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To: The MIF Representatives
From: The Secretary
Subject: Brazil. Nonreimbursable technical-cooperation funding for the project "Promotion of the Socioenvironmental Impact Investment and Enterprise Ecosystem"

Basic Information: Executing agency *Instituto de Ciudadanía Empresarial (ICE)*
Amount up to US\$1,400,000
Source Multilateral Investment Fund

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MULTILATERAL INVESTMENT FUND

BRAZIL

**PROMOTION OF THE SOCIOENVIRONMENTAL IMPACT INVESTMENT AND
ENTERPRISE ECOSYSTEM**

(BR-T1346)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Henrique Martins de Araujo (MIF/CBR), Project Team Leader; Gyoung Joo Choe (MIF/KE); Carolina Carrasco (MIF/CCH); Vanderleia Radaelli (CTI/CBR); and Luciane Juliani (GCL/GCL).

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PROJECT SUMMARY

PROMOTION OF THE SOCIOENVIRONMENTAL IMPACT INVESTMENT AND ENTERPRISE ECOSYSTEM (BR-T1346)

In response to the problems of social inequality, and in view of governments' shortcomings in achieving the required coverages with the necessary results and quality, social enterprises have sprung up over the last few years and have gained significance. While pursuing a financial return, these businesses also aim explicitly to generate an aligned social and/or environmental change that helps to solve these problems.

In Brazil, the social enterprise and impact investment ecosystem is in its infancy. Despite growing interest and the presence of actors and initiatives, these remain mostly fragmented and at incipient stages of development. Evidence of this includes: (i) the scant critical mass of social enterprises with innovative and scalable business models that are "investable"; (ii) few mechanisms and financing sources available for companies of this type; (iii) scarcity of impact-driven incubators and accelerators; and (iv) weak coordination and collaborative links between ecosystem actors.

This project aims to help improve the lives of poor and vulnerable populations in Brazil, by fostering the creation and sustainable growth of social enterprises capable of developing and scaling up innovations aimed at resolving social and environmental problems. The project will focus on two strategic lines of action:

(i) Through a **social enterprise accelerator and incubator (A&I) program**, the Instituto de Cidadania Empresarial (ICE) will endeavor to significantly increase the pipeline of social enterprises with innovative business models and potential for high social and/or environmental impact. An integrated approach will be used to strengthen capacities in A&Is to adopt and manage social enterprise incubation or acceleration strategies, and to mobilize smart seed capital for the most promising enterprises.

(ii) With the aim of **laying the foundations of a favorable environment for the creation and sustainable growth of enterprises that are capable of developing and scaling up social innovations in Brazil**, support will be provided for implementing the strategic recommendations made by the Social Finance Task Force, and also for expanding the Academia program, which aims to position impact investing as a higher education subject, while stimulating the creation of social enterprises in that sphere.

This is the first Multilateral Investment Fund (MIF) project that systematically supports the process of constructing and consolidating a nationwide impact investment and social enterprise ecosystem, in conjunction with a partner with major mobilization and execution capacity such as the ICE. If successful, the project will have extremely high demonstration potential in other countries of the region.

The following outcomes are expected from the project: (i) at least 100,000 poor and low-income individuals gain access to the products and services offered by the social enterprises; (ii) 40 of the country's incubators and accelerators incorporate or expand their social enterprise portfolio; and (iii) 16 social enterprises participate in incubation or acceleration processes.

Lastly, the project may be the spearhead of a set of public policy instruments and recommendations, supported by the Bank's **Competitiveness, Technology, and Innovation Division (IDB/CTI)**, which includes the current project team, to be implemented at the three levels of government in Brazil.

ANNEXES

Annex I	Results matrix
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INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF THE MIF PROJECT INFORMATION SYSTEM

Annex IV	Itemized budget
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Annex VI	Project status reports (PSR), attainment of milestones, fiduciary agreements, and institutional integrity

ABBREVIATIONS

A&Is	Accelerators and incubators
ANDE	The Aspen Network of Development Entrepreneurs
ANPROTEC	Associação Nacional de Entidades Promotoras de Empreendimentos Inovadores [National Association of Innovative Enterprise Promoters]
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [National Economic and Social Development Bank]
CTI	Competitiveness, Technology, and Innovation Division (IDB)
FINEP	Financiadora de Estudos e Projetos [Studies and Projects Finance Institution]
ICE	Instituto de Cidadania Empresarial [Citizenship Enterprise Institute]
IDBG	Inter-American Development Bank Group
KPI	Key performance indicator
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service]
TC	Technical cooperation
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

PROMOTION OF THE SOCIOENVIRONMENTAL IMPACT INVESTMENT AND ENTERPRISE ECOSYSTEM (BR-T1346)

Country:	Brazil																								
Executing partner:	Instituto de Cidadania Empresarial (ICE)																								
Focus area:	<u>Under the new Knowledge Economy strategy:</u> The project falls under the priority area of “Ecosystem” because it supports intermediary organizations that foster the development of highly scalable innovations with a strong technology component, aimed at solving social and environmental problems, thereby making it possible to improve the lives of poor and low-income populations in Brazil.																								
Coordination with other donors/Bank operations:	CTI/CBR																								
Project clients:	(i) At least 100,000 poor and low-income people who gain access to products and services offered by the social enterprises; (ii) 40 of Brazil’s incubators and accelerators that will incorporate or expand their social enterprise portfolio; and (iii) 16 social enterprises operating scalable models that make heavy use of technology in the education, health, and financial services sectors, among others, which will participate in the incubation or acceleration processes.																								
Financing:	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Technical cooperation funding:</td> <td style="width: 25%;">US\$1,400,000</td> <td style="width: 25%;"></td> </tr> <tr> <td>Investment:</td> <td>US\$ 000,000</td> <td></td> </tr> <tr> <td>Loan:</td> <td>US\$ 000,000</td> <td></td> </tr> <tr> <td>Other:</td> <td>US\$ 000,000</td> <td></td> </tr> <tr> <td>Total MIF contribution:</td> <td>US\$1,400,000</td> <td>48%</td> </tr> <tr> <td>Counterpart:</td> <td>US\$1,505,646</td> <td>52%</td> </tr> <tr> <td>Cofinancing:</td> <td></td> <td></td> </tr> <tr> <td>Total project budget:</td> <td>US\$2,905,646</td> <td>100%</td> </tr> </table>	Technical cooperation funding:	US\$1,400,000		Investment:	US\$ 000,000		Loan:	US\$ 000,000		Other:	US\$ 000,000		Total MIF contribution:	US\$1,400,000	48%	Counterpart:	US\$1,505,646	52%	Cofinancing:			Total project budget:	US\$2,905,646	100%
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Total MIF contribution:	US\$1,400,000	48%																							
Counterpart:	US\$1,505,646	52%																							
Cofinancing:																									
Total project budget:	US\$2,905,646	100%																							
Execution and disbursement periods:	Execution period of 36 months and disbursement period of 42 months.																								
Special contractual clauses:	The following will be conditions precedent to the first disbursement: (i) appointment of the project’s general coordinator; (ii) submission to the Bank of the project’s first-year Annual Work Plan; (iii) the Bank’s																								

no objection to the reimbursable seed financing mechanism targeting social enterprises, including the criteria for selecting accelerators and incubators and social enterprises.

**Environmental
and social
impact review:**

This operation was pre-evaluated and classified according to the requirements of the Bank's Environment and Safeguards Compliance Policy (OP-703) on 21 August 2016. Since the impacts and risks are limited, the category proposed for the project is "C".

I. THE PROBLEM

Description of the problem

- 1.1 **Country context.** The Brazilian population's income and consumption increased significantly in the last decade, as over 38 million people entered the middle and upper classes, and poverty and vulnerability were cut from 42% in 2004 to 23% in 2014).¹ This progress was achieved mainly thanks to favorable external conditions that stimulated domestic demand and made it possible to develop ambitious social programs such as *Bolsa Familia*, which turned the country into an international benchmark in social inclusion policies.
- 1.2 Nonetheless, high levels of inequality persist in Brazil and economic performance over the last few years seems to be reversing positive trends. Negative economic growth of 3.8% in 2015 and prospects for a continued slowdown in 2016² have intensified the country's exposure to complex problems that affect a very large portion of the vulnerable and low-income population,³ in areas such as education, health, housing, energy, water and sanitation, and employment.⁴ For example, 75% of the Brazilian population do not have health insurance, 64% lack access to formal bank services, and only one in every five young people has access to higher education.⁵ The unemployment rate rose sharply from a historical low of 4.3% in late 2014 to 7.5% a year later.⁶
- 1.3 As a response to these problems, and given governments' shortcomings in achieving the required coverages with the necessary results and quality, various social enterprises have sprung up over the last few years and have gained significance.⁷ While pursuing a financial return, these businesses also aim explicitly to generate an aligned social and/or environmental change that helps to solve these problems.⁸ A core element of this type of enterprise is social innovation, i.e. proposing a novel, effective, and sustainable solution to a social problem, in

¹ Compilation of official statistics, *Plano CDE*.

² *Regional Economic Outlook: Western Hemisphere*, IMF April 2016.

³ According to the IDB study *Poverty, Vulnerability and the Middle Class in Latin America* (2015), 60% of the Brazilian population live in extreme or moderate poverty, or are vulnerable.

⁴ Social Finance in Brazil. Solutions to Social and Environmental Challenges. A New Paradigm for Managing the Needs and Resources of Society. Social Finance Task Force. October 2015. http://www.socialimpactinvestment.org/reports/Recommendations_Brazilian%20Social%20Finance%20Task%20Force.pdf

⁵ Mapping the Impact Investing Sector in Brazil. Summary of findings. ANDE (Aspen Network of Development Entrepreneurs), LGT Venture Philanthropy and Quintessa Partners. 2015. http://ice.org.br/wp-content/uploads/pdfs/Mapa_do_setor_de_impacto_no_brasil_Ande.pdf

⁶ Data from the Brazilian Institute of Geography and Statistics (IBGE).

⁷ Social enterprises or impact enterprises are early-stage businesses that address social and environmental problems and work in communities to improve people's lives. As part of their central activities, these enterprises offer vulnerable population groups access to goods, services, income, and job opportunities. (Source: Social Impact Investment Task Force of the G8). <http://www.fomin.org/Portals/0/Topics/MIF%20Concept%20Note%20Spanish.pdf>

⁸ Dr. Consulta is an example of a social enterprise in Brazil with a proven business model, high growth rate, and potential scalability, which is innovating in the low-income population health sector. The enterprise operates a network of primary health care services that responds 25 times more quickly than the public service, and costs between 60% and 90% less than the private system. It currently serves 240,000 patients per year, and aims to cover 3 million per year in 2018.

which the value created benefits society as a whole and not just the specific individuals.⁹

- 1.4 **Social enterprise and impact investment ecosystem.** As happens with other types of business, the growth of social enterprises requires the existence of coordinated ecosystems that facilitate access to capital, markets, and support services, along with a favorable public policy framework, in which entrepreneurs, investors, governments, universities, and development agencies, among other organizations, develop an increasingly broad and more effective involvement. Various studies show that the main development challenges facing impact businesses involve identifying effective distribution channels, access to financing, and lack of knowledge of the specific needs and characteristics of the poor and vulnerable population.
- 1.5 Against this backdrop, the ecosystem's intermediary institutions, such as impact-focused incubators and accelerators, play an instrumental and fundamental role in creating, developing, and growing social enterprises, because they help address the critical challenges that the latter face, as mentioned in the previous paragraph.
- 1.6 **Diagnostic assessment of the problem.** In the specific case of Brazil, the social enterprise and impact investment ecosystem is in its infancy. Despite growing interest and the presence of actors and initiatives, these remain largely fragmented and at incipient stages of development. Evidence of this includes:
 1. **Scant critical mass of social enterprises with innovative and scalable business models that are “investable,”** and of successful cases that have been able to address, on a significant scale, various problems faced by vulnerable populations, to serve as demonstration effects. Local investors lack access to a critical mass of social entrepreneurs with innovative and attractive proposals for potential financing.
 2. **Few mechanisms and financing sources available for companies of this type.** Although angel, seed, and venture investment markets, which are crucial for channeling smart capital to innovative startups, are incipient in the country, there are far fewer local investors who understand the challenges and risks of social enterprises and are pursuing a dual financial and social return. Very few of Brazil's venture capital funds have a social enterprise strategy.¹⁰
 3. **Scarcity of impact-driven incubators and accelerators,** with sustainable business models and robust impact measurement systems. According to a study performed by the National Association of Innovative Enterprise Promoters (ANPROTEC), fewer than 10 of the more than 300 incubators and accelerators operating in Brazil have achieving a social impact through enterprise support as a main objective.¹¹

⁹ Definition used by the Center for Social Innovation, Stanford Graduate School of Business. <http://www.fomin.org/Portals/0/Topics/MIF%20Concept%20Note%20Spanish.pdf>

¹⁰ Vox Capital, Mov Investimentos, and Kaeté.

¹¹ *O papel das aceleradoras de impacto no desenvolvimento dos negócios sociais no Brasil: Relatório de Pesquisa.* Tania M. Vidigal Limeira. June 2014. ICE & FGV EAESP. http://ice.org.br/wp-content/uploads/pdfs/O_papel_das_aceleradoras.pdf

4. **Weak coordination and collaborative links between ecosystem actors.** Coordination between the various public and private agents, which is needed to construct and consolidate an ecosystem that facilitates social innovation, needs to be strengthened significantly.
- 1.7 **Project beneficiaries.** Through the services and products offered by the project-supported social enterprises, direct benefits will be generated for at least 100,000 poor and low-income people.¹² Forty of the country's incubators and accelerators will benefit by incorporating or expanding their social enterprise portfolio as well as 16 social enterprises and their teams, operating in sectors that have a direct impact on the quality of life of these communities, such as education, health, financial services. By incorporating a major technology component, these social enterprises will develop scalable solutions to these problems. Other ecosystem actors, such as universities, investors, and government agencies will also benefit, through lessons learned on the process of creating and developing social enterprises and impact investing, and the deepening of collaboration and coordination for developing social finance in Brazil.

II. THE SOLUTION

Project description

- 2.1 **Objective.** The objective of the project consists of promoting the creation and sustainable growth of social enterprises capable of developing and scaling up innovations focused on resolving social and environmental problems. This objective will be attained by speeding up development of the emerging social enterprise and impact investment ecosystem in the country.
- 2.2 **Model.** To achieve the objectives, the ICE will implement a project with a comprehensive approach that incorporates international good practices combined with experiences, knowledge, and a collaborative construction process between the main actors in the country's ecosystem:
 - a. **Acceleration and incubation of impact enterprises.** Drawing on evidence that enterprises participating in formal support programs have better chances of surviving, attracting larger amounts of funding, and growing than those without access to formal support, and with the aim of significantly expanding the critical mass of Brazilian social enterprises capable of having a positive impact on the lives of millions of vulnerable people across the country, the ICE intends to implement a social enterprise incubator and accelerator program. Drawing on lessons learned from a pilot program carried out in 2015,¹³ the ICE will use this program to select a group of incubators and accelerators and support them with: (i) training on impact enterprise and investment topics, with a view to building capacities among their management and technical teams;

¹² About 50% of this group of beneficiaries is expected to live in the North and Northeast regions, which have the highest concentrations of poverty in Brazil.

¹³ More than 20 incubators and accelerators have participated in this pilot program, which provided a series of in-person and virtual training and individual mentoring sessions over a six-month period, to prepare the plan of action for incorporating impact enterprises into their strategy. Five of them, with more robust business plans, have been awarded technical support for its implementation as well as SEBRAE vouchers for social enterprises in their portfolios.

(ii) technical support for the design and execution of social enterprise incubation and acceleration plans as part of their institutional strategy; and (iii) technical cooperation funds to enable them to pilot an innovative reimbursable seed financing mechanism, targeting the most promising enterprises in their portfolios, under a recovery scheme that is contingent on the fulfilment of key performance indicators (KPIs) of growth, financial sustainability, and social impact.

Responding to the lessons from the pilot project. The ICE will adopt specific strategies to attract and strengthen incubators and accelerators in the North and Northeast regions, which have the highest poverty levels, thus fostering the development of social innovations that respond to the needs of the most vulnerable populations in these regions.

- b. ***Mobilization and coordination of actors to foster social enterprises and impact investments.*** Although impact enterprises have major potential for social change, their growth can be severely hampered if they are not set in a favorable environment or ecosystem.¹⁴ An ecosystem approach is needed if social enterprises with genuine potential to improve the future of the country's most vulnerable population groups are to flourish. Accordingly, in 2014, the Social Finance Task Force of Brazil was created, under ICE coordination. As a starting point for this initiative, which incorporates best practices from public as well as private initiatives in other countries that have made significant progress in the area of social innovation,¹⁵ four critical issues were identified that would need to be addressed simultaneously to catalyze the ecosystem: (i) attract capital to finance socioenvironmental impact enterprises, seeking to channel a larger volume of capital from more diversified sources, while promoting innovative financial mechanisms; (ii) increase the number of scalable social enterprises; (iii) strengthen the intermediary organizations, to enhance the capital supply-demand nexus; and (iv) promote favorable conditions for the development of social finance. These priorities served as the basis for 15 recommendations with clear objectives to be reached by 2020. The ICE will use this project to intensify its efforts to mobilize, coordinate, and change the mental model of local actors, and speed up implementation of the recommendations for constructing a robust ecosystem.
- c. ***Inclusion of social enterprise as a topic in academic spheres.*** Recognizing the importance of training a new generation of talent with potential to grow this nascent social enterprise sector, the ICE created the Academia program with the aim of introducing and integrating the topic into higher education institutions, thereby (i) generating and disseminating knowledge on social finance and impact enterprises; (ii) creating and strengthening a network of university professors with an interest in the topic; (iii) supporting and financing

¹⁴ The social enterprise ecosystem is supported by a public context of business regulations and practices, and formed by a base of organizations and individuals that produce and bring together business ideas, skills, and both financial and nonfinancial resources, to generate sustainable businesses with potential for high social impact.

¹⁵ The G7 countries set up the Social Impact Investment Taskforce in 2013. In 2015, this was superseded by the Global Social Impact Investment Steering Group (GSG), which currently comprises 13 countries plus the European Union.

initiatives and projects on the subject in higher education institutions and among teachers; and (iv) supporting university projects in low-income communities to map and empower impact businesses. The ICE will use this project to significantly expand the involvement of the universities in social finance, including those in the North and Northeast, and engaging both professors and students through network activities, studies, and a stronger presence of the topic in the curricula of the various university programs of study across the country.

- 2.3 **Innovation.** This is the first MIF project to systematically support the process of constructing and consolidating a social enterprise ecosystem together with impact investments at the national level, in conjunction with a partner, the ICE, which has major mobilization and execution capacity. The project is being built on the basis of important lessons learned by the MIF in supporting the creation of Brazil's first impact investment fund, namely Vox Capital (document MIF/AT-1200), with which the ICE collaborates closely. If successful, the project will have extremely high demonstration potential in other countries of the region.
- 2.4 The project addresses the need to expand sources of early-stage investment for social enterprises that are risk-tolerant and make it possible for them to test their business models with an innovative instrument to be piloted by a number of accelerators and incubators chosen by the ICE: reimbursable seed financing, based on the social enterprise's projections and its capacity to raise new rounds of financing. Expanding the critical mass of social enterprises in Brazil under this mechanism will position the project as a benchmark in the ecosystem to address the environmental and social challenges faced by Brazil and the region.
- 2.5 **Component I: Impact enterprise accelerator and incubator (A&I) program.** This component will aim to significantly increase the pipeline of enterprises with innovative business models, potential for high social impact, and scalability. To achieve this, the proposed program will pursue two main lines of action:
- a. **Strengthening of A&I capacities to adopt and manage impact enterprise incubation or acceleration strategies.** The ICE will launch several calls for proposals for A&Is throughout the country, and will select a number of them that are interested in incorporating or strengthening social enterprise incubation or acceleration strategies. The selected A&Is will receive face-to-face and virtual training, mentoring to formulate or strengthen strategies for the management and monitoring of a portfolio of social enterprises, and the development of metrics (KPIs) of institutional performance and of their portfolios.
 - b. **Pilot implementation of the mechanism for raising smart seed capital for the enterprises with greater potential impact.**¹⁶ The ICE will provide the finalist A&Is (to be selected under rigorous criteria yet to be defined) with technical cooperation resources to enable them to provide reimbursable financing to the enterprises in their portfolio that have the greatest potential to benefit poor and low-income populations. Repayment to the A&Is will be contingent on fulfilling KPIs linked to the growth, financial sustainability, and

¹⁶ An estimated US\$850,000 of the MIF contribution for this component will be earmarked for this subcomponent as an Investment Grant (Operations Processing Manual PR-505).

social impact of the enterprises financed. The resources recovered by the A&Is will then be used to provide seed financing to new enterprises in their portfolio, thus expanding the impact of the resources. The preparation of, and the Bank's no objection to, a document specifying the mechanism for implementing the proposed pilot model, including the criteria for selecting the A&Is and social enterprises, and the funding recovery mechanisms, will be a condition precedent to the first disbursement. The program's initial operating mechanism is explained in Annex III.

2.6 **Component II: Strengthening of the social enterprise and impact investment ecosystem:** The objective of this component is to lay the foundations of an environment that is conducive to the creation and sustainable growth of enterprises capable of developing and scaling up social innovations in Brazil. Work to that end will be done in the following two areas:

- a. **Social Finance Task Force:** Support will be provided to implement the strategic recommendations defined, through: (i) the training of strategic actors (including investors, representatives of corporations, universities, government agencies, etc.) on key impact investment and social enterprise concepts, and their mobilization in priority initiatives; and (ii) strategic communication actions targeting key audiences.
- b. **Academia:** To include the topic of impact investments in higher education and stimulate the creation of social enterprises in that sphere, support will be provided to train university teachers and researchers on the concept of impact businesses and to expand the university-teacher network.

Project results, monitoring and evaluation

2.7 **Key indicators for measuring the project's expected results:**

- a. Number of vulnerable and low-income people benefited by the products and services offered by social enterprises (target: at least 100,000)
- b. Number of social enterprises financed and/or strengthened (target: 16)
- c. Average annual sales growth of the social enterprises supported by the project (target: 30%)
- d. Net jobs created by the social enterprises (target: 80)
- e. Number of incubators and accelerators that incorporate the impact approach and are strengthened (target: 40)
- f. Net increase in financing channeled to the impact investment sector (target: US\$350 million)
- g. Increase in the number of impact investors (target: 40)
- h. Number of pre- and postgraduate students trained in impact businesses and social finance (target: 4,500).

2.8 **Baseline.** To determine its baseline, the project will draw on studies that already exist on the subject, such as the Aspen Network of Development Entrepreneurs

- (ANDE) project to map the impact investing sector in Brazil;¹⁷ the ICE study on the role of impact accelerators in Brazil;¹⁸ and the study of inclusive markets in Brazil, by the United Nations Development Programme (UNDP).¹⁹ In addition, for each of the project's social enterprises, the A&Is will prepare metrics for the baseline and monitoring of environmental, social, and financial dimensions.
- 2.9 **Monitoring.** The project will be evaluated using the metrics established in paragraph 2.7. The ICE will gather specific data on the ecosystem, and on the performance of the A&Is and the enterprises.
- 2.10 **Evaluation.** A midterm evaluation of the strategy for attaining the objectives will be conducted. At the end of the project, an outcome evaluation will be performed, and the ecosystem mapping will be updated. The key questions of the evaluation relate to the additional knowledge acquired on the following: (i) the evolution of social enterprise and innovation ecosystems, and the role played by the different actors; (ii) how technology can facilitate the provision of products and services in sectors with high social impact; (iii) what innovative models can be developed to improve the sustainability of impact A&Is; and (iv) which financial instruments are appropriate at each stage of the social enterprise life-cycle. The final evaluation will also use the data collected as a result of the implementation of the two project components. The project will report its progress every six months through the Project Status Report (PSR) system.
- 2.11 **Closing workshop.** In month 33, the executing partner will organize a closing workshop with the other ecosystem actors to jointly evaluate the outcomes achieved, identify the additional tasks needed to ensure the sustainability of the actions started by the project, and identify and disseminate lessons learned and best practices.

III. ALIGNMENT WITH THE IDB GROUP, PROJECT SCALABILITY, AND RISKS

Alignment with the IDB Group

- 3.1 **Country strategy with Brazil 2016-2018:** The project is aligned with the following priorities: (i) increase productivity and competitiveness; (ii) reduce inequity and improve public services; and (iii) promote the sustainable economic development of metropolitan areas.
- 3.2 **IDBG Institutional Strategy 2016-2019:** The project is aligned with the following priorities: (i) social exclusion and inequity; (ii) low productivity and innovation; and (iii) regional economic integration.
- 3.3 **Business plan of the IIC 2016-2019:** The project is aligned with the following priority business areas (PBAs): (i) vulnerable populations; (ii) innovation and technological development; and (iii) micro, small, and medium-sized enterprises

¹⁷ Mapping the Impact Investing Sector in Brazil. Summary of findings. ANDE, LGT Venture Philanthropy and Quintessa Partners. 2015.

http://ice.org.br/wp-content/uploads/pdfs/Mapa_do_setor_de_impacto_no_brasil_Ande.pdf

¹⁸ *O papel das aceleradoras de impacto no desenvolvimento dos negócios sociais no Brasil: Relatório de Pesquisa.* Tania M. Vidigal Limeira. June 2014. ICE & FGV EAESP.

http://ice.org.br/wp-content/uploads/pdfs/O_papel_das_aceleradoras.pdf

¹⁹ Inclusive Markets in Brazil: Challenges and Opportunities for the Business Ecosystem. UNDP. 2015.

http://www.pnud.org.br/arquivos/Relatorio%20Mercados%20Inclusivos%20no%20Brasil_PNUD_web.pdf

(MSMEs). It is also aligned with the following priority strategies: (i) improvement of MSMEs' access to financing; and (ii) leveraging of products, services, and solutions. Going forward, the IIC can explore the possibility of providing financing to enterprises whose business models have been validated and scaled up and that show potential for greater expansion and impact.

- 3.4 **Strategy of the IDB's Competitiveness, Technology, and Innovation Division (IDB/CTI):** The project is aligned with the following priorities: (i) institutional capacity building; (ii) financing of fast-growing and high-impact businesses; and (iii) support for policies on innovation with social inclusion. The project is also aligned with two projects that the CTI expects to prepare in Brazil in 2016/2017: (i) with the Ministry of Science, Technology, Innovation, and Communications, targeting enterprises with high social impact on issues such as water, food, and renewable energy; and (ii) with the municipal government of Campinas (State of São Paulo), which will focus on financing fast-growing enterprises with high social impact, with a view to turning Campinas into one of Latin America's most innovative cities.

Scalability

- 3.5 If the project is successful, the **ICE** will not only be able to scale it up to the national level, but also transfer the model to other countries in the region. In fact, it has already received expressions of interest from private entities in countries such as Colombia, Argentina, Paraguay, and Uruguay, seeking advice on possible replication in their countries.
- 3.6 **BNDES and/or FINEP** have the potential to scale up the impact of the project in terms of access to financing (seed and venture capital) by the social enterprises, creating specific lines of financing for social investment funds, and by incubators or accelerators with a solid enterprise pipeline. The ICE has already entered into conversations on this with the BNDES.
- 3.7 The project may also be the spearhead of a set of public policy instruments and recommendations, supported by the **IDB/CTI**, which includes the current project team, to be implemented at the three levels of government in Brazil.

Project risks

- 3.8 **Lack of coordination between the different agents of the ecosystem.** Efforts to consolidate coordination links between the various agents that make up the ecosystem may not achieve the expected results, by failing to immediately foresee the benefits that such coordination brings. This risk will be mitigated as the project's actions strengthen the Social Finance Task Force.
- 3.9 **Low rate of project flow.** A situation could arise in which the pipeline of social enterprises with potential for growth and scaling does not gain the expected momentum. This risk will be mitigated through the implementation of the accelerator and incubator program, which will attract new actors to the ecosystem and expand the geographic coverage for identifying the enterprises.
- 3.10 **The matching seed capital fails to materialize.** There is a risk that the accelerators may fail to match the financing offered by the MIF for the social enterprises in their portfolios. The project will work with angel investors, crowdfunding platforms, and other multilaterals, with a view to raising the profile of the enterprises that satisfy the financing criteria.

- 3.11 **ICE management capacities.** The ICE does not have prior experience either with the MIF or as a manager of investment resources, which could complicate the administration of the reimbursable financing legal structure. To mitigate this risk, from its design stage the project has been advised by a law firm with wide-ranging experience in structuring venture capital funds and contracts applied by A&Is, which will provide ongoing support to the executing partner.
- 3.12 **Investment risks.** The nonreimbursable technical-cooperation funds extended to the accelerators and incubators might be channeled into enterprises that are unable to penetrate markets and build the initiatives to scales that allow the accelerators and incubators to be paid back. The MIF's experience as an impact fund investor and with ecosystem linkage facilitators in other countries will make it possible to define selection and financial and socioenvironmental evaluation criteria to identify the most promising enterprises.

IV. COST AND FINANCING

- 4.1 The project has a total cost of US\$2,905,646, of which US\$1,400,000 (48%) will be provided by the MIF as nonreimbursable technical-cooperation funding, and US\$1,505,646 (52%) by the counterpart.

	MIF TC funds (US\$)	ICE Counterpart in cash (US\$)	ICE Counterpart in kind (US\$)	Total (US\$)
Component 1: Social enterprise accelerator and incubator program	1,000,000	541,333	0	1,541,333
Component 2: Strengthening of the social enterprise and impact investment ecosystem	280,000	960,379	3,934	1,244,313
Evaluations	30,000	-		30,000
Audit	20,000	-		20,000
Contingencies	70,000	-		70,000
Grand total	1,400,000	1,501,712	3,934	2,905,646
% of financing	48%	52%		100%

V. PROJECT PARTNERS AND IMPLEMENTATION STRUCTURE

Description of the project partner

- 5.1 The **Instituto de Ciudadania Empresarial (ICE)** will be this project's executing partner and will sign the agreement with the Bank. The ICE is a nonprofit association set up in 1999 with a mission to coordinate leaders of change in developing initiatives that enhance positive social impact on low-income populations. The ICE Strategic Plan identifies social finance and impact businesses as the pillars of its action, aligned with two complementary trends that have been gaining increasing traction: (i) entrepreneurs who develop scalable products and services that generate opportunities for low-income people; and (ii) investors who seek to fund sustainable enterprises with the capacity to generate a social impact.
- 5.2 The pillars of ICE action focus on the coordination and implementation of initiatives and knowledge production and dissemination, while its strategic divisions aim at:

- (i) actively involving its 48 private sector partners in the field of impact investments; (ii) channeling a larger volume of capital into the sector; (iii) embedding the topic in academia; (iv) strengthening intermediary organizations; and (v) expanding the critical mass of social enterprises. Having implemented numerous projects and succeeded in gaining support for impact entrepreneurship from increasing numbers of specialized agents, the ICE has positioned itself as the leader in Brazil's social finance and impact business ecosystem.
- 5.3 The project will work with the following strategic partners: Fundação Telefônica Vivo, SEBRAE, and ANPROTEC. These three entities, among others that will join the project, will contribute financial and technical resources for project implementation.

Implementation structure and mechanism

- 5.4 The ICE will set up an executing unit and the structure needed to effectively and efficiently undertake the activities and manage the project funds. It will also be responsible for submitting project implementation status reports. The detailed structure of the executing unit and the requirements for the status reports can be found in Annex VI in the technical files of this operation.

VI. ATTAINMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 **Results-based disbursements and fiduciary arrangements.** The executing partner will adhere to the standard MIF arrangements related to results-based disbursements, procurement, and financial management, as specified in Annex VI. The current Procurement Policies, in particular Appendix 4 and the respective Operational Guidelines, will apply.

RESULTS MATRIX

Project Objective		The objective of the project consists of promoting the creation and sustainable growth of social enterprises capable of developing and scaling up innovations focused on resolving social and environmental problems.					
OUTCOME: Speed up development of the emerging social enterprise and impact investment ecosystem in Brazil.		Baseline	Year 1	Year 2	Year 3	Target	Source
Key indicators:							
Number of vulnerable and low- income people benefited by the products and services offered by social enterprises (CRF 210600)		N/A				100,000	Project monitoring system, impact investment studies.
Component 1: Impact enterprise accelerator and incubator program		Baseline	Year 1	Year 2	Year 3	Target	Baseline
Number of social enterprises financed and/or strengthened (CRF 230400, 130100)		N/A	6	10	16	16	Project monitoring system
Annual average sales growth of social enterprises supported by the project (CRF 330100)		N/A	30%	30%	30%	30%	Project monitoring system
Net jobs created by the social enterprises (CRF 330301)		N/A	15	50	80	80	Project monitoring system
Number of incubators and accelerators that incorporate the impact approach and are strengthened (CRF 230100)		20	25	40	40	40	Project monitoring system
Component 2: Strengthening of the social enterprise and impact investment ecosystem		Baseline	Year 1	Year 2	Year 3	Target	Baseline
Net increase in financing channeled into the impact investment sector		US\$186 million	US\$200 million	US\$250 million	US\$300 million	US\$350 million	Project monitoring system
Increase in the number of impact investors		17	17	25	40	40	Project monitoring system
Number of pre- and postgraduate students trained in impact businesses and social finance		N/A	1,500	3,000	4,500	4,500	Project monitoring system

ITEMIZED BUDGET

	Description	MIF TC funds (US\$)	ICE Counterpart in cash (US\$)	ICE Counterpart in kind (US\$)	TOTAL (US\$)
1	COMPONENT 1: Impact enterprise accelerator and incubator (A&I) program	1,000,000	541,333	0	1,541,333
1.1	Strengthening of A&I capacities to adopt and manage impact enterprise incubation or acceleration strategies		74,667		74,667
1.2	Technical support for accelerators and incubators that participate in piloting the social enterprise seed capital mechanism	150,000			150,000
1.3	Pilot implementation of the mechanism for raising seed capital for social enterprises (<i>Investment Grant</i>)	850,000			850,000
1.4	Coordination and supervision of the accelerator and incubator program		466,666		466,666
2	COMPONENT 2: Strengthening of the social enterprise and impact investment ecosystem	280,000	964,313	3,934	1,244,313
2.1	Implementation of the Social Finance Task Force recommendations	77,600	56,000		133,600
2.2	Communication strategy targeting key audiences	16,000	16,000		32,000
2.3	Alignment of agenda between the Brazilian and Global Task Forces, and knowledge exchange	24,000	12,000		36,000
2.4	Strategy for greater public sector involvement	18,000	6,000		24,000
2.5	Expansion of the <i>Academia</i> program in Brazil	97,999	80,582	3,600	178,581
2.6	Development of an impact evaluation methodology in higher education institutions	12,001	834	334	12,835
2.7	Coordination and supervision of the Task Force and <i>Academia</i> program	34,400	792,897		827,297
3	Evaluations, audit, and contingencies	120,000	0		120,000
Grand total		1,400,000	1,501,712	3,934	2,905,646

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/16

Brazil. Nonreimbursable Technical Cooperation ATN/ME-____ - BR
Promotion of the Socioenvironmental Impact Investment and Entrepreneurship Ecosystem

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with Instituto de Ciudadanía Empresarial (ICE), and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to technical cooperation for the promotion of the socioenvironmental impact investment and entrepreneurship ecosystem.

2. That up to the amount of US\$1,400,000 or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

(Adopted on __ _____ 2016)

[BR-T1346]