similarly, the municipality has higher levels of educational attainment, but with ethno-racial gaps – for example, 24% of white Brazilians have completed tertiary education compared to 7% of Afro-Brazilians. Despite these gaps, the conditions for identifying Afro-Brazilian candidates for private sector positions have improved. The number of Afro-Brazilian graduates from tertiary education in São Paulo grew from 32,321 in 2000 to 120,530 in 2010, and this number continues to sharply increase as a result of affirmative action programs in higher education.<sup>6</sup>

---

<sup>2</sup> This instrument may be a Development Impact Bond (DIB) or hybrid mechanism. The decision of the final instrument will be based on a careful feasibility analysis funded through this operation.

<sup>3</sup> McKinsey and Company (2014) and Deloitte (2014).

<sup>4</sup> According to a recent study by McKinsey and Company (2014), “companies [that] commit themselves to diverse leadership...are better able to win top talent and improve their customer orientation, employee satisfaction, and decision making, and all that leads to a virtuous cycle of increasing returns.” “Diversity Matters.” McKinsey & Company: New York City, NY. <https://web.duke.edu/equity/toolkit/documents/DiversityMatters.pdf>

<sup>5</sup> Bersin by Deloitte. (2014) The Diversity and Inclusion Benchmarking Report: An Analysis of the Current Landscape. Deloitte: New York City, NY. Available at [www.bersin.com/library](http://www.bersin.com/library).

<sup>6</sup> Based on census data from 2000 to 2010 (IBGE, 2000 and 2010). Published in report “São Paulo Diverso: Fórum de Desenvolvimento Econômico Inclusivo Igualdade Racial em São Paulo: Avanços e Desafios,” October, 2014.

- 2.4 The City of São Paulo is the central business hub for the country and serves as the corporate headquarters of at least 70% of all Brazilian companies..<sup>7</sup> However, just 5.3% of executives in the nation's 500 largest companies, most of which are based in São Paulo, are of African descent. The situation is even starker for African descendant women who only hold 0.5% of executive positions in these firms.<sup>8</sup>
- 2.5 Despite the evident need for more targeted efforts to improve diversity, corporate diversity programs may not be adopted by Brazilian firms for two reasons. First, returns may be perceived as being too long term. Second, the providers of diversity program services may lack the balance sheet and the credit strength required to attract the working capital necessary to provide inclusion and diversity services at a significant scale. An infusion of financial innovation in the field of private sector diversity programming may help address both these constraints.
- 2.6 This Technical Cooperation builds on the success of *São Paulo Diverso* (an inclusive economic development forum) launched with the Mayor of São Paulo, IDB and the private sector in October of 2014. Over 100 firms participated in this event and several multinational members have expressed particular interest in promoting employment and advancement opportunities for vulnerable racial and ethnic groups. These members are potential investors for the expansion of diversity programming through this financial mechanism with national firms and SMEs.
- 2.7 The operation is strategically aligned with one of the sector priorities of the Bank's GCI-9 that is focused on achieving sustainable reduction in poverty and inequality while redistributing income effectively and fostering increases in labor productivity.

### III. Description of activities and outputs

This TC will scale up and strengthen diversity and inclusion programs in Target Companies through an innovative financial mechanism. It is based on leveraging private sector networks convened through the municipality-led socio-economic development forum *São Paulo Diverso*, with participation from donors (including multinational firms with supplier diversity programs) and external investors (private foundations, institutes, and individuals interested in promoting diversity). A third party university or think tank will certify results (candidates include the Universidade de São Paulo, Fundação Getúlio Vargas in partnership with an international business school).

#### 3.1 Component 1: Identify diversity best-practices for replication and specify target companies

This component will identify diversity and inclusion programs that deliver concrete and measureable results for the recruitment, retention and advancement of diverse populations using international best practice.<sup>9</sup> The providers of these diversity programs will have a broad base of relevant expertise and the capacity to deliver results in 18 months or less. This component will also identify the target companies to receive the training; they will likely be suppliers to multinational firms and will have the potential to successfully and quickly adopt

---

<sup>7</sup> São Paulo concentrates 10% of all manufacturing jobs in the country. If São Paulo were a country it would be the 47th largest nation in the world.

<sup>8</sup> Instituto Ethos, 2010. This data will be updated in 2015.

<sup>9</sup> Successful diversity initiatives share several characteristics. First, in order to be effective, diversity programs have to have clear objectives and senior-level champions. Second, programs need to foster active involvement from the organization and have sufficient infrastructure to manage against targets in order to hold individuals accountable for outcomes (Deloitte, 2014).

diversity measures, including hiring, training, promotion/advancement, mentoring programs and corporate policies to promote diversity.

**3.2 Component 2: Feasibility analysis of a results-based financial instrument to support the implementation of diversity and inclusion programs**

This component will determine the feasibility of an outcome-based financial mechanism to support small-scale diversity and inclusion programs within the *São Paulo Diverso* Initiative. The feasibility study will assess whether there is value for potential stakeholders and analyze the best design for the financial mechanism. The feasibility study should present a targeted strategy that includes securing financial returns for potential outcome funders and implementers, performance accountability and other non-monetary considerations.<sup>10</sup>

**3.3 Component 3: Engage an intermediary for contracting, procurement and fundraising**

This component will hire an experienced intermediary, either a consulting firm or an individual, to bring all the parties together to structure and close the investment. The scope of the services will likely include contract development, fundraising, due diligence, performance management, service commissioning and capacity building. Main tasks for this component will include: (i) negotiating payment terms, (ii) supporting private investors, (iii) developing operating procedures, (iv) executing contracts, and (v) establishing a plan for making decisions about scaling-up and expansion.

**3.4 Component 4: Support stakeholders and disseminate knowledge**

This component will ensure that learning is shared through dissemination activities that include the municipality, multinational corporations, donors and foundations interested in promoting diversity. This will include a dissemination event and overview report.

**IV. Indicative Budget (US\$)**

Activity/component	IDB (GDF)	Local Counterpart	Total
<b>Component 1.</b> Identify diversity best-practices for replication and specific target companies	75,000	0	<b>75,000</b>
<b>Component 2.</b> Feasibility analysis of a results-based financial instrument to support the implementation of small-scale diversity and inclusion programs	115,000	0	<b>115,000</b>
<b>Component 3.</b> Engage an intermediary for contracting, procurement and fund raising	100,000	0	<b>100,000</b>
<b>Component 4.</b> Support stakeholders and disseminate knowledge	40,000	0	<b>40,000</b>
<b>Total</b>	<b>330,000</b>	<b>0</b>	<b>330,000</b>

**V. Executing agency and execution structure**

5.1 This technical cooperation will be executed and supervised by the Gender and Diversity Division (SCL/GDI) and the Social Sector (SCL), per the request of the Municipal Secretary for the Promotion of Racial Equality of São Paulo (SMPIR) (Annex I).

Procurement: The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with Bank’s current procurement policies and procedures.

<sup>10</sup> Non-monetary considerations include among others: Operational Risk, Non-Monetary incentives for outcome funders and investors and overall stakeholder complexity.

## **VI. *Project Risks and issues***

- 6.1 This technical cooperation will test several main assumptions regarding diversity and corporate performance. Experience from previous innovative financial instruments, such as Development Impact Bonds and Social Impact Bonds, suggests that the different parties involved often have different perceptions of the potential risks associated with investment contracts. The approach will be to develop the intervention collaboratively with open discussions on the potential risks within the project and the best way to manage these risks. This will ensure that the resulting contracts are attractive to investors.
- 6.2 In traditional commercial markets, the higher the level of risk undertaken by an investor, the higher the expected returns. This expectation will be managed with investors. For larger multinational firms, improvements to their supply chains will serve as an incentive to invest. Other investors will likely value non-financial returns (social investment<sup>11</sup>); this will make this mechanism an attractive proposition to many large firms.
- 6.3 Risk will be minimized due to the extensive analysis of the feasibility of the investment mechanism through the activities outlined in Components 1 and 2. Despite the relatively high-level of risk in these types of operations, Brazil has a track record in both socially responsible investing and corporate responsibility that can be leveraged to further minimize risks. Risks related to this operation may also be transferred to investors to minimize risk. In some cases, interventions that have an evidence base of delivering outcomes when implemented in one location may need to be adapted to deliver results in another location. Service providers will want to be reassured that in-depth research has been undertaken to understand target population needs and to ensure that the interventions identified are suited to addressing these specific needs. In addition, there needs to be a clearly articulated theory of change for how and why proposed interventions are expected to bring about the desired outcomes.

## **VII. Environmental and Social Classification**

- 7.1 This TC and the proposed activities related to this TC will not have negative direct or indirect environmental or social impacts. This TC promotes greater socio-economic equality through activities that increase the access to human opportunities for vulnerable racial and ethnic groups. Following ESG's project classification process requirements, it has been determined that this project falls under Category C. No environmental assessments or consultations are required for operations in this Category.

---

<sup>11</sup> Social investment is still an emerging field. Social investors are those who invest both for financial and social benefit. Social investors weigh the social and financial returns they expect from an investment differently from purely commercial investors and may be willing to take on higher risks in order to generate greater social impact. Such investors include charitable trusts and foundations, development finance institutions, dedicated impact investment funds and wealthy individuals.