

TC Document

I. Basic Information for TC

▪ Country/Region:	Brazil/CSC
▪ TC Name:	Financial Instrument to Promote Private Sector Diversity and Inclusion
▪ TC Number:	BR-T1323
▪ Team Leader/Members:	Judith Morrison (SCL/GDI), Team Leader; Martin Corredera Silvan (IIC/MDC/EQI and SCL/SCL), Co-Team Leader; Edson Mori (SCF/CFI); Henrique Martins (MIF/CBR); Lina Uribe (SCL/GDI); and Kryisia Avila (LEG/SGO)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Client Support
▪ Date of TC Abstract authorization:	July 21, 2015
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	City of São Paulo through the Municipal Secretariat for the Promotion of Racial Equality Brazil (SMPIR)
▪ 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), through the Gender and Diversity Division, Social Sector (SCL/GDI) in coordination with the Country Office in Brazil (COF/CBR). Judith Morrison
▪ Donors providing funding:	Gender and Diversity Special Program (GDF).
▪ IDB Funding Requested:	US\$330,000
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months disbursement period, 42 months execution period
▪ Required start date:	December 15, 2015
▪ Types of consultants (firm or individual consultants):	Firm and individual consultants
▪ Prepared by Unit:	SCL/GDI
▪ Unit of Disbursement Responsibility:	Social Sector (SCL/SCL)
▪ TC Included in Country Strategy (y/n):	Y – there are specific references to inclusion of racial and ethnic populations in the draft IDB Country strategy with Brazil (currently under preparation).
▪ TC included in CPD (y/n):	No
▪ GCI-9 Sector Priority:	(a) Social policy for equity and productivity

II. Objectives and Justification of the TC

- 2.1 This Technical Cooperation (“TC”) aims to promote a more equitable and competitive business environment to improve diversity and inclusion within firms in Brazil through an innovative financial instrument. The TC will support the design and implementation of targeted diversity programs within firms for Afro-Brazilians and other vulnerable ethnic groups.¹ These programs will be focused

¹ Vulnerable racial and ethnic groups include Afro-Brazilians and indigenous peoples, SMPIR priority areas. Particular emphasis will be placed on the incorporation of representatives of these groups that are also women and LGBT.

- on specific small and medium size enterprises (“SMEs”) along with Brazilian Multinationals (“BMs”), 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 smaller budgets for key areas such as recruiting and training and lack of demand from national shareholders. The diversity programs will be financed through an outcome-based investment mechanism² which provides strong incentives for better targeting of resources for effective interventions based on proven, evidence-based approaches for promoting diversity. This structure is expected to align incentives between the investors (large multinational firms, as well as private foundations and interested individuals seeking social or non-financial returns) and service providers (training entities and NGOs) to provide high quality services to the Target Companies.
- 2.2 Several recent studies by McKinsey³ and Deloitte⁴ have found a statistically significant correlation between diversity in firm leadership and governance, on the one hand, and financial performance on the other hand. This relationship is not causal, meaning that the research has not been able to isolate the causal impact of increased diversity on firm profitability. However, preliminary evidence suggests that diversity may improve corporate decision making through what McKinsey has recently quantified as the “diversity dividend.” 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. Technology firms have recently targeted diversity as a corporate priority.⁵ Intel has invested \$300 million overall in work place diversity. The firm has identified diversity not “as a social cause,” but as “[a] real business.”⁶
- 2.3 In Brazil, diversity is of particular interest to consumer firms due the significant Afro-Brazilian consumer market; according to the most recent census, self-identified *pardos* and *pretos* make up 50.7% of the total population and are an important emerging sector for the consumer market, representing over 650 billion reais in spending in 2011.⁷ São Paulo is the central business hub for the country and serves as the corporate headquarters of at least 70% of all Brazilian companies. This city will be an important priority for the TC because of the important share of Afro-Brazilians in Sao Paulo’s population (37%)⁸ and the

² A contracting and financing method in which payment for services is contingent upon the delivery of contractually defined outcomes.

³ McKinsey and Company (2014), “Diversity Matters.” McKinsey & Company: New York City, NY. <https://web.duke.edu/equity/toolkit/documents/DiversityMatters.pdf>

⁴ 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.

⁵ Importance of diversity to the tech sector published in Fortune Magazine July 2015, <http://fortune.com/2015/07/30/tech-companies-diveristy/>. Harvard Business Review, October 2014. <https://hbr.org/2014/10/hacking-techs-diversity-problem>

⁶ An overview of diversity actions by tech firm classified by the name of the firm, <http://money.cnn.com/2015/06/19/technology/tech-diversity-roundup/>, Intel corporate diversity and investment mechanisms <http://fortune.com/2015/01/12/intel-diversity/>, <http://money.cnn.com/2015/06/09/technology/intel-diversity-fund/>

⁷ From a study in 2010 by Data Popular published by Exame in November 2011,

<http://exame.abril.com.br/marketing/noticias/populacao-negra-do-brasil-movimenta-r-673-bilhoes-por-ano>

⁸ Census, 2010 (IBGE) ; footnotes 6-8 are also available in “*Igualdade Racial em São Paulo: Avanços e Desafios*,” conference report São Paulo: Diverso, 2014 (www.saopaulodiverso.org.br) IDB-SMPIR.

possibility of leveraging networks mobilized from the Public-Private Sector Socio-Economic Development Forum, *São Paulo:Diverso* (described in paragraph 2.6). 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.⁹ Similarly, the municipality of São Paulo has higher levels of educational attainment, but with ethno-racial gaps – 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.¹⁰ However, just 5.3% of executives in the nation's 500 largest companies are of African descent, and only 13.7% are women of all ethnicities.¹¹

- 2.4 Despite the 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 too uncertain. In part, this uncertainty arises because the types of interventions needed are still unclear and have not been tested in the Brazilian context. 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—such as a pay-for-success model—may help address both of these constraints.
- 2.5 This TC builds on the corporate networks identified through *São Paulo:Diverso* (an inclusive economic development forum) launched in October of 2014 and financed through BR-T1279, ATN/OC-13836-BR. Over 100 firms participated in the launch 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 multilateral firm investors that can be leveraged to finance the expansion of diversity programming through this financial mechanism with national firms and SMEs in their supply chain. Multinational firms have a great deal of influence within their supply chain;¹² this project works to improve corporate diversity results by leveraging the influence and interest of multinational firms and a select group of investors in order to quickly improve diversity in the Brazilian private sector.
- 2.6 The operation is strategically aligned with 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. The operation recognizes rising global interest in private sector diversity. Promoting economic opportunities for Afro-Brazilians, women and other vulnerable populations is a

⁹ RAIS, 2013 (IBGE).

¹⁰ Census, 2010 (IBGE).

¹¹ "Perfil Social, Racial e de Gênero das 500 maiores Empresas do Brasil e Suas Ações Afirmativas," Instituto Ethos, 2010.

¹² Carrefour in Brazil has an incentive program that gives additional points during the procurement process to firms that demonstrate higher levels of diversity.

strategic priority in the draft IDB Country strategy with Brazil (currently under preparation). This operation meets the eligibility criteria set forth in document GN-2513-3 (*Proposal for the establishment of the Gender and Diversity Special Program and Gender and Diversity Multi-Donor Fund*) and fulfills the overall objective of the Gender and Diversity Fund (GDF) by contributing to the equitable development of IDB member countries by promoting equal opportunity and combating discrimination, through the economic integration of African-descendants. This TC strengthens the institutional capacity of SMPiR, a government agency that executes and monitors racial equality policies, and strategic private sector partners.

III. Description of Activities/components and Budget

- 3.1** This TC will scale up and strengthen diversity and inclusion programs in Target Companies through an innovative financial mechanism. The mechanism will be structured based on some of the lessons learned from social impact bonds: investors (including multinational firms, private foundations and individuals) will offer financing to training entities (private firms, NGOs or institutes) that provide technical assistance to firms in order to finance the development and delivery of diversity programming for Target Companies that are part of the supply chain; the contract between the training entities and the investors will specify the expected diversity results which will be generated in the Target Companies. A third party university or think tank (candidates include the *Universidade de São Paulo*, *Fundação Getúlio Vargas* or Insper in partnership with an international business school) will certify the results produced within the Target Companies. If the targets for diversity are reached the network of investors will pay the training entities a bonus, when the training exceeds an anticipated target level the Target Companies will provide the training entities with an additional bonus.
- 3.2** **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.¹³ 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 Target Companies to receive training; they will likely be suppliers to multinational firms and will have the potential to successfully and quickly adopt diversity measures, including hiring, training, promotion/advancement, mentoring programs and corporate policies to promote diversity. Target companies will be expected to pay a minimum fee for the training program.
- 3.3** **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 diversity and inclusion programs. The feasibility study will assess whether there is value for potential stakeholders, specifically whether

¹³ 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).

there are investors that are willing to pay for results, and analyze the best design for the financial mechanism. The feasibility study should present a detailed strategy that includes securing financial returns for potential outcome funders and implementers, performance accountability and other non-monetary considerations.¹⁴

3.4 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 potential transaction or 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 for this pay for success mechanism (such as structuring results-based contracts); (ii) supporting private investors; (iii) developing operating procedures; (iv) executing contracts; and (v) establishing a plan for making decisions about scaling-up and expansion.

3.5 Component 4. Support stakeholders and disseminate knowledge. This component will ensure that learning is shared through dissemination activities that include multinational corporations, the municipality of São Paulo, donors and foundations interested in promoting diversity. This will include a dissemination event and overview report.

Indicative Results Matrix

Result Indicators/Output	Unit of Measure	Baseline	Baseline	Year 1	Year 2	Year 3	Final Target		Means of verification
		Value	Year				Value	Year	
Increased approval of corporate diversity programs by Brazilian firms	Best practices identified and disseminated	0	2015 Some information available (Deloitte and McKinsey); however, little systematization	0	1	1	2 Interventions	2018	Rigorous evaluation validated by multiple experienced partners including multinational firms, universities, institutes, private foundations, and individual donors.
Increased funding to corporate diversity programs	Number of partners expressing a financial and institutional commitment	0	2015	0	1	1	2 Partner companies	2018	Concrete expression of interest by a donor as defined by a Memorandum of Understanding (MOU) and/or concrete

¹⁴ Non-monetary considerations include among others: Operational Risk, Non-Monetary incentives for outcome funders and investors, and overall stakeholder complexity.

										financial commitment
Output Indicators	Unit	Baseline	Target							Means of verification
		Value	Year				Value		Year	
Feasibility analysis of a results-based financial instrument to support the implementation of small-scale diversity and inclusion programs	Plan for results-based financial instruments	0 There are several experiences; however, no concrete plan that is clearly based in results and evidence	2015	0	0	1	1 Feasibility Analysis Report		2017	Existence of plan with clear steps for implementation (validated by stakeholders)
Engage an intermediary for contracting, procurement and fund raising	Fund raising and contracting plan	0	2015	0	0	1	1 Plan		2017	Clear procurement and fundraising plan
Knowledge Dissemination Report	Quality report produced and available via web	0	2015	0	0	1	1 Report		2017/2018	Quality report and web based tools in use
Workshops (2) for interested investors	Workshops to share knowledge	0	2015	0	0	2	2 Workshops		2017/2018	Participant lists and evaluation

Indicative Budget (US\$)

Activity/Component	Description	IDB (GDF)	Counterpart Funding	Total Funding
Component 1. Identify diversity best-practices for replication and specify target companies	Analytical work to identify best practices in corporate diversity. A report will be produced systematizing possible diversity interventions for the private sector. Quality control for this report process will include a peer review process.	75,000	0	75,000
Component 2. Feasibility analysis of a results-based financial instrument to support the implementation of diversity and inclusion programs	Plan for results-based financial instruments that are financially viable. Plan will include financial sustainability elements and will target potential investors.	115,000	0	115,000
Component 3. Engage an intermediary for contracting, procurement and fund raising	Fund raising and contracting plan for diversity. The plan will include specific contracting mechanisms and detailed recommendations for procurement processes.	100,000	0	100,000
Component 4. Support stakeholders and disseminate knowledge	Products available for dissemination. Knowledge dissemination report on corporate diversity published. Workshops to share knowledge (transportation, logistics, communications, printing editing, events coordination). New partner identification and outreach.	40,000	0	40,000
Total		330,000	0	330,000

IV. Executing Agency and Execution Structure

- 4.1 This TC will be executed and supervised by the Gender and Diversity Division, Social Sector (SCL/GDI), per the request of the Municipal Secretary for the Promotion of Racial Equality of São Paulo (SMPIR) (Annex I).
- 4.2 **Procurement.** The Bank will carry out the procurement of individual consultants, consulting firms and non-consulting services in accordance with the Bank's procurement policies and procedures, respectively: IDB's Human Resources Department regulations (AM-650), Policies for the selection and contracting of consultants financed by IDB (GN-2350-9) and the IDB Corporate Procurement Policy (GN-2303-20).

V. Major Issues

- 5.1 Experience from previous outcome-based 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. To mitigate this risk, the project intervention will be developed collaboratively, with open discussions on the potential risks and the best way to manage these risks. This will ensure that the resulting contracts are attractive to investors.
- 5.2 Risk will also 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.

VI. Exceptions to Bank Policy

- 6.1 None.

VII. Environmental and Social Strategy

- 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. In accordance with the Environment and Safeguards Compliance Policy (OP-703), this TC has been classified under [Category C](#). No environmental assessments or consultations are required for operations in this Category.

Required Annexes:

- [Annex I. Request from the Client](#)¹⁵
- [Annex II. Terms of Reference](#)
- [Annex III. Procurement Plan](#)

November 20, 2015

¹⁵ A letter has been received from SMPIR. Also, the Municipality of São Paulo has requested a letter from ABC.

FINANCIAL INSTRUMENT TO PROMOTE PRIVATE SECTOR DIVERSITY AND INCLUSION

BR-T1323

CERTIFICATION

I hereby certify that this operation was approved for financing under IDB Gender and Diversity Special Program (**GDF**) through a communication dated July 21, 2015 and signed by Mariana Mendoza, ORP/GCM. Also, I certify that resources from said fund are available for up to **US\$330,000** in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Sonia M. Rivera
Chief
Grants and Cofinancing Management Unit
ORP/GCM

Date

APPROVAL

Approved:

Andrew Morrison
Division Chief
Gender and Diversity Division
SCL/GCI

Date